

Small and Medium Size Enterprises in Nigeria: Problems and Prospects

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ABSTRACT

The role of small and medium enterprises (SMEs) in economic development is undebatable. Therefore, identifying SMEs' problems and finding solutions for these problems are vital for economic development and growth in Nigeria. With a 173.6 million of population, Nigeria is a highly populated low income country where a significant portion of its population is currently facing poverty. This is partly due to the inability of SMEs in creating jobs and employment in Nigeria.

This thesis investigates the primary problems of SMEs in Nigeria through a survey study of SMEs in two major cities. The survey findings indicated that several reasons attributed to the limited contribution of SMEs to employment and economic growth. The most important of these problems are identified as the infrastructural weaknesses, limited access to finance, and the uncertainties in the economy are the most important problems of SMEs in Africa.

Keywords: SMEs, economic development, poverty, Nigeria, access to finance, weak infrastructure.

ÖZ

Küçük ve orta büyüklükteki işletmelerin (KOBİ'lerin) ekonomik büyüme için önemi inkar edilemez. Bu nedenle KOBİ'lerin sorunlarını saptayıp bu sorunlara çözüm üretmek ülkelerin ekonomik büyümesi ve gelişmesi için son derece önemlidir. 173. 6 milyon nüfusıyla Nijerya Afrika'nın en kalabalık nüfusuna sahip olan ülkelerinden birisidir ve bu nüfusun büyük bir oranı yoksuldur. Bu yoksulluğun nedeni, kısmen, KOBİ'lerin yeterince gelişmemesi ve beklenen derecede iş yaratmamasıdır.

Bu tez, Nijerya'nın iki önemli şehrinde bir anket çalışması uygulayarak Nijerya'da KOBİ'lerin en önemli sorunlarını saptamaya çalışmaktadır. Anket bulguları Nijerya'da KOBİ'lerin iş yaratma ve ekonomiye olan katkılarını büyük ölçüde engellenen birden fazla faktör olduğunu saptamıştır. Öneme göre bu faktörler şöyle sıralanabilir; altyapı eksikliği, ekonomideki belirsizlik, krediye ulaşmada zorluklar.

Anahtar kelimeler: KOBİ'ler, ekonomik gelişme, yoksulluk, Nijerya, krediye ulaşım, altyapı eksikliği.

To the family of A.A. Abubakar

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TABLE OF CONTENTS

ABSTRACT.....	iii
ÖZ.....	iv
DEDICATION.....	v
ACKNOWLEDGMENT.....	vi
LIST OF TABLES.....	ix
LIST OF FIGURES.....	xi
LIST OF ABBREVIATIONS.....	xii
1 INTRODUCTION.....	1
1.1 Introduction.....	1
2 LITERATURE REVIEW.....	5
2.1 Definition of Small and Medium Scale Enterprises.....	5
2.2 Characteristics of SMEs.....	8
2.3 Obstacles of SMEs.....	10
3 NIGERIA’S ECONOMY AND SMEs.....	13
3.1 Nigerian Economy.....	13
3.2 The Nigerian Banking Sector.....	16
3.3 Sources of Financing for SMEs.....	19
4 RESEARCH METHODOLOGY.....	22
4.1 The Objective of This Research.....	22
4.2 Data Collection.....	22
4.2.1 Questionnaire.....	23
4.3 Brief Discussion of the Questionnaire.....	23
5 FINDINGS.....	27

5.1 Analysis of the Findings.....	27
5.2 Discussions of Findings	40
6 CONCLUSION AND RECOMMENDATIONS	42
6.1 Conclusion.....	42
6.2 Recommendation.....	43
6.3 Suggestion on Further Research.....	44
REFERENCES	45
APPENDICES	50
Appendix 1: The Survey Results	51
Appendix II: Questionnaire	59

LIST OF TABLES

Table 1: Definition of SMEs.....	6
Table 2 Alternative Definitions of SMEs by Other countries and Institutions.....	7
Table 3: Definitions of SMEs in Nigeria	8
Table 4: Macro economic indicators (Nigeria)	14
Table 5: Interbank Interest Rate and Borrowing.....	17
Table 6: 2005 Survey: Source of Funding SMEs in Lagos	21
Table 7: Date of Establishment.....	27
Table 8: Gender.....	28
Table 9: Age of the Owner.....	28
Table 10: Educational Level	28
Table 11: Working Experience	29
Table 12: Number of Employees	29
Table 13: Consultancy Service	30
Table 14: Summary of the Main Obstacles Faced by SMEs	30
Table 15: Summary of the Main Factors that has Encourage SMEs to Establish this Business	32
Table 16: Source of Funding.....	34
Table 17: Capital Invested	34
Table 18: SMEs Demand on Bank Credit.....	35
Table 19: Approval of the Credit	35
Table 20: Summary of the Most Important Financial Needs at the Moment	35
Table 21: Being a Woman makes it Difficult to get Credit	36

Table 22: Does Being a Woman Creates any Obstacles while Setting up a New Business	37
Table 23: Reasons of those who have Never Applied for Credit	37
Table 24: Do you have Active Credit	37
Table 25: How Much Interest do you pay	38
Table 26: Is there Any Other Cost/Fees other than the Interest.....	38
Table 27: location of their Business.....	39
Table 28: Relationship with Big Business	39
Table 29: Taxes.....	39

LIST OF FIGURES

Figure 1: Total Loans as Percentage of GDP	19
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LIST OF ABBREVIATIONS

SMEs	Small and Medium Enterprise
SSA	Sub Saharan Africa
PPP	Purchasing Power Parity
SPSS	Statistical Package for Social Sciences
CBN	Central Bank of Nigeria
SMIEIS	Small and Medium Industrial Enterprise Investment Scheme
MRR	Minimum Rediscount Rate
GDP	Gross Domestic Product
MPR	Monetary Policy Rate
CRR	Cash Reserve Rate
OBB	Open Buy Back
CAMELS	Capital adequacy, Assets, Management Capacity, Earnings, Liquidity, Sensitivity
USD	United State Dollar
GBP	Great Britain Pounds
MFBS	Micro Finance Banks
CAC	Corporate affairs Commission
FIRS	Federal Inland Revenue Service
BOI	Bank of Industry
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
ETC	Et Cetera

Chapter 1

INTRODUCTION

1.1 Introduction

Small and medium enterprises (SMEs) are considered to be the fundamental driver of economic growth and development in any economy. SMEs create jobs and improve income distribution. Recent research indicated that in many countries SMEs played a major role in the revival of the economy after the crisis and economic recession (Mirkovic, 2013). SMEs play a significant role not only by generating employment, but also by helping to increase economic diversification.

In Europe more than 99% of businesses are SMEs and two third of jobs created by SMEs (Gouarderes, 2015). SMEs also contribute a large percentage of Europe's GDP. According to global finance, Sub Saharan Africa (SSA) countries have a GDP growth rate about 5 % mainly coming from SMEs operation¹. These businesses are small in size with less than ten employees, but they help in income distribution, job creation and economic growth.

Good infrastructure such as roads is essential for SMEs operations. Poor infrastructure hinders their growth. If the challenges of SMEs can be overcome, their contribution to economy will increase through employment and income generation.

¹ A presentation by Amb. Robin Renee Sanders, highlighting Importance of SME Development in Africa.http://www.huffingtonpost.com/amb-robin-renee-sanders/importance-of-sme-develop_b_888407.html

In addition to the good infrastructure, adequate financing plays a major role in the development of SMEs. Giving credit to SMEs is considered risky because, it is very difficult to retrieve accurate and valid information from the borrower. Most of the borrowers don't have financial statements. Banks also need to be protected from making losses when they make loans to SMEs. Banks need adequate and reliable financial records to enable them to know how profitable or risky the enterprises are. If the borrower cannot provide his/her financial statement, it is difficult for bank to know how credit worthy is the borrower.

Some of the challenges facing SMEs in Nigeria are lack of credit, poor infrastructures (water, electricity, telephone), and high competition in the sector, high operating costs, and slow adaptation to new technology. In particular limited access to finance has been one of the major challenges of the SME sector. This affected SMEs contribution to the growth and development of the country's economy.

