

A Study of Small- and Medium-Scale Industrial Development in Ondo State, Nigeria

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Abstract

Ondo state is strategically located in the southwestern region of Nigeria, and is endowed with resources and potentials of a state that could be highly developed industrially. This paper reviews the state of industrial development in the state, comparing it with other states in the country. Previous forecasts and studies were also reviewed, while some cases of existing small and medium scale enterprises (SMEs) within the state capital, Akure, were also investigated with results presented in order to establish the peculiar problems militating against their profitability and level of profitability. These problems were found to be availability of credit facility, infrastructures and bad or poor management.

Keywords: *Credit facility, forecast, infrastructure, management, profitability.*

Introduction

The definition of small and medium enterprises (SMEs) varies from country to country, region to region and from agencies to agencies in today's world. Loveman and Sengenberger (1990) recounted that, "Small enterprises" or "small and medium enterprises" are elusive concepts. They do in fact hide a large heterogeneity in the types of the firms.

The Nigerian concepts of SMEs are somewhat divergent but the Central Bank of Nigeria agrees with the Small and Medium Industries and Equity Investment Scheme (SMIEIS) in their definition of a SME as any enterprise with a maximum asset base less than N200 million (equivalent of about \$1.43 million) excluding land and working capital, and with the number of staff employed not less than 10 (otherwise will be a cottage or micro-enterprise) and not more than 300 (Sanusi 2003a; Udechukwu 2003; Akabueze 2002; SMIEIS 2002; and Sanusi 2004). Moreover, this definition for SMEs was based on the revised definition by the National Council on Industry in 2001.

A major gap in Nigeria's industrial development process in the past years has been

the absence of a strong and virile SME sub-sector. The little progress recorded from the courageous efforts of the first generation of indigenous industrialists were almost completely wiped out by the massive dislocations and traumatic devaluation which took place under the Structural Adjustment Programme (SAP) (Udechukwu 2003; Sanusi 2003a).

Many observers from different traditions and political orientations embrace the idea that small enterprises should be seen as the key to national economic regeneration and a road to renewed growth of employment. The role of the SMEs in the development and sustainability of a national economy is quite obvious as seen in the developed economies in Europe, Asia and North America (Loveman and Sengenberger 1990). SMEs indeed possess enormous capability to grow an indigenous enterprise culture more than any other strategy (Udechukwu 2003).

For example, the Confederation of Asia Pacific Chamber of Commerce and Industry (CACCI 1994) documented the data presented in Table 1, which shows the contributions of SMEs in some selected Asian economies.

Table 1. Contributions of SMEs in Selected Asian Economies (in percentages)

Industrial characteristics	Malaysia (1985)	Singapore (1990)	Korea (1991)	India (1994)
Contribution to total number of industrial establishment	92.1	88	97	94
Contribution to total industrial employment	49.4	40	63.5	31
Contribution to total industrial production	46.7	26	44.5	44
Contribution to total industrial value addition	30	23	45.8	35

Source: CACCI (1994).

Thus, from the planning stand point of view, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification and dispersal; and in most countries SMEs account for well over half of the total share of employment, sales and value added (Udechukwu 2003).

The economy of a developing nation like Nigeria ought to be characterized by a large number of micro, small and medium businesses mainly in the informal sector. SMEs not only contribute significantly to improving living standards, they also bring about local capital formation and achieve high levels of production. For these reasons the presence and development of SMEs are desirable at the various tiers of governments, especially in states lacking SMEs and industrial development like Ondo State.

Developmental Efforts of the Small- and Medium-Scale Enterprises by the Government

The efforts of the Federal Government of Nigeria at promoting the development of SMEs over the years and till date are mainly in the areas of developing monetary, fiscal and industrial policies and measures. This has led to the establishment of various schemes and institutions like; Small Scale Industry Credit Scheme (SSICS), Nigerian Industrial Development Bank (NIDB), Nigerian Bank for

Commerce and Industry (NBCI), National Directorate of Employment (NDE), and so on.

As laudable as these programs were, quite a few were able to have reasonable impacts on the development of SMEs. One of the newest initiatives is the Small and Medium Industries Equity Investment Scheme (SMIEIS). This was initiated by the Central Bank of Nigeria as a means of providing long-term finances and professional guidance through participating Nigerian banks that commits 10 percent of their annual pre-tax profits to equity investment in the SMEs.

