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(Project No. NIR/BI)

**POLICY FRAMEWORK**

**FOR PROMOTION AND DEVELOPMENT**  
**OF SMALL AND MEDIUM ENTERPRISES**  
**IN**  
**THE FEDERAL REPUBLIC OF NIGERIA**

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## ***ABBREVIATIONS***

ANWI	-	Association of Nigerian Women Industrialists.
ASCON	-	Administrative Staff College of Nigeria
CMD	-	The Center for Management Development
CIRD	-	The Center for Industrial Research and Development
CBN	-	Central Bank of Nigeria
CADD	-	Center for Automotive Design and Development
FEAP	-	Family Economic Advancement Programme
FMI	-	Federal Ministry of Industries
FOS	-	Federal Office of Statistics
FSP	-	Family Support Programme
GJCLS	-	Graduate Job Creation Loan Scheme
IDC	-	Industrial Development Centres
IDCC	-	Industrial Development Coordinating Committee
ITF	-	Industrial Training Fund
ITC	-	International Trade Center
ILO	-	International Labor Organization
LCCI	-	Lagos Chamber of Commerce & Industry
MAN	-	Manufacturers Association of Nigeria
MPS	-	Matured People's Scheme
NEPC	-	Nigerian Export Promotion Council
NMDC	-	The National Metallurgical Development Center
NBCI	-	The Nigerian Bank for Commerce and Industry
NASSI	-	National Association of Small Scale Industries
NACCIMA	-	National Association of Chambers of Commerce, Industries, Mines & Agriculture
NCI	-	National Council of Industries
NECA	-	Nigerian Employers Consultative Association
NEPD	-	Nigerian Enterprise Promotion Decree
NOIC	-	The Nigerian Opportunities Industrialization Center
NIPC	-	Nigerian Investment Promotion Commission
NASME	-	Nigerian Association of Small & Medium Enterprises
NASSI	-	Nigerian Association of Small Scale Industrialists
NAWE	-	Nigerian Association of Women Entrepreneurs
NAWIB	-	Nigerian Association of Women in Business
NERFUND	-	National Economic Reconstruction Fund
NDE	-	National Directorate of Employment
NAC	-	National Automotive Council
NPC	-	National Planning Commission
NEXIM	-	Nigeria Export Import Bank
PRSD	-	Planning Research & Statistics Department
RMRDC	-	The Raw Materials Research and Development Council
SAP	-	Structural Adjustment Programme
SMID	-	Small & Medium Industries Department
SMEDAN	-	Small and Medium Enterprises Development Agency of Nigeria
SMEDFUND	-	Small and medium Enterprise Development Fund
SMEP	-	Small and Medium Enterprises Promotion
SON	-	Standards Organization of Nigeria
TBIC	-	Technology Business Incubator Center
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Organization

# **1. EXECUTIVE SUMMARY**

## **- SME POLICIES**

The Small and Medium Enterprises (SMEs) represent more than 95% of the organized manufacturing sector in Nigeria. In addition, there are many thousands of manufacturing units operating in the form of micro enterprises and as dispersed production units of the informal sector. Within this context, the adoption of an appropriate policy framework for the promotion and development of SMEs has become now inevitable and even practically imperative, considering the economic and social importance of this sector that should play a vital role in the economy of the Federal Republic of Nigeria.

The policies to promote and develop SMEs in developing countries should not any longer consider SMEs as an handicapped sector that needs an excessive protection with extra-ordinary state sponsored assistance to survive. It is a sector that plays an important role as a sustainable sector in many developing and emerging developed economies supported through appropriate and carefully selected policies and promotional mechanisms implemented with an active participation of the private sector.

Therefore, the main aim of the policy is to promote and develop the SME sector as an equal player as any other sector in the economy.