The government policies on SMEs are mostly inconsistent, these policies change frequently with different administrations, which is considered a political risk for SMEs. These policies are full of uncertainty. Every government introduces its own policies without making any effort to make the earlier policies successful.

Despite the important role of SMEs in economic growth, SMEs in Nigeria face numerous challenges especially in gaining access to finance due to information asymmetries between the banks and SMEs. Lack of vital information makes borrowing more difficult or increases the cost of borrowing. Most of these small businesses lack acceptable collateral. In addition, the poor book keeping and lack of accounting, weak management and decision making affect SMEs in raising funds.

This situation makes financial decision tough which in most cases leads to high risk of failure and low output. For SMEs to be viable, these problems need to be addressed in the country.

In a recent discussion in Latin America, it is argued that large firms have an advantage over small firms in getting credit from banks (World Bank, 2009). Access to credit by SMEs incurs high transaction cost, high risk and other expenses.

In summary, SMEs seem to be facing the problem of limited capital to finance their businesses. They lack the requirements of banks and financial capacity acceptable by most financial institutions to receive credit. The commercial banks that are considered as the major source of finance to SMEs, provide little credit in reality. The main reason being, fear of credit risk and uncertainties surrounding SMEs. The unstable economy and poor infrastructure has also made SMEs very costly to manage.

This study will highlight the problems faced by most SMEs, and assist in understanding their challenges. The financial institutions will understand the risk of financing SMEs and how to mitigate the risk. The study examines a large number of SMEs in different sectors in Nigeria, mostly supermarkets, manufacturing companies, agricultural products, provision stores, electronics stores etc. However, the study focused in only two parts of the country.

This study was carried out in two states out of the thirty-six states, which are Kano State and Lagos State. These states are considered as the commercial centres in the country and they also have the highest number of SMEs in the country. Hence, the

findings may not represent the whole country, however these two states are regarded as the centre of commerce in Nigeria therefore having our survey based in these states gives us a better picture about the problems of SMEs in Niveria.

The rest of the thesis is structured as follows. Chapter two gives the literature review, and chapter three introduces the Nigerian economy, and the SMEs sector in Nigeria. Data and methodology is introduced in chapter four. Chapter five gives a review and empirical results of our finding using SPSS. The findings and recommendations on how to improve SMEs are stated in chapter six.

Chapter 2

LITERATURE REVIEW

2.1 Definition of Small and Medium Scale Enterprises

What constitutes a SME is a major debate in the literature. There are several SME definitions that are used in the literature. Some researchers attempt to use the size of capital asset as the criteria for the definition, while others consider the turnover level. Legal status and production are also considered in the definition of SMEs. Biggs (2002) stated that, different economic activities and stages of development of countries affect SMEs definition.

Gibson and Ver der Vart (2008) define SMEs with the combination of asset size, employment and turnover. These authors argue that the combination of these features can comprehensively define SMEs. Burgess & Steinghoff (1986, p.10) define SMEs as “A small business that is independently owned, operated and not dominant in its field”. European commission define SMEs by its ‘assets’, ‘turnover’, ‘employee’ and as a business whose annual balance sheet is not more than 40 million dollars with annual turnover of approximately 50 million dollars and minimum number of employee not more than 250.

The Bolton committee (1971) defined SMEs from the UK perspective in Table 1 as follows:

Table 1: Definition of SMEs

Sector	Definition
Manufacturing	200 employee or less
Construction	25 employee or less
Mining and quarrying	25 employee or less
Retailing	Turnover of 50,000 pounds or less
Miscellaneous	Turnover of 50,000 pounds or less
Services	Turnover of 50.00 pounds or less
Motor Trades	Turnover of 100,000 pounds or less
Wholesale Trades	Turnover of 200,000 pounds or less
Road transport	Five vehicle or less
Catering	All excluding multiples and brewery managed houses

Source: Bolton (1971).

Moreover, the definition of SMEs varies among scholars, financial institutions and economic sectors; it also varies within countries. The definition of SMEs differs from developed countries such as USA, Canada, UK and developing countries like , Nigeria, Sudan, Iran and Turkey.

The definition of SMEs also differ within the African countries although most of them are classified as developing countries. In Zambia, SMEs are defined as any business venture whose startup capital does not exceed \$25,000 in any enterprises and has annual turnover not more than \$40,000. In Uganda SMEs are defined as any business enterprises with no of employees between 5 and 50 and annual turnover not exceeding \$1,000,000. SMEs are defined in South-Africa as, any enterprise which

falls under the following classifications: have less than 200 employees with annual turnover less than \$4,681,000 and capital asset less than \$700,000.

Table 2: Alternative Definitions of SMEs by Other Countries and Institutions

Institutions	Number of employers	
World Bank	10-499 employees.	Firms with fixed asset (excluding land) less than 250,000,000 USD in value.
Africa Development Bank	Enterprise with up to 50 employees.	With 3,000,000 USD as annual turn over.
UK	Enterprise whose employees do not exceed 200.	With annual turnover of 20,000,000 million GBP.
USA	Firms with more than 100 employees and maximum of 500 employees.	Have less than 15 million USD as annual turnover.
Japan	Firms with up to 100 employees.	Firms with annual turnover of 30 million yen.
Australia	5-250 employees	With less than 20,000,000 USD million
USAID	Firms with less than 50 employees.	With less than 3 million USD as annual turnover.
Turkey	Firms that have between 10-250 employees.	Annual turnover not more than \$15,000,000
Malaysia	Fulltime employees from 5-200.	With annul turnover not exceeding \$10,000,000

Source: United State International Trade Commission (2010)

There are various definition of SME in Nigeria which is explain in the table below, but a general term for defining SMEs in Nigeria is put forward as: Any business enterprise with a minimum of 5 employees and not more than 300 employees, and with annual turnover not more than \$1,250,000.

Table 3: Definitions of SMEs in Nigeria

Names of institutions	Number of employees	Annual turnover	Start-up capital
Central bank of Nigeria	Less than 300 employees	\$500,000 per annum	
Ministry of industry	With paid employees up to 50 persons		\$3750
(SMEDAN) Small and Medium Enterprises Development Agency of Nigeria	10-200 employees	\$2,500,000	
(SMIEIS) Small and Medium Industries Enterprise Investment Scheme	5-250 employees	\$1,000,000	

Source: Emeka, E., & Josephine, C., (2014)

In Nigeria, SMEs have different definitions by different organizations. According to the national council of industries, SMEs should have \$1000 as the minimum startup capital. The Central Bank of Nigeria (CBN) in 2010 defines SMEs as any business venture whose capital does not exceed \$2,500, land and working capital inclusive.

Small and Medium Industries Enterprise Investment Scheme (SMIEIS) in Nigeria define SMEs as, any business venture that have asset value which does not exceed \$1,000,000 land, working capital inclusive and with a number of employees are between 10 and 300. Ekpenyong (1992) defines SMEs as “ any enterprise employing between 5 to 100 workers with an annual turnover of about \$2000.

2.2 Characteristics of SMEs

SMEs are mostly regarded as a family business, they are owned by individuals (sole-proprietorship) or form as partnership. Their liability is unlimited in the case of bankruptcy; they bear the risks, challenges, difficulties in decision-making, and uncertainty. As a result of inadequate capital for startup and high risk faced by

SMEs, this makes it difficult for financial institution to lend money to them. Most SMEs depend on their family members for initial business capital. In most rural areas, SMEs are owned and operated by family members due to lack of adequate capital. They come together and form a partnership. They also contribute capital and share ideas in order to expand their business.

SMEs need small capital to setup their business. Most of these SMEs are not industrialized. Considering the size of capital, SMEs do not benefit from economy of scale (Addotei, 2012). Computer, internet and high-tech machineries enable businesses to be conducted in a fast and secure way. SMEs cannot spend much on research and development because they have limited resources and a low technology capacity Mertz and Turkson (2000).

The contribution of SMEs to the development of the developing countries' economies was highlighted by Afolabi, (2013). This include, eradication of poverty by increasing job creation and income, diversifying economic activities, encouraging citizens to use their entrepreneurial skills.