Small- and Medium-Scale Enterprises in Ondo State

The statistics division of the Ministry of Finance and Economic Planning in Akure, Ondo State, provided the data used in preparing the graphical representation of the number of non-formal sectorial establishments in the old Ondo State, which is a combination of the present Ondo and Ekitti State, between 1993 and 1996. Fig. 1 showed that the highest number of 2080 was recorded in 1995 and the least was 1805 in 1993. Meanwhile, it is usual for the SMEs to claim up to 99% of the total number of these establishments in the non-formal sector of the state. Records from the Ministry of Finance and Economic Planning (Anon. 1995) also showed that in 1995 the old Ondo State (which is a combination of the present Ondo and Ekitti State) had about 3.2% of all the SMEs in the Federation (Anon. 1995).

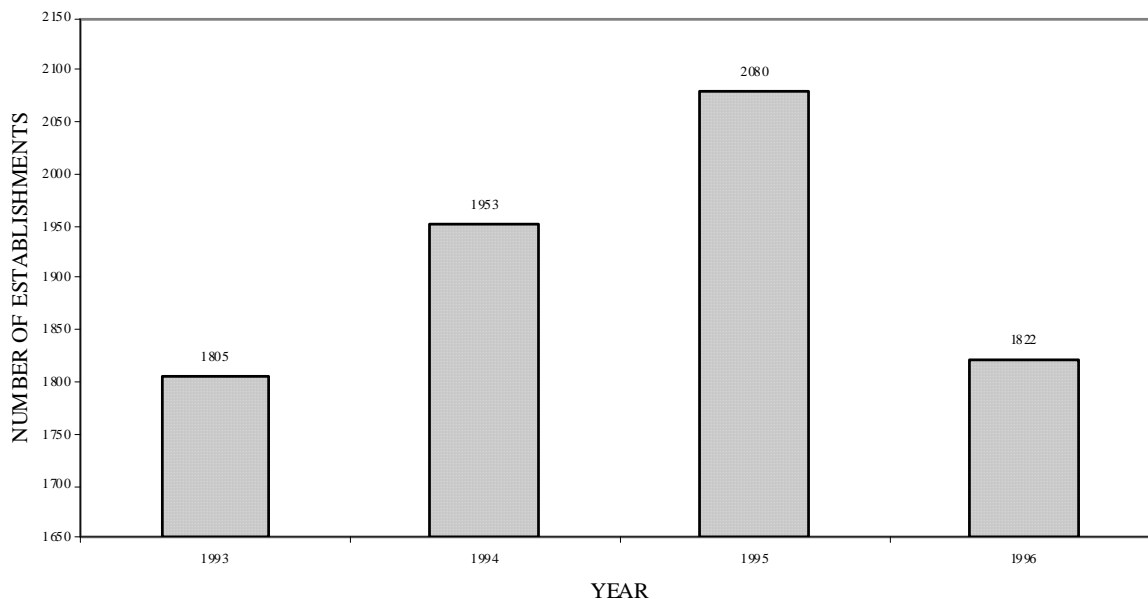


Fig. 1. Number of non-formal establishments in the old Ondo State between 1993 and 1996.