In the present context of Nigeria, the SME policies should be oriented to identify precisely the type of enterprises to be promoted and developed with specific and realistic objectives to be achieved at macro level. This will also need a selection and an implementation of appropriate mechanisms of promotion and development identified on the basis of specific requirements of the deferent categories of production units in order to create enterprises that are sufficiently matured and responsible to contribute effectively to maintain a sustainable economic growth. Hence, the sector that is targeted by the proposed policy should be a sector that is:

- structured and organized,
- competitive in local and international markets,
- linked and co-exists with the large industries and other sectors,
- environmentally friendly,
- developed to absorb an increasing work force that could join the expanding informal sector, and
- capable of producing successful private sector entrepreneurs.

## THE ECONOMY OF NIGERIA AND PLACE OF SMEs.

In spite of many development activities implemented in the past and potential opportunities available, the economy of Nigeria is at present undergoing serious difficulties. A down-ward trend of the GDP growth, a high inflation rate, and excessive dependence on oil exports (97% of the export earnings) deteriorating situation of the development finance mechanism, a distressed banking system, a declining employment opportunities in the organized manufacturing sector, a rapid expansion of the "informalization" of the economy, a deteriorating situation of the infrastructure facilities, an ailing public sector institutions, a low capacity of utilization of the production system, an increasing unemployment and poverty, etc. constitute as much as difficulties to the Nigerian economy at present. In addition, the economy is confronted with internal and external shocks resulting from economic liberalization and globalization processes.

It is in this context that the SME sector could find its priority role in the development of the Nigerian economy to strengthen a sustainable economic growth in Nigeria.

### SME SECTOR IN NIGERIA

SMEs in Nigeria are identified with many definitions and terms which are sometimes confused with formal organized SMEs, Micro enterprises, informal activities, rural and cottage industries, etc. But the preliminary assessment carried out, based on the limited available information reveals the composition of the SME sector and the other sub-sectors of the manufacturing sector as follows:

	SUB SECTOR	EMPLOYMENT	% UNITS	CHARACTERISTICS
1.	Large	More than 300	4	Organized Private/Public
2.	Medium	100 - 299	9	Private
3.	Small	10 - 99	87	Private
	Sub Total		100	
4.	Micro	Less than 10		Many thousand, dispersed in the country; Potential SME candidates.
5.	Informal units	Unspecified number		Dispersed production system



The real SMEs are generally the enterprises found in the organized manufacturing sector. The SMEs are identified as enterprises employing 10 - 300 persons and they represent about 96% of the total number of units in the organized manufacturing sector. Many other documents identify SMEs as enterprises employing less than 100 persons. But in the context of an appropriate policy framework for the sector increase of the employment figure to 300 is more realistic considering the situation on the ground and the specific objectives that should be assigned to the sector ( EX: Export orientation, sub contracting) and also considering the economic changes taking place in the developing countries resulting from structural adjustment programmes , globalization etc... The medium scale enterprises identified with in the SMEs are producing a wide range of diversified products whereas the small scale enterprises which employ less than 100 persons are concentrated on the production of a limited number of consumable products.

In addition, there are two other sectors, enterprises employing less than 10 persons, identified as micro and an informal sector. Both of these sectors have thousands of enterprises dispersed all over the country and offer potential SME candidate enterprises which should be promoted through appropriate mechanism and interventions.

#### - **MAJOR OBSERVATIONS ON SME SECTOR IN NIGERIA**

##### **Past Experience:**

In the past the Government of Nigeria had put in place an extra-ordinary range of assistance and policy measures to promote and develop the SMEs of which the following are significant:

- Public sector led institutional framework with extension services in each state.
- Fiscal and other incentives ranging from income tax exemptions, duty rebates, to tax holidays and exemptions of various levies,
- Laws and regulations,
- Infrastructural facilities,
- Range of financial support schemes and financing institutions,
- Research and Development work,
- Specialized SME support programmes in collaboration with external donor agencies (UNDP, UNIDO, ILO, GTZ and other bi-lateral and multilateral organizations),
- Entrepreneurship training programmes.