SMEs play a significant role in all sectors of the economy; manufacturing, construction, rendering services, and agriculture among others. The following are the contribution of SMEs to the economy:

Job creation: In majority of countries 99% of jobs are created by SMEs. According to Abonji, (2003), in some Asian countries such as Hong-Kong, Singapore and China, which are considered among the well-ranked performing economies depend heavily on SMEs. Other countries such as U.S.A and Turkey have 98% of businesses as SMEs. Nigeria and Egypt have 99% of businesses as SMEs. SMEs are considered

as a major form in reducing unemployment due to simplicity in starting up.

Poverty Reduction: The expansion of SMEs in most developing and developed countries can reduce poverty, this can be accomplished through increase in employment. SMEs have a positive impact on economy and improve living conditions for individuals such as traders and farmers etc. (Millind, et al., 2003). Poverty reduction can be achieve through SMEs, this will have a positive impact when they, create more jobs, cheaper goods and services used by less privilege people. This will increase income distribution to both business owners and their employees. Job quality needs to be improved so as to attain comfortability of workers.

SMEs are innovative: Majority of the Nigerian population depends on SMEs to provide viable and quality goods, both directly and indirectly in the economy. In any developed and developing state, SMEs have the potential for innovation, which boost the growth of the economy (Chatteji et al., 2013). Innovation efficiency is higher in SMEs than large firms, because the interaction between employees creates a synergy for quick growth and development.

2.3 Obstacles of SMEs

Despite the fact that SMEs have many positive attributes, some problems were identified that affects the growth of SMEs, which are as follows:

1) Lack of access to credit: SMEs find it difficult to obtain credit from financial institutions. This is because SMEs hardly meet the requirement of the financial institutions for credit approval. This is due to poor preparation of business proposals, lack of proper financial documentation, no collateral or insufficient collateral to

support their borrowing, inadequate cash flow to bring positive return as well as cover their credit.

Financial institutions view SMEs as high risky ventures due to the absence of an alternative plan in the absence of the proprietor. A research done by Brunch & Hiemenz (1984) on SMEs in Asia shows that the major problem of SMEs is the unsatisfied need of working capital. Which is also a frequent problem in Africa. Onugu (2006) view the primary problem of funding SMEs as the behavior of banks and imperfection of a capital market.

2) Inadequate infrastructures: Poor provision of adequate infrastructure to create conducive environment to support SMEs is a major constrain. These infrastructural problems are shortage of water supply, electricity (power outbreak), poor transport system, and access to world-wide-web (internet). For instance, according to Emeka and Josephine (2014) the undeveloped infrastructures in Nigeria create binding constrain to the growth of SMEs.

3) Poor management and entrepreneurial skills: SMEs find it difficult to keep the records of their transactions (day-to-day activities). Since it is mostly control by the proprietor, lack of expertise, maintenance, marketing and finance led to mismanagement of the business mostly in Africa and causes SMEs to shut down in the long run.

Business failure is as a result of lack of experience and competence. For instance, in Nigeria, poor education background and lack of in-depth business understanding

hinders them from capitalizing on business opportunity that helps achieve growth and development.

4) Improper implementation of policies: Some SMEs are no longer in existence due to instability in the government policies. Several factors contribute to the improper implementation of policies, the unpredictability of the SME market and hostile investment environment in developing countries contributes heavily. Onugu (2006) posits that, lack of proper tax regime contribute to the inconsistency of the SME market. Improper implementation of policies by government makes it difficult for SMEs operation, which in some cases force them to shut down. SMEs can only survive this problem through a systematic analysis and understanding of the business environment, this can help SMEs to be able to tackle the unforeseen challenges.

Chapter 3

NIGERIA'S ECONOMY AND SMEs

3.1 Nigerian Economy

Financial system plays a significant role in any economy. The banking sector and the capital market dominate the financial system. Banks contribute to the economy of any country by providing funds for the government and the private sector. According to the former governor of the Central Bank of Nigeria (CBN), Dr. Charles Soludo in (2009) the government of Nigeria wanted to borrow approximately N1.6Trillion from the banking sector of Nigeria. This is a significant amount of money by international standards and the banking sector of Nigeria is large enough to provide this amount.

Since the banking sector contributes to the Nigerian economy significantly, Nigeria cannot stand the risk of the banking sector collapsing. According to the central bank of Nigeria, the recent fall in oil prices in the oil market resulted to a dramatic fall of the nation's currency "Naira", the naira has lost its value to the US dollar with a fall of about 20%.

Nigeria is a country that imports almost all of its products which includes, food, cloths, automobiles and also the final products of crude oil, such as petroleum, diesel and kerosene etc. The major source of revenue is crude oil, which account for about 70% of the nation's budget. Other sources of revenue include the exports of cocoa,

cotton, Shea butter and mineral resources. Table 4 shows the macroeconomic indicators in the country from the year 2004-2014:

Table 4: Macro Economic Indicators (Nigeria)

Years	Inflation Rate %	GDP Growth Rate %	Interest Rate % (Norminal)	Per Capita Income (USD)	Unemployment Rate %	Gov't Dept % of GDP	Exchange Rate N/\$
2004	24.80	10.6		610	7.7	53.6	132/1\$
2005	10.90	7.3		660	7.6	28.6	130/1\$
2006	10.80	8.8		840	7.6	11.6	128/1\$
2007	7.10	9.6	10	970	7.6	12.4	124/1\$
2008	8.00	8.6	9.50	1160	7.6	11.5	117/1\$
2009	14.60	9.6	9.75	1160	7.6	15.1	150/1\$
2010	15.60	10.6	6	1460	7.5	9.4	151/1\$
2011	11.10	4.9	6.50	1710	7.5	10.2	153/1\$
2012	11.90	4.3	12	2460	7.5	10.4	157/1\$
2013	9.50	5.4	12	2690	7.5		157/1\$
2014	7.70	6.5	12	2950	7.5		160/1\$

Source: World Bank data 2015.

Looking at the macroeconomic indicators of the country, inflation rate was at 7.70% in 2014 and was at its maximum at 24.80% in 2004, GDP growth rate was maximum at 10.6% in 2010, with a drastic fall to 4.9% in 2011 as a result of decrease in oil

contribution to the GDP². The interest rates remain stable from 2012 to 2014 at 12% after the policy review of the CBN in 2011. The per capita income has a steady growth, with a maximum of \$2,950 in 2014. The unemployment rate is under 10% throughout the stated period, with a stability of 7.5% from 2010-2014. The government debts decrease drastically, from 53.6% to 28.6 in 2005 with 10.4 % in 2012.

The Naira lost its value against the USD about 28% in 2009 due to fall in oil prices, it continue to loss value thereafter to about 160/\$ in 2014³. Crude oil price is approximately \$65.79 per barrel as of May 2015; it was above \$100 as at the end of 2014. The reserve was at its highest level for 18 months as of July 2014. In 2011, Nigeria's revenue on crude oil was about \$52.2 billion, which account for 10% of the total GDP (\$451billion in 2012) (World Bank, 2014).

SMEs create employment for over 60% of the workforce in Nigeria in different sectors. In 2011, the Central Bank of Nigeria (CBN) introduced the Small and Medium Industrial Investment Scheme (SMIEIS). The scheme was organized to encourage the banking industry in issuing loans to SMEs to contribute to the growth and development of the country's economy.

² Gives details of macroeconomic policy of Nigeria, showing relationship between oil and GDP of the country.

³ A presentation by the former CBN governor DR. Charles Soludo Nigeria's Central Bank Allows Naira Depreciation.

3.2 The Nigerian Banking Sector

The banking sector is an important part of the economy. There are different types of banks in Nigeria such as, commercial banks, micro finance banks, non-interest bank. There were 89 banks in the country before the 2006 consolidation by the central bank of Nigeria. Currently, there are 21 banks functioning as commercial bank in the country, some of the banks are Access Bank Plc, Citibank Nigeria Limited, Diamond Bank Plc, Eco Bank Plc, Standard Chartered Bank Nigeria Ltd, Zenith Bank Plc. Jaiz Bank Plc. is the only non-interest bank, which was introduced in 2003. There are also 793 Micro finance banks in the country some of them are ADA Microfinance Bank, AB Microfinance Bank, Abokie Microfinance Bank, Yobo Microfinance Bank Limited, Zuru Microfinance Bank Limited.