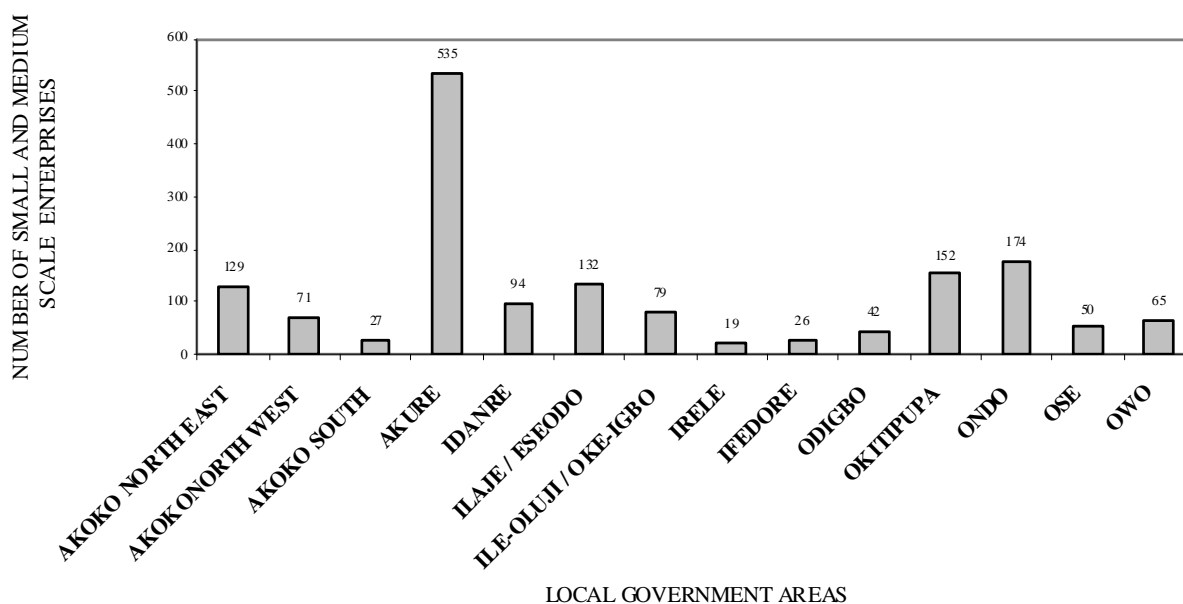


Fig. 2. The distribution of small and medium scale enterprises among the local government areas of Ondo State in 1995.

The distribution of the SMEs within the local government areas of the new Ondo State in 1995 are presented in Fig. 2. Akure and Irele local government areas had the greatest and least number of SMEs, which are 535 and 19, respectively.

A graphical summary of the distribution of

the SMEs in the old Ondo State by their activities is also presented in Fig. 3. Private professional practices and other types of transport apart from road transport, had the greatest and the least number SMEs in the old Ondo State in 1995 which are 901 and 1, respectively.

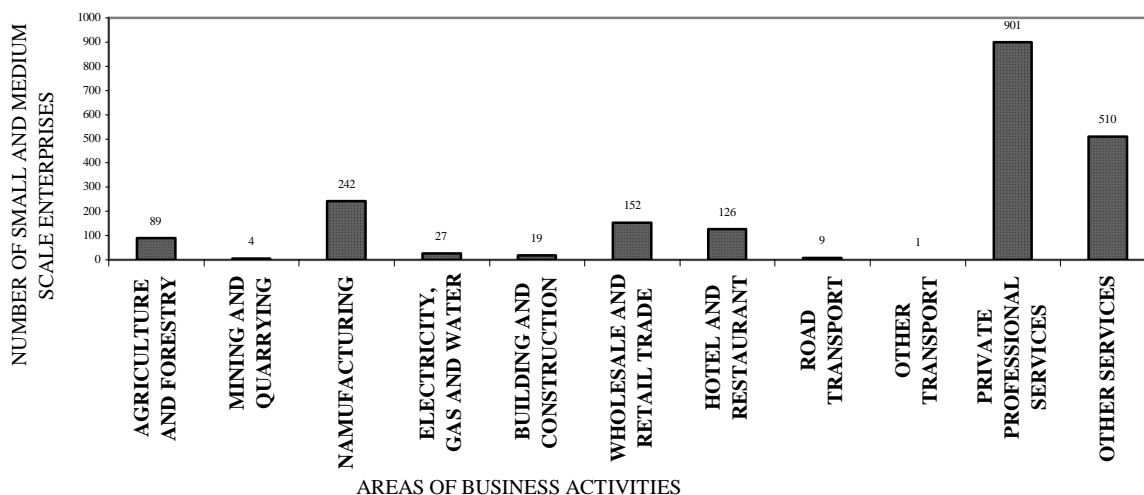


Fig. 3. The distribution of the small and medium scale enterprises in old Ondo State in 1995 according to business activities.

Performance and Problems of SMEs in Ondo State

Another way to evaluate the performance of Ondo State in terms of the SME activities is to compare it with the other states, especially Lagos State, in terms of the number of SME projects being funded by the Small and Medium Industries Equity Investment Scheme (SMIEIS). The requirements from entrepreneurs in order to secure equity investment from the various participating banks are the basic necessities for proper business management. These among other factors include:

- i. Having or proposing a commercially viable business,
- ii. Having a good business plan and strategies,
- iii. Using proper accounting and record keeping method,
- iv. Being compliant with the financing banks' requirements.