After two and a half decades of various supportive mechanisms introduced in the country, the SMEs sector in Nigeria is found in a situation without a specialized institutional mechanism and without appropriate financial assistance. In addition the sector is also confronted with various other constraints related to concepts, definitions and objectives, development of the sector,



promotion of the sector including production and marketing and constraints emerging from globalization and liberalization of the external and internal trade.

The definitions and concept of SMEs are mixed up with formal sector enterprises and informal, micro, rural, cottage industries. This confusion has also led to the exclusion of formal SMEs from the different forms of assistance programmes made available to organized SMEs which are also in difficulty. Many of the SME promotion programmes were more or less oriented towards informal and micro enterprises.

It is commonly accepted that public sector implemented interventions have not contributed sufficiently to develop a sustainable SME sector in Nigeria. Therefore, the need to put in place a specialized delivery systems of assistance to SMEs, implemented with the close collaboration of the private sector is strongly emphasized by many categories of actors concerned with the sector.

- **PROSPECTS FOR THE FUTURE:**

The experience in the past on the promotion and development of SMEs provides a strong basis for a new departure. In addition, a large number of studies had been carried out on more than twenty aspects of SME development in Nigeria. A considerable knowledge is also accumulated on the availability of industrial raw materials obtainable in Nigeria. A recent study indicated the availability of more than 140 R & D findings which could be made available for more industries. All these local information and knowledge would certainly provide a base for SME development.

With a break-down of promotional mechanisms introduced in the past, a large number of private initiatives have taken place to support the SME sector. These are the initiatives by the private sector trade organizations such as M.A.N., NASSI, NACCIMA, Women's Organizations, independent entrepreneurs organizations, NGOs, etc. These initiatives are to be exploited to put in place new promotional mechanisms for SME development in Nigeria.

- **POLICY FRAMEWORK FOR SME SECTOR IN NIGERIA**

The Policy Framework covers four major aspects related to the SME sector as follows:

1. Concepts, definitions and objectives of SMEs,
2. Development of SMEs.
3. Promotion of SMEs,

#### 4. Changing role of SMEs.

##### **(1) Concepts, definitions and objectives**

- **The SMEs are identified as enterprises** employing 10 - 300 persons. This definition does not exclude all the other possible and potential SME candidates/enterprises that could be promoted to the formal sector from the micro enterprises and informal sector with appropriate assistance and support by specialized mechanisms.

- **The Major Objectives of the SME Sector** to be promoted and developed are defined as follows:

- a. Create Productive employment opportunities throughout the country.
- b. Increase the utilization of local raw materials, Technologies, skills and other resources, and to increase value addition by the manufacturing sector.
- c. Provide an effective instrument to Federal and State governments to strengthen rural and regional development policies.
- d. Reduce the rapid expansion of informal Manufacturing activities through up-scaling of the potential SME enterprises of the micro and informal sector to formal organized sector.
- e. Increase non-oil income from exports by promoting direct and indirect exports through promotion and development of export oriented SMEs in Nigeria.
- f. Strengthen the Technological base of the manufacturing sector through transfer of technologies and introduction and development of new products and services for SMEs and through encouragement of the innovativeness of the SMEs.

**(2) Development of the SME sector** should take into consideration the following;

1. Macro economic and structural measures to create an enabling environment for the development of the SMEs,
2. Supporting and strengthening the SME sector to establish itself to confront successfully the internal and external shocks resulting from liberalization of internal and external trade and the rapid globalization process,
3. Facilitate the SMEs to overcome the difficulties resulting from the fluctuating and unstable interest rates, Inflation and exchange rate situations,
4. Revision of the existing fiscal incentives in favor of the development of SMEs in a more level playing field,
5. Revival and improvement of the deteriorating financial sector and introduction of delivery mechanisms of financial support specific to the SMEs,
6. Improvement and development of infrastructure facilities with the participation