The banking sector is the core of a market economy. Every aspect of the economy hinges on it. It comprises of co-dependent component that are essential to the efficiency of an economy. Banking sector involves several aspects such as, providing resources for their customers. It also serve as an intermediary in the capital market. The banking industry is an indicator of the financial stability in an economy. They play a major role in the economic growth and development of a country through an effective financial service. They provide credit to the market, which facilitate services that increase the growth of the economy.

During the 20007-2009 global financial crisis, Nigerian banks were faced with high pressure. This pressure entails, liquidity risk, exchange rate risk, and economic meltdown. The government took some steps to prevent the Nigerian banking sector from collapsing. Some of these measures include stimulus budgeting. Proactive

measures were taken to help the local currency (Naira) gain value, injection of liquidity into the banking sector through borrowing from foreign sources and also encouraging foreign investors to invest in the country.

The major techniques used during the post-crisis are, reducing the interest rate from 10.25% to 9.75% by the CBN, which was below inflation rate. The CBN also reduced the cash reserve ratio (CRR) from 4% to 2%. CBN recommend the banks to perform risk management, which will help them identify the problems, monitor and mitigate the problems, also find the solution on how to control the problems.

Interest rate regime: The banking industry came up with a solution of pegging the lending rate at 22% while the rate of deposit was at 15% at the end of 2009. The CBN also took different strategies in order to avoid interbank rate fluctuation after the 2009 crisis.

Table 5: Interbank Interest Rate and Borrowing

Year	Open Buy Back interest rate %	Interbank call rate %
2007	10.00	7.68
2008	9.50	9.37
2009	9.75	20.60
2010	6.00	1.50
2011	7.5	9.33
2012	12.00	14.13
2013	12.00	10.38
2014	12.00	10.50

Source: CBN data.

This is used in Nigeria's Inter-Bank financial market as a form of borrowing using the Nigerian Government security as collateral, in this form of borrowing both parties at each end has the right to liquidate the collateral without informing the other within working hours of the day. The transaction is made between the banks while settlement is made at the CBN. The bills are transferred from the borrower's portfolio to the lenders portfolio account of the CBN during settlement. An advantage of OBB is its flexibility, but interest rate and the bank stability is included in the transaction.

At a glance, OBB is similar to REPO. But OBB is an open-ended transaction and securities traded might not be purchased before maturity, also OBB is confined to Nigerian Government issued securities. It is used only in the Nigerian financial market.

From Table 5, OBB interest rate is used to raise short-term capital. The OBB rate in Nigeria average 9% from 2007-2014, it was then stable from 2012-2014, which is the highest rate within the stated period. The interbank call rate raise in 2009 to 20.60% due to the global financial crisis in that year, and in the following year there was a dramatic fall of the inter-bank call rate so as to encourage bank borrowing.

According to Soludo (2009), the banks were able to withstand pressure with all the banks surviving the crisis. The banks had \$39,685,870 of their total loan as their exposure. They also had \$61,138,513,485 as their total risk asset. Furthermore, their non-performing loans amounted to 7.4% of the total loans at the end of 2009. The banks had total loans of \$40,561,592,031. CAMELS Ratings gave a satisfactory rating to the banks, which was 62% on average. In the same year the total fund of

shareholder was \$101,644,442,381 (Soludo, 2009). Note that the CAMELS rating do not differentiate between the success and failures of banks.

3.3 Sources of Financing for SMEs

Financing a business is the key element that keeps any business organization functioning. SMEs needs adequate funding to be able to carry out their primary duties as business entities. There are several means of funding SMEs in Nigeria, such as:

- Personal savings
- Funding from financial institution such as commercial banks, insurance companies, and other development banks.
- Other means of funding SMEs include borrowing from friends and family, landlords, saving associate etc.

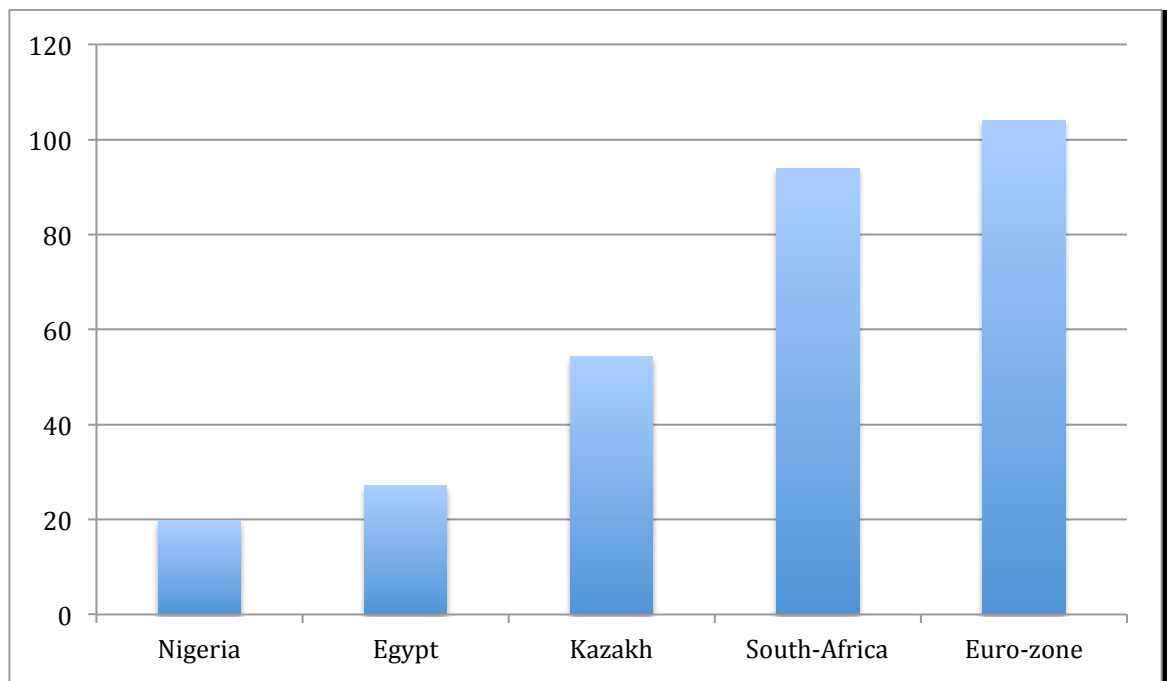


Figure 1: Total Loans as Percentage of GDP

According to Figure 1, the percentage of total loans to private investors is low, about 19.7% of the GDP, compared to other countries like Kazagh, Egypt, South-Africa. Furthermore, the percentage of SMEs loan in Nigeria is very low, which is less than 5% of the GDP.

Funding has been one of the major challenges of SMEs. Therefore, the Nigerian government introduced MFBs in December 2005 to support micro, small and medium enterprises. With the introduction of MFBs is the government aimed to make credit accessible by SMEs, which will help SMEs grow all over the country.

Micro Finance Banks in Nigeria

With the encouragement of the Federal Government of Nigeria, the Microfinance banks were established in December 2015 in order to create SMEs access to credit. The introduction of MFBs has also aimed to improve the financial services rendered to SMEs under the supervision of the Central Bank of Nigeria (CBN). According to the CBN, most SMEs in the country rely heavily on personal funding. It is believe that with the introduction of MFBs, loanable-funds will be easily accessible by SMEs.

The CBN encourage states and local government to invest in MFBs, to act as a medium of supporting business in their districts. The introduction of MFBs in the country has shown immense progress in supporting SMEs. These improvements were as a result of the support and guidelines from the CBN.

In a survey conducted by Oyelaran (2005) in Lagos with 250 SMEs, suggest that banks contribution to SMEs funding is very low with only about 18% of SMEs use bank credit to fund their businesses. Of the same sample of businesses 21% of them

use credit from development banks, while 29% of them use government credit. On the other hand, 31% of SMEs finance their business by borrowing from friends, and 50% of them use their personal savings (Table 6).