The progress reports from the Central Bank of Nigeria for 2003 and 2005 have been summarized in Table 2 and graphically presented in Figs. 4 and 5 to show how Ondo State performed in comparison with the other states and Lagos State, which has the highest number of equity funded SME projects. Figs. 4 and 5 showed that Ondo State had 0.6 and 0.54 percentages of the overall equity investments in those years (Sanusi 2003b; SMIEIS 2005)

Meanwhile, Sanusi (2003b) enumerated the following problems, which inhibited the progress of equity funding of the SME projects:

- i. Lack of entrepreneurial and fund management skills.
- ii. Low rate on investment and / or dearth of good investment opportunities.
- iii. Lack of entrepreneurial and fund management skills.
- iv. Low rate on investment and / or dearth of good investment opportunities.
- v. Legal and regulatory issues bordering on taxation, sustainability of the scheme and thrust of Government policy on SME and macro-economy
- vi. Inadequate database on SMEs.
- vii. Problems associated with family / one-man business (for example, personalizing the account),
- viii. Resistance to dilution of ownership and tax evasion.
- ix. Non-functional, inefficient and inadequate infrastructures.
- x. Resistance to change – preference of loan financing to equity financing.

Moreover, the factors working against the development of SMEs from the entrepreneur's view are quite numerous among which are the following:

- i. Poor access to money or capital markets.
- ii. High rate of enterprise mortality.
- iii. Shortage of skilled manpower.
- iv. Financial indiscipline.
- v. Lack of infrastructural facilities.
- vi. Poor policy implementations.
- vii. Poor management and low entrepreneurial skill base.
- viii. Restricted market access.
- ix. Overbearing regulatory and operational environment.

Table 2. Small and medium industries equity investment scheme (SMIES) funded projects in Ondo State.

	Total number of investment (2003)	Total number of investment (2005)	Total amount invested (2003) in Naira	Total amount invested (2005) in Naira
Overall	113	180	4,296,514,289.12	8,956,283,000.00
Lagos	93 (82.30%)	116 (64.44%)	3,408,027,275.17 (79.30%)	5,259,591,000.00 (58.73%)
Ondo	1 (0.9%)	2 (1.11%)	25,000,000.00 (0.60%)	48,200,00.00 (0.54%)

Source: Sanusi (2003b) and SMIEIS (2005).

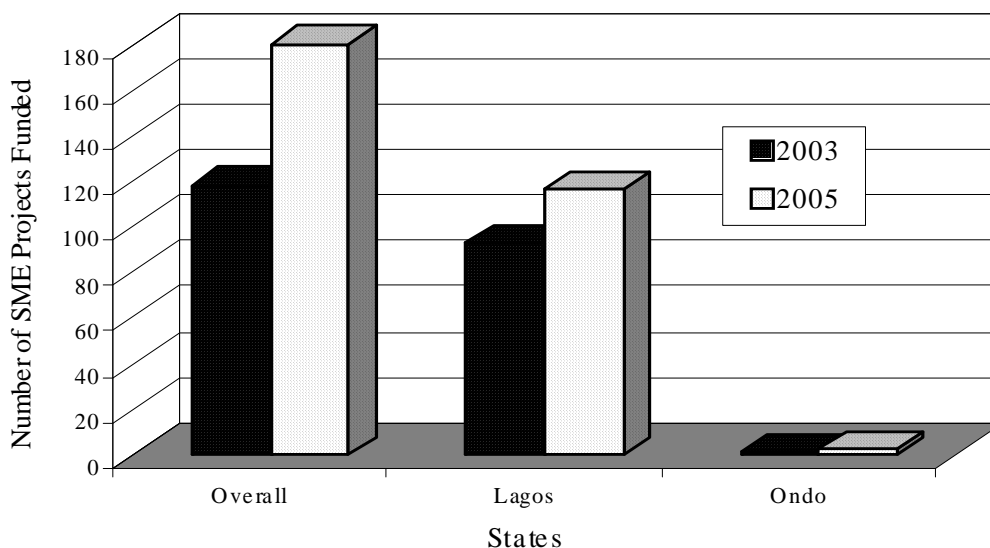


Fig. 4. Graphical representation of the number of equity funding of SME projects.