- of the private sector,
7. Introduction of appropriate regional/rural development policies in order to use SMEs as an effective instrument of production and development by the state governments, 8. Creation of a specialized institutional promotional mechanism with active participation of the private sector,
  9. Improvement of the working conditions of the workers of the SMEs,

**(3) The Promotion of the SME Sector will include the following major components in the Policy Framework:**

1. Assistance related to
  - Create new SMEs,
  - Develop and rehabilitate the existing SMEs,
  - Facilitate the passage of potential SME candidate enterprises /units of the micro and informal sector to the formal SMEs sector,
2. Support the private sector to improve the delivery capacity to assist the SMEs,
3. Diversification of the products and services of the SMEs,
4. Improvement of the quality standards of the SMEs,
5. Improvement of the productivity of the SMEs,
6. Entrepreneurship and training for the SME sector,
7. Improvement of competence of the intervening organizations (private and public),
8. Encouragement of successful entrepreneurs,
9. SMEs and environment concerns,
10. Marketing facilities for SMEs,
11. Establishment of appropriate information networks for SMEs,
12. Development of skills required by the modern SMEs.

**(4) Changing role of the SME Sector will mainly cover the following components:**

1. Export orientation of the SMEs with specific programmes and schemes,
2. Promotion and cohesion between SMEs and large scale enterprises specially through subcontracting ,
3. Introduction of programmes for specific target groups engaged in SME development such as women, youths etc...
4. Specific programmes for micro and informal sector development,
5. Promotion and development of an environmentally friendly SME sector.

**MAJOR RECOMMENDATIONS:**

**A. For the Government:**

- Discuss and consult all the partners involved and concerned (Private and Public sectors, Donor Agencies, Banks etc.) the policy framework document and finalize a policy framework to be submitted to the approval of the Government,
- Definition and preparation of immediate and medium term action plans for the implementation of the activities related to the policy measures adopted
- Preparation of a 5 year development plan for the SME sector in collaboration with all the institutions and actors concerned,

**B. For the Private Sector :**

- Active participation of all the private sector institutions, associations in the implementation of the policy measures at national and state level,
- Creation of specific units at the association of chambers to monitor and follow up SME programmes introduced,
- Strengthen the delivery capacity of the private sector institutions through training of a professional staff including the members of the associations,
- Contribution to establish a SME promotional funds at every state level managed by the private sector,
- Encourage the involvement and commitment of the private sector members in the SME promotional activities in the States.

**C. For the donor agencies , UNDP, UNIDO, ILO, GTZ, other bilateral multilateral agencies and international NGOs:**

- Intervention and assistance to provide;
  - Technical assistance,
  - Expertise and supporting funds,
  - a modern information systems and networks for trade and industry,
  - Support to implement specific pilot projects in selected states and to expand the assistance to the experience to other states.

## **DESIRED SITUATION**

The implementation of an appropriate SME policy finally aims to put in place:

- An environment conducive for the private sector to invest in industry,
- A professional promotion and development mechanisms that works , implemented by specially trained, motivated and committed persons who believes the role of SMEs in developing countries,
- A system that is sustainable in which all the actors play an active role on a common platform,
- and A dynamic private sector capable of creating SMEs that are organized and sufficiently matured and responsible to strengthen the sustainability of a diversified economy of the Federal Republic of Nigeria.

## **2. CONTEXT OF THE MISSION**

This mission is carried out within the framework of the United Nations Development Programme (UNDP) Assisted Small and Medium Enterprises (SME) Development Programme (Programme NIR/B1) executed by the Federal Ministry of Industries (FMI) through its Small and Medium Industries Department (SMID) of the Federal Republic of Nigeria.