Table 6: Source of Funding SMEs in Lagos

Source of Funding	Percentage of total
Private banks	18%
Development Banks	21%
Govt. Credit	29%
Friends	31%
Personal	50%

Source: Oyelaran (2005).

Chapter 4

RESEARCH METHODOLOGY

4.1 The Objective of This Research

The objective of this research is to identify the financial and non-financial constraints that affect SME growth negatively in Nigeria. In order to understand the problems facing SMEs in Nigeria and to come up with viable solutions, we applied a survey methodology and collected primary data. We also collected secondary data from the published resources such as the Central Bank, and the Statistics Department of Nigeria.

4.2 Data Collection

Our research was carried out in two states in the country, Lagos and Kano out of thirty-six states. These states are best known as the center of commerce in the country, and they have lots of opportunities for investment. According to the minister of commerce and industry, Lagos State has the highest number of registered SMEs in Nigeria and it is followed by the Kano State.

The Sample: The questionnaires randomly distributed to 160 SMEs at the locations of studies (Lagos and Kano). Lagos and Kano state possess similar commercial characteristics, Lagos and Kano accommodate a large percentage of SME in the country. Therefore, our sample will be a good representative of the country.

Our secondary data includes, statistical data from World Bank, Central Bank of Nigeria, and the National Bureau of Statistics in Nigeria. A total of 152 questionnaires were collected and were considered for our research. The questionnaires were distributed to the owners/managers of the SMEs used in our research.

4.2.1 Questionnaire

In order to collect primary data to identify the problems of SMEs in Nigeria we designed a structured questionnaire with 31 questions. These questions were made up with multiple choice questions, 5-point likert scale questions, and open ended questions. These questionnaires were randomly distributed to SMEs owners/managers in Lagos and Kano State.

4.3 Brief Discussion of the Questionnaire

Date of establishment: This shows how long the SMEs have been in existence. It also help us to know whether the date of establishment have a negative or positive effect on SMEs' access to finance. We expect to see that the older the SME the better access it has to the bank finance.

Gender: This parameter help us to know if gender plays a role in the SMEs' operation, and to know which gender dominate a larger percentage of SMEs's ownership.

Age of the owner: The age of the owner may also determine whether SMEs have better access to finance. We expect to see that the older and more experience the SME owner the better access it has to the formal financial resources.

Educational level: It is important to find out the education level of the SME owners in our sample. This information may help us to understand whether education has any kind of influence on the performance of SMEs.

Working experience: It examines the category of business owners with working experience in private sector to see if this has an effect on SMEs.

Number Of employees: This information shows us if we are dealing with an SME or a larger business. It also highlights the role of SMEs in job creation in the country.

Consultancy service: It shows how dedicated SMEs owners are on how to improve their business, and to see how it contributes to SMEs.

Obstacles faced by SMEs: It highlights the major obstacles face by SMEs, and to know if these problems contribute to the challenges of SMEs. Some of the obstacles faced by SMEs such as financial shortage, lack of skilled personnel, lack of infrastructures and other variables

Opportunities: The opportunities shows us what encourage people to establish their businesses. With this question we try to understand what are the important factors or opportunities that motivate SMEs to start their businesses.

Source of funding: Highlights the source of finance for SMEs and their level of access to finance. It shows how SMEs in Nigeria currently finance their businesses.

Capital invested: Startup capital measures the size of the SMEs investment and to know if their startup capital is adequate. This also tries to measure the size of capital in relation to the success of SMEs.

Bank credit: This shows the relationship between banks and SMEs, and entrepreneurial reliance on banks for capital. It shows how many SMEs borrow from banks and how much they borrow.

Approval of credit: It shows the role of banks in supporting SMEs and if bank credit is attainable by SMEs.

Financial needs: This is to ensure stability and growth of SMEs. It also measures other important needs of SMEs such as working capital, long-term investment credit, and import-export credit.

The gender of the SME owner: To know if women have equal right when it comes to applying for credit or whether they are been discriminated. In other words whether females are being treated fairly as males in terms of credit.

Obstacles of woman: It shows if the participation of women when setting up a new business is an obstacle and to know if it has an influence in setting up a new business.

If you have never applied for credit, what is the reason behind this: What are the main reasons that discourage the entrepreneurs from applying for credit, and how does this contribute to the failure of SMEs.

Interest rate: We considered interest rate to see if it influences the application for credit.

Location: We consider the location of SMEs to ascertain whether business owners have conducive environment for their businesses and also if they are able to reach their customers easily.

Relationship with big businesses: We consider this parameter to know if big businesses contributing to the development and expansion of SMEs.

Tax: This will help us to know what proportions of SMEs owners perform their obligatory duties by paying their taxes, and if the percentage affects their profit margin, also it shows us how many SMEs are registered.

Chapter 5

FINDINGS

5.1 Analysis of the Findings

The result of our survey analysis is presented and interpreted in this chapter. Out of 160 SMEs, 152 of them completed the questionnaires. The data collected by the questionnaires were entered in SPSS and the statistical results were presented in table form as following.

Date of Establishment: Out of 152, 76% of SMEs have been existing for less than 10 years, while only 24% have been operating for more than 10 years.

Table 7: Date of Establishment of SMEs

	Years	Frequency	Percent
Valid	1-5	33	21.7
	6-10	82	53.9
	11-15	26	17.1
	15and above	11	7.2
	Total	152	100.0

Gender: Of 152 respondents 111 of them (73%) are male and 41 (27%) of them are female respondents. This indicates that majority of the business owners are males.

Table 8: The Gender of the Respondents

		Frequency	Percent
Valid	Female	41	27.0
	Male	111	73.0
	Total	152	100.0

Age of the owners: In our sample, almost 80% of the SME owners are younger than 35years old. This indicates that the majority of the owners are young entrepreneurs. This is as a result of lack of white color jobs, their passion for business or creative freedom, which is the most common reason.

Table 9: Age of the Owner

		Years	Frequency	Percent
Valid	18-23		21	13.8
	24-29		51	33.6
	30-35		49	32.2
	36-40		17	11.2
	41 and above		14	9.2
	Total		152	100.0

Educational level: We found that over 56% of the business owners are university graduates and only 11% are primary school graduates. This indicates that majority of the SME owners are highly educated.

Table 10: Educational Level

		Frequency	Percent
Valid	Primary	17	11.2
	High school	46	30.3
	University	68	44.7
	Masters	18	11.8
	Others	3	2.0
	Total	152	100.0

Working experience: 71% (majority) of the business owner have less than 11 years of working experience, 38% have between 1-6years experience, 33.6 have 6-10years of working experience.

Table 11: Working Experience

	Years	Frequency	Percent
Valid	1-5	57	37.5
	6-10	51	33.6
	11-15	26	17.1
	16 and above	18	11.8
	Total	152	100.0

Number of employees: 61.8% of the sample businesses have less than 6 employees, in other words they are microenterprises. The remaining 38.2% of the sample are small and medium sized enterprises.

Table 12: Number of Employees

		Frequency	Percent
Valid	1-5	94	61.8
	6-10	38	25.0
	11-15	10	6.6
	16-20	5	3.3
	21 and above	5	3.3
	Total	152	100.0

Consultancy service: Majority of the business (71%) indicated that they have not used the consultancy services to help them improve their performance. Only 28.3% have used consultancy service while establishing or after establishing the business.

Table 13: Whether SMEs Used Consultancy Services

	Frequency	Percent
YES	43	28.3
NO	108	71.1
Total	152	100.0

Table 14: Summary of the Main Obstacles Faced by SMEs

	Disagree and highly disagree	No idea	Agree and highly agreed
Lack of infrastructures	5.3%	1.3%	92.8%
Uncertainties in the economy	19.1%	6.6%	74.4%
Lack of Credit	22.2%	8.0%	69.7%
High competition in the sector	22.3%	13.2%	64.5%
High production cost	42.1%	17.1%	40.8%
Raw material problems	38.8%	17.8%	42.8%
Bureaucratic obstacles	62.5%	12.5%	25%
Lack of skilled personnel	51.3%	13.2%	24.4%
Lack of demand for our products	78.9%	9.2%	11.8%
Others			2.6%

Lack of credit: 69.8% of the sample agreed that they have problems in having access to credit. As we know access to finance is essential for starting and expanding a business. Poor financing slows down the growth of SMEs.