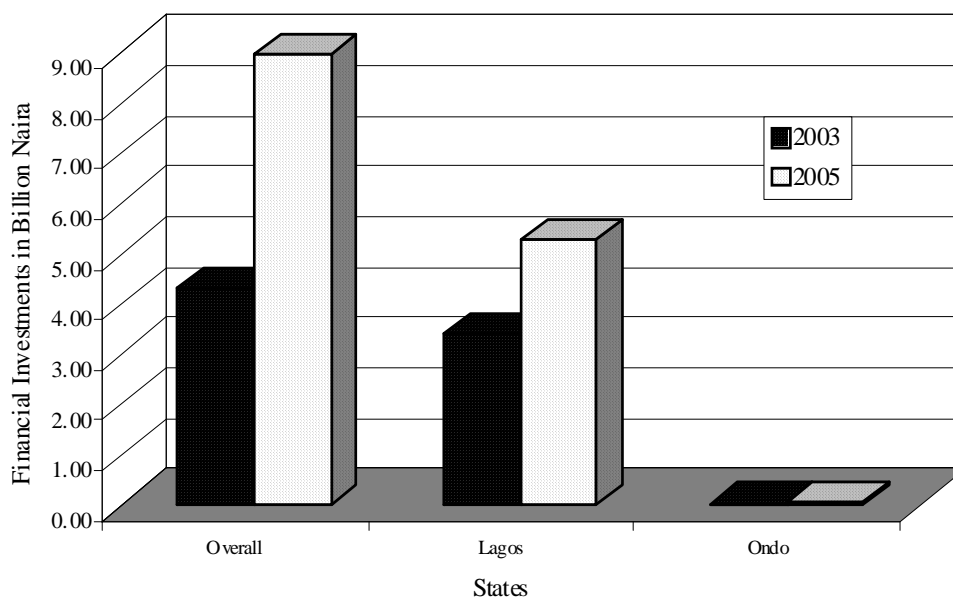


Fig. 5. Graphical representation of the number of equity funding of SME projects.

Profitability of SMEs in Ondo State

The results of a survey of Small and Medium Scale Industries conducted in Ondo State in 2001 showed that at least 70% of the established SMEs were started purely for the financial profit. The report also showed that 90% of the respondents in the survey had their businesses established within less than a decade before the survey was conducted. The survey also showed that while all had capital investments of in excess of ₦100,000 (approx. 667 US\$), where 1 USD ≈ 150 NGN (Nigerian

naira, ₦), only 40% had capital utilization of above 75% and the capacity utilization of 30% was put below 50%. In 1999, 30% of the industries surveyed showed a sales volume that is in excess of ₦20,000 (approx. 133 US\$) and these were the industries whose profit for that year was above ₦1,000, the highest profit was ₦28,150 (approx. 188 US\$). Fig. 6 shows distribution of industries according to the ranges in which their break-even point falls. The figure shows that most of the industries broke-even between 60% and 79% (Awosusi 2001).

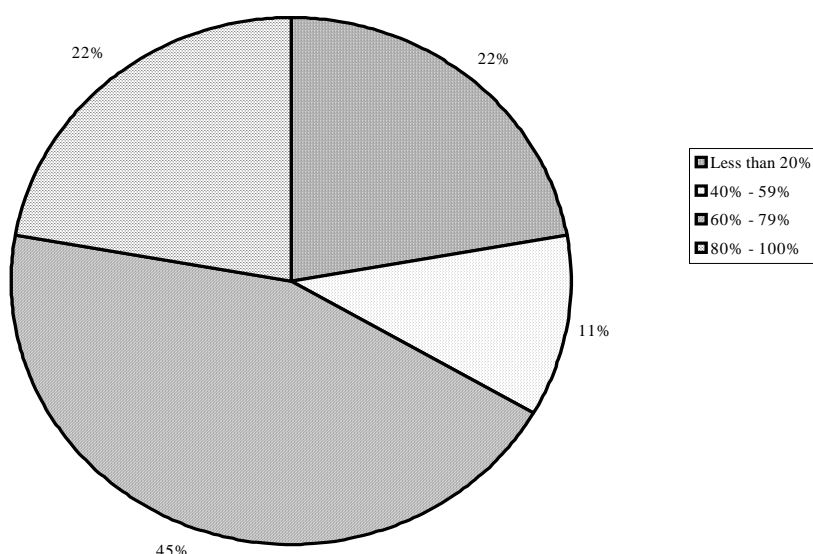


Fig. 6. Percentage distribution of small and medium scale industries by the range of their break-even points.

Conclusion

The promises that will accrue from the successful development of the small and medium scale enterprises in Ondo State are numerous profitability of most of the SME businesses are also not in doubt but the various factors that are preventing the state from achieving good industrial development must be addressed. For example, the attitude of entrepreneurs to business management, accounting and proprietorship needs to be modified. Government must improve on the favorability of their fiscal and monetary policies, infrastructural provision and public enlightenment on SMEs. Financial institutions and regulatory bodies, non-governmental

organizations, education institutions, professional bodies and other stakeholders must braze up to play their required roles in this course as well. The fact remain that Ondo State can rise far beyond the present level of industrial development.

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