Lack of skilled personnel: 51.3% disagreed and highly disagreed that they lack skilled personnel that run their businesses, in other words lack of skilled personnel is not a big problem in Nigeria for SMEs.

Lack of infrastructure (water, electricity, and communication): Majority of the respondents (92.8%) agreed and highly agreed that in Nigeria the biggest problem is bad infrastructure. In this regard, the power cuts are often mentioned by the SME as the most serious and common problem of SMEs in the country.

High competition in the sector: 64.5% of the sample agreed and highly agreed that there is high competition in the sector due to similarities in services provided by SMEs.

Bureaucratic obstacles: 62.5% of the sample is disagree and highly disagree that bureaucratic obstacles is part of the main problems face by SMEs. This may be because bureaucracy is mostly observed in large-scale business in Nigeria.

High production cost: 42% disagreed that there is high production cost while running their businesses. However due to problems with the infrastructure, e.g. lack of stable electricity supply force businesses to buy and use private generators, which increases the cost of operations for most businesses.

Uncertainty in the economy: 74.4% of the business owners think that there is uncertainty in the economy. This is as a result of instability in the exchange rate of the national currency Negara.

Raw material problems: 38.8% disagreed that raw material is one of their problems running their business because they are service based businesses, while 43% agreed that raw material problem is part of their problems because they are production based businesses.

Lack of demand for our product: 78.9% of the businesses disagreed and highly disagreed that there is low demand for their products. In other words, there is enough demand for their products, therefore they can sell what they can produce.

Table 15: Summary of the Main Factors that have Encouraged SMEs to Establish Their Businesses

	Disagree and Highly Disagree	No idea	Agree and highly Agree
Opportunities in the economy	5.1%	5.9%	89%
Lack of job opportunities in the public sector	7.9%	3.9%	88.2%
My family background	15.8%	16.4%	67.8%
My knowledge and experience in this area	19.1%	11.8%	69.1%
Government protective policies	94.5%	0%	5.4%
Government incentives	88.8%	6.6%	3.9%

Opportunities in the economy: The majority of business owners (89%) agree and highly agree that there are good opportunities in the economy to open a business and this is the most important factor that they decided to open a business.

Lack of job opportunities in public sectors: 88.2% of the respondents' agree and highly agree that lack of job opportunities in the public sectors is among the primary reasons for establishing SMEs.

My knowledge and experience in this Area: 69% of the business owners believe that they have knowledge and experience in their businesses area, this gives them courage and motivation to start and maintain the business.

Government incentives: 88% of the business owners agrees and highly agrees that government incentives are not opportunities that encourage them to go into SMEs business, it does not encourage the growth and opportunities of SMEs in the country.

Government protective policy in the sector: 94.5% disagree and highly disagree that government protective policy encouraged them to go into the business. Although there are numerous government programs, SMEs believe that the government can do more in order to develop the growth of SMEs in the country.

My family background: 67.8% agree and highly agree that their family background in business is what has encouraged them to go into the business.

Source of funding: As in many countries in Nigeria 46.1% of the business owners say that they fund their business through personal savings, and 40.8% of them says

they borrowed from family and friends. Only about 10.5% of SMEs setup their business through bank credit, and only 2.6% setup their business through government low credit. The financial intuitions are not encouraging the growth of SMEs in the country.

Table 16: Source of Funding

		Frequency	Percent
Valid	My own funds	70	46.1
	Borrowing from Family	62	40.8
	Bank credit	16	10.5
	Low interest gov't Credit	4	2.6
	Total	152	100.0

The Amount of Start-up Capital: About 26% of business owners setup their business with capital less than \$2,500, 31% setup their business with capital between \$2,501-\$5,000, about 27% use capital between \$5,000 and \$10,000, while 15.8% setup their business with capital from \$10,001 and above.

Table 17: Capital Invested

\$		Frequency	Percent
Valid	100-1000	12	7.9
	1001-2500	28	18.4
	2501-5000	47	30.9
	5001-7500	30	19.7
	7501-10000	11	7.2
	10001 and above	24	15.8
	Total	152	100.0

SMEs demand on bank credit: The majority of the business owners (73%) indicated that they have never applied for bank credit while the remaining 27% have at some point applied for bank credit.

Table 18: SMEs Demand on Bank Credit

		Frequency	Percent
Valid	Yes	41	27.0
	No	111	73.0
	Total	152	100.0

Approval of the credit: Out of 41 SMEs who have applied for credit, 20 (48.8%) of them said their loan applications were approved while 21 (51.2%) were denied. The reason for not having access to credit was due to lack of collateral or guarantor.

Table 19: Approval of the Credit

		Frequency	Percent
Valid	Yes	20	48.8
	No	21	51.2
Total		41	100.0

Table 20: Summary of the Most Important Financial Needs of SMEs at the Moment

	Disagree and Highly disagree	No idea	Agree and highly agree
Working capital		1.3%	94.7%
Long term investment	3.3%	5.3%	90.2%
Import-export credit	28.3%	67.8%	2.7%

Working capital: 94.7% of the total sample agree that working capital is one of their most important financial needs at the moment. They need working capital for their daily operations, in other words to run their business they need working capital.

Long term investment: 90.2% of the sample agree that they need long-term investment finance to increase the capacity of their business.

Import-export credit: 27.6% of the sample disagree and highly disagree that the import and export credit is one of their most important financial needs at the moment. 67.8% of SMEs were indecisive.

Being a woman makes it difficult to get credit: 70% of SMEs disagree that being a woman makes it difficult to get credit. They believe that there is no discrimination by banks.

Table 21: Does Being a Woman Makes it Difficult to Get Credit?

		Frequency	Percent
Valid	Strongly disagree	38	25.0
	Disagree	67	44.1
	No idea	42	27.6
	Agree	4	2.6
	Strongly agree	1	.7
	Total	152	100.0

Does being a woman creates any obstacles while setting up a new business?

75.7% of the women say that gender plays no role in setting up a new business.

Table 22: Does Being a Woman Creates any Obstacles while Setting- up a New Business

		Frequency	Percent
Valid	Yes	10	24.3
	No	31	75.7
	Total	41	100.0

Table 23: Reasons of those who have Never Applied for Credit

	Disagree and highly disagree	No idea	Agree and highly agree
I don't need credit	48%	3.3%	23.7%
High interest rates and costs		5.3%	69%

I don't need credit: 21% said they don't need credit, they believe they have sufficient funds to run their business, while 48% disagree.

High interest rate and cost: 69% of the sample indicated that they don't apply for bank credit due to high interests rate on loans.

Do you have active credit: 92% do not have active credit at the moment, due to the high interest rates.

Table 24: Do you have Active Credit

		Frequency	Percent
Valid	Yes	12	7.9
	No	140	92.1
	Total	152	100.0

How much interest do you Pay? 41.7% of business owners pay interest on loan between 10-15% annually, and 58.3% of business owners pay interest on loan between 16-20% annually.

Table 25: How Much Interest do you pay?

	Annually	Frequency	Percent
Valid	11%-15%	5	41.7
	16%-20%	7	58.3
Total		152	100.0

Is there any other cost/fees other than the interest: 1.3% pay for commission on the process of getting loan, 0.7% pay for stamp, 2.6% pay for commission, and 7.9% pay for collateral cost. These costs are not included as part of the interest, they are an addition to the principal payment and interest. These fees are paid mostly during the loan application process.

Table 26: Is there Any Other Cost/Fees other than the Interest

		Frequency	Percent
Valid	Application fees	2	1.3
	Stamp	1	0.7
	Commission	4	2.6
	Collateral	12	7.9
	Total	19	12.5
Missing	System	133	87.5
Total		152	100.0

Location of their businesses: 59.2% of SMEs owner choose their locations based on their closeness to customers.

Table 27: Location of the Businesses

		Frequency	Percent
Valid	The closeness to customers	90	59.2
	The closeness to other business	25	16.4
	Because of the cheap rent in that area	29	19.1
	Because of the good infrastructure	7	4.6
	Total	151	99.3
Missing	System	1	.7
Total		152	100.0

Relationship with big business: 68.4% don't have any relationship with big businesses, most of the SMEs offer personal services for example tailoring, car wash, electricity services etc.

Table 28: Relationship with Big Business

		Frequency	Percent
Valid		1	.7
	Yes	47	30.9
	No	104	68.4
	Total	152	100.0

Taxes: 79.6% of SMEs indicated that they pay taxes to the government. Most of these businesses are registered with the FIRS (Federal Inland Revenue Service).

Table 29: Taxes

		Frequency	Percent
Valid	Yes	121	79.6
	No	31	20.4
	Total	152	100.0

5.2 Discussions of Findings

In our research, the findings clearly show that, poor infrastructure, uncertainty in the economy, limited access to credit, and high competition, are the major problems of SMEs in Nigeria. Though SMEs have some other problems, these problems do not appear to be significant for the SMEs in Nigeria.

The research also shows that the government failed to create a conducive environment that banks could lend to SMEs easily. A sound financial system is necessary to have banks operate successfully and finance SMEs. The government should ensure these strategies are properly implemented and monitored. Lack of infrastructure is another significant indicator in our study, the result shows that poor infrastructures in the country, such as frequent power cuts, lack of proper roads, reliable communication networks and water supply etc. are in short supply.

Although, Nigeria is an oil producing country, there is no stable power supply to run business effectively. The cost of buying generator, fueling and serving the generators makes SMEs operation difficult. These problems create additional costs to the SMEs and create lots of difficulties to the SMEs. In order to achieve conducive environment for SMEs, the government need to provide the basic infrastructures and also upgrade the technology system by introducing the (POS) point of sales etc.

Furthermore, there is high competition among the SMEs within each economic sector. Government policies show a significant impact on SME finance. Improper implementation of the policies has resulted in insufficient growth of SMEs. Introduction of MFBs have reformed the banking sector and it is creating SMEs easy access to finance. It has also simplified the means of collecting information. This

will encourage the SMEs and help them manage their business activities efficiently and effectively.

Chapter 6

CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

In this thesis, we examined the problems of SMEs in Nigeria through a survey study. We designed a structured questionnaire which was distributed randomly to a 160 SMEs. Out of 160 Questionnaires we were able to collect 150 completed questionnaires back. We used the same definition of SMEs that is used in Nigeria to conduct our research.

The success of SMEs is necessary for the economic development of Nigeria. SMEs will help to create new jobs, and increase the per-capital income. SMEs will help to reduce poverty through the socio-economic impact. Our research identified that SMEs have both financial and non-financial problems in Nigeria. Limited access to finance reduced SMEs growth in Nigeria. High competition is due to the dense population of SMEs performing similar services. Poor infrastructures increase the cost of operation and make business for SMEs more difficult. The performance of SMEs has also been hindered by the lack of infrastructural facilities.

Despite SMEs contribution to businesses in Nigeria, they have shown little impact to the economy situation of the country. The contribution of the Nigerian government and the CBN to financing SMEs has not shown a great impacts, this is due to improper implementation of their policies. Also the government initiatives such as

BOI, SMEIDAN, SMIEIS to increase the access of SMEs to commercial bank credit has proven to be ineffective. The government is lacking an SME policy that will help SMEs to grow. They should develop a SME policy that will promote the growth of SMEs.

6.2 Recommendation

Proper implementation of policies, transparency and entrepreneur enlightenment are the basic strategy in improving the status of SMEs in Nigeria. The initiation introduced by the government and the CBN should be properly implemented to increase the access of credit to SMEs. The bank of industry, micro-finance bank needs to increase its level of operation to help struggling SMEs. Transparency by the credit institutions creates an atmosphere that conducive for credit application. This will increase the amount of application of loan and their possibility of approval.

Enlightening the entrepreneurs on the requirements for credit application, tax laws, method of business improvement will improve the efficiency and effectiveness of SMEs. Understanding of a business and its weaknesses prepares the entrepreneurs for the worst situation. Information on other businesses will reduce the congestion of SMEs in a particular business that appears to be lucrative. That will minimize the level of competition in a particular field.

Transparency on the side of the government, financial institutions and entrepreneurs creates a synergy between interested parties. This will create a stable flow of information for improvement of the subsector. Infrastructural development is the job of the government. This will reduce the cost of operation. Bureaucratic influence and corruption are other factors that have to be addressed and solved to help SMEs.

6.3 Suggestion on Further Research

This research focuses on Kano and Lagos, which are the commercial centers of the country. Future research can be conducted on the whole 36 states of the country, to identify the problems of SMEs in the other states.

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APPENDICES

Appendix 1: The Survey Results

a) Date of establishment

	Years	Frequency	Percent
Valid	1-5	33	21.7
	6-10	82	53.9
	11-15	26	17.1
	15and above	11	7.2
	Total	152	100.0

b) Gender of owner

		Frequency	Percent
Valid	Female	41	27.0
	Male	111	73.0
	Total	152	100.0

c): Age of the owner

	Years	Frequency	Percent
Valid	18-23	21	13.8
	24-29	51	33.6
	30-35	49	32.2
	36-40	17	11.2
	41 and above	14	9.2
	Total	152	100.0

d): Education level of the owner of the business

		Frequency	Percent
Valid	Primary	17	11.2
	High school	46	30.3
	University	68	44.7
	Masters	18	11.8
	Others	3	2.0
	Total	152	100.0

e): Working experience of the owner

	Years	Frequency	Percent
Valid	1-5	57	37.5
	6-10	51	33.6
	11-15	26	17.1
	16 and above	18	11.8
	Total	152	100.0

f): How many employees do you have in your business?

		Frequency	Percent
Valid	1-5	94	61.8
	6-10	38	25.0
	11-15	10	6.6
	16-10	5	3.3
	21 and above	5	3.3
	Total	152	100.0

g): Have you ever benefitted from consultancy services?

		Frequency	Percent
Valid		1	.7
	YES	43	28.3
	NO	108	71.1
	Total	152	100.0

h): What are the main obstacles faced while establishing your business? Please rank in order of importance?

	Strongly-disagree	Disagree	No idea	Agree	Strongly disagree
Lack of credit	6(3.9%)	28(18.4%)	12(8%)	67(44.1%)	39(25.7%)
Lack of skilled personnel	25(16.4%)	53(34.9%)	20(13.2%)	17(11.2%)	37(13.2%)
Lack of infrastructures		8(5.3%)	2(1.3%)	77(50.7%)	64(42.1%)
High competition in the sector	8(5.3)	26(17.1)	20(13.2%)	66(43.4%)	32(21.1%)
Bureaucratic obstacles	34(22.4%)	61(40.1)	19(12.5%)	27(17.8%)	11(7.2%)
High production cost	17(11.2%)	47(30.9%)	26(17.1%)	45(29.6%)	17(11.2%)
Uncertainties in the economy	7(4.6%)	22(14.5)	10(6.6%)	79(52.0%)	43(22.4%)
Raw material problems	14(9.2%)	45(29.6%)	27(17.8%)	51(33.6%)	14(9.2%)
Lack of demand for our products	37(24.3)	83(54.6%)	14(9.2%)	16(10.5%)	2(1.3%)
Others				4(2.6%)	3(2.0%)

i): What is the main factor that has encouraged you to establish this business?

	Strongly-disagree	Disagree	No idea	Agree	Strongly agree
Opportunities in the economy	2(1.3%)	5(3.3%)	9(5.9%)	31(20.4%)	105(69.1)
Lack of job opportunities in the public sector	1(0.7%)	11(7.2%)	6(3.9%)	51(33.6)	83(54.6)
My knowledge and experience in this area	7(4.6%)	22(14.5%)	18(11.8%)	29(19.1%)	76(50%)
Government incentives	52(34.2%)	83(54.6%)	10(6.6%)	2(1.3%)	4(2.6%)
Government protective policies	71(46.7%)	73(48%)		8(5.3%)	
My family background	9(5.9%)	15(9.9%)	25(16.4%)	48(31.6%)	55(36.2%)

j): How did you provide the capital needed to setup your business? Please indicate in percentage of total

		Frequency	Percent
Valid	My own funds	70	46.1
	Borrowing from Family	62	40.8
	Bank credit	16	10.5
	Low interest gov't Credit	4	2.6
	Total	152	100.0

k): How much capital did you invest when you setup your business?

\$		Frequency	Percent
Valid	100-1000	12	7.9
	1001-2500	28	18.4
	2501-5000	47	30.9
	5001-7500	30	19.7
	7501-10000	11	7.2
	10001 and above	24	15.8
	Total	152	100.0

l): Have you ever applied to a bank for credit?

		Frequency	Percent
Valid	Yes	41	27.0
	No	111	73.0
	Total	152	100.0

m): If you did, was your application approved?

		Frequency	Percent
Valid	Yes	20	13.2
	No	21	13.8
	Total	41	27.0
Missing	System	111	73.0
Total		152	100.0

n): What are your most important financial needs at the moment?

	Strongly disagree	Disagree	No idea	Agree	Strongly Agree
Working capital			2(1.3%)	76(50%)	68(44.7%)
Long term investment		5(3.3%)	8(5.3%)	70(46.1%)	67(44.1%)
Import-export credit	1(0.7%)	42(27.6%)	103(67.8)	3(2.0%)	1(0.7%)

o): Being a woman makes it difficult to get credit do you agree?

		Frequency	Percent
Valid	Strongly disagree	38	25.0
	Disagree	67	44.1
	No idea	42	27.6
	Agree	4	2.6
	Strongly agree	1	.7
	Total	152	100.0

p): Does being a woman create any obstacles while setting up a new business?

		Frequency	Percent
Valid	Yes	31	24.3
	No	10	75.7
	Total	152	100.0

q): If you have never applied for bank credit, what is the reason behind this?

	Strongly disagree	Disagree	No idea	Agree	Strongly agree
I don't need credit	56(36.8%)	17(11.2%)	5(3.3%)	32(21.1%)	4(2.6%)
High interest rates and costs			8(5.3%)	32(21.1%)	73(48%)

r): Do you have an active credit at the moment?

		Frequency	Percent
Valid	Yes	12	7.9
	No	140	92.1
	Total	152	100.0

s): If yes, how much interest do you pay?

		Frequency	Percent
Valid	Annually 11%-15%	5	41.7
	16%-20%	7	58.3
Total		152	100.0

t): Is there any other costs/fees you pay other than the interest? If yes, what are these costs? (Application fee, stamp, commission, collateral, mortgage costs)

		Frequency	Percent
Valid	Application fees	2	1.3
	Stamp	1	0.7
	Commission	4	2.6
	Collateral	12	7.9
	Total	19	12.5
Missing	System	133	87.5
Total		152	100.0

u): On what basis you decided about the location of your business?

		Frequency	Percent
Valid	The closeness to customers	90	59.2
	The closeness to other business	25	16.4
	Because of the cheap rent in that area	29	19.1
	Because of the good infrastructure	7	4.6
	Total	151	99.3
Missing	System	1	.7
Total		152	100.0

v): Do you have any relationship with big businesses (being their distributor, or subsidiary)?

		Frequency	Percent
Valid		1	.7
	Yes	47	30.9
	No	104	68.4
	Total	152	100.0

w): Do you pay taxes to the government?

		Frequency	Percent
Valid	Yes	121	79.6
	No	31	20.4
	Total	152	100.0

Appendix II: Questionnaire

A SURVEY ON SMEs in NIGERIA: PROBLEMS AND PROSPECTS

I confirm that Muhammad Muktar Abdullahi, as part of his master thesis research, conducts this survey. It will help him to identify the problems and prospects for SMEs in Nigeria. Your truthful answers will be highly appreciated. You can be sure that your answers will be kept confidential and will not be shared with anybody.

Professor Hatice Jenkins
Eastern Mediterranean University
Department of Banking and Finance

QUESTIONNAIRE

- 1) Name of the business
- 2) Date of establishment
- 3) Name of the owner of the business.....
- 3) Gender of owner: Male() Female () 4) Age of owner.....
- 5) E-mail
- 6) Address
- 7) Work experience of the owner in private sector (years)
- 8) Education level of the owner of the business?
a) primary school b) high school c) university d) masters d) others
- 9) How many employees do you have in this business?
- 10) What do you produce/ or what kind of service you provide?
- 11) Have you ever benefited from consultancy services while establishing, or after establishing your business? a) Yes () b) No ()
- 12) What are the main obstacles faced while establishing your business? Please rank in order of importance?

	Strongly Disagree	Disagree	No idea	Agree	Strongly Agree
a) Financial shortages (lack of credit)	1.....	2.....	3.....	4.....	5
b) Lack of skilled personnel	1.....	2.....	3.....	4.....	5
c) Lack of infrastructure (Water, electricity, telephone)	1.....	2.....	3.....	4.....	5
d) High competition in the sector	1.....	2.....	3.....	4.....	5
e) Bureaucratic obstacles	1.....	2.....	3.....	4.....	5

- f) High production costs 1.....2.....3.....4.....5
 - g) Uncertainties in the country/economy 1.....2.....3.....4.....5
 - h) Raw material problems 1.....2.....3.....4.....5
 - i) Lack of demand for our products 1.....2.....3.....4.....5
 - j) Others (please specify) 1.....2.....3.....4.....5
-

13) What is the main factor that has encouraged you to establish this business?

Strongly Disagree No idea Agree Strongly
Disagree Agree

- 1.....2.....3.....4.....5
 - b) Lack of Job opportunities in the public sector 1.....2.....3.....4.....5
 - c) My knowledge and experience in this area 1.....2.....3.....4.....5
 - d) Government incentives (low interest credits) 1.....2.....3.....4.....5
 - e) Government’s protective policy in this sector 1.....2.....3.....4.....5
 - f) My family background 1.....2.....3.....4.....5
 - f) (Others specify) 1.....2.....3.....4.....5
-

14) How did you provide the capital needed to setup your business? Please indicate in percentage of total.

- a) My own funds % b) Borrowed from family %
- c) Bank credit % d) Low interest government credits %

15) How much capital did you invest when you setup your business?

16) Have you ever applied to a bank for credit? a)Yes () b)No()

17) If you did, was your application approved ? a) Yes () b) NO ()

18) What are your most important financial needs at the moment?

Strongly Disagree No idea Agree Strongly
disagree Agree

- a) Working capital 1.....2.....3.....4.....5
- b) Long term investment credit 1.....2.....3.....4.....5
- c) Import-export credit 1.....2.....3.....4.....5
- d) others specify..... 1.....2.....3.....4.....5

19) What is the most important need of your business, other than the credit, at the moment?

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20) Being a woman makes it difficult to get credit do you agree?

Strongly disagree Disagree No idea Agree Strongly Agree
1.....2.....3..... 4.....5

21) Does being a woman create any obstacles while setting up a new business?

a Yes () b No ()

Please explain.....

22) If you have never applied for bank credit, what is the reason behind this?

	Strongly Disagree	Disagree	No idea	Agree	Strongly Agree
a) I don't need a credit	1.....	2.....	3.....	4.....	5
b) high interest rates and costs	1.....	2.....	3.....	4.....	5
c) others specify	1.....	2.....	3.....	4.....	5

23) Do you have an active credit at the moment? a) Yes () b) No ()

24) If yes, how much interest do you pay?

25) Is there any other costs/fees you pay other than the interest? If yes, what are these costs? (Application fee, stamp, commission, collateral, mortgage costs)

.....

26) On what basis you decided about the location of your business?

- a) The closeness to customers
- b) The closeness to other businesses
- c) Because of the cheap rent in that area
- d) Because of the good infrastructure
- e) others

27) If your business is located in the industrial zone, what advantages does this provide to you? Please explain

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28) Do you have any relationship with big businesses (being their distributor, or subsidiary) a) Yes b) No

29) Do you pay taxes to the government? A) Yes b) No

30) What is the biggest problem of your business in Nigeria, at the moment?

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31) What is the biggest opportunity for your business and other similar businesses in Nigeria at the moment?

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