The United Nations Industrial Development Organization (UNIDO), intervenes in this programme as an associated agency in the execution of certain activities of the programme related to the industrial sector. Hence, this study represents a part of the UNIDO contribution which concerns mainly the identification of the major elements of an appropriate policy framework for the Promotion and Development of a Small and Medium Enterprises of manufacturing nature and related activities in Nigeria.

Within the same programme of assistance to the SME sector, a series of studies are carried out by National and International Consultants. These studies cover the areas such as Code of Investments, Commercialization of R & D results, Subcontracting for SMEs, Institutional Framework etc... A list of some of these studies under the programme is presented in Annex.3 of this report.

## **2.1. MANDATE AND PROGRESS OF THE MISSION**

The main activities of the Terms of Reference (TOR) of the UNIDO Consultant is attached (Annex 1). The initial TOR of the UNIDO Consultant for the present mission was modified and the duration as initially planned was reduced taking in to consideration the availability of some basic SME policy studies that should serve as reference documents for the present report. Therefore, this report is prepared as a complementary document on policy framework for SMEs incorporating the UNIDO contribution in addition to the reference document completed by Prof. T.O.Odetola, the National consultant for the SME programme on policies.

However, it should be noted that, this report is an integration of various recommendations of the studies and reports related to the UNDP Assisted SME project that were made available to the consultants as well as a result of extensive efforts made with in a relatively a short period to gather a maximum of data and information as accurate as possible through primary and secondary data originated from;

- A considerable amount of documents, studies and reports in addition to the references with in the UNDP project, ( Documents consulted in the annex 3)
- Interviews, discussions and meetings with a number of persons - industrialists, artisans, bankers, entrepreneurs, traders, officials, consultants, workers, academics, women and youths in development activities, experts, etc..(Persons, Institutions contacted in the Annex 2)
- Visits to many institutions, Industries, Banks, Chambers, Trade Associations, public markets, super markets, wholesale and retail shops, cottage industries in different places,
- Participation at a workshop on SMEs at Oshogbo in Osun State.

This process involved visits to various states which included extensive travel within the country which was not an easy task within a relatively short period. Difficulty of communication systems available, inadequacy of quantitative and recent data, etc constituted additional difficulties in carrying out the mission.

However, the commendable collaboration and assistance extended to the consultants by the Director, Deputy Director, Technical Adviser Assistant Director and the other members of the Staff of the SME department of the Federal Ministry of Industries and By the Director, Programming Officer and the staff of the UNIDO in Lagos facilitated to a great extent to carry out the work related to the mission smoothly.

This report aims mainly to establish a reference document to provide the major elements that are more meaningful and essential to the establishment of an appropriate policy document for the approval of the authorities concerned. It is prepared as best as possible without any prejudices, pre-conceptualized ideas and conclusions but based on the predominant realities on the ground and on the appropriate requirements identified for promotion and development of an SME sector which could be responsible and sufficiently matured to contribute efficiently to a sustainable economic and social development on the Federal Republic of Nigeria.

### **3. INTRODUCTION**

This report on "*Policy Framework for Promotion and Development of SMEs in the Federal Republic of Nigeria*" is being prepared at a time when the country was engaged in a series of economic reforms following the decline of the oil boom and the introduction of the Structural Adjustment Programme. Number of economic reforms had taken place in the past few years including:

- liberalization of the economy, opening the economy for external and internal trade,
- Recognition of the need to encourage new foreign and local investments,
- Privatization of ailing government enterprises,
- Stabilization measures of local currency - the NAIRA,
- Encouragement of new economic activities to diversify and reduce excessive dependency on the oil dominated economy,
- Introduction of measures related to fiscal discipline, etc.

Following these reforms the Government of Nigeria, encourages the development of an SME Sector while recognizing also the important role of the private sector in the future economic development strategies of the country.

#### **3. 1. ECONOMY OF NIGERIA: IN SEARCH OF NEW STRATEGIES OF DEVELOPMENT**

- The Federal Republic of Nigeria is one of the largest domestic markets with a population of more than 100 million people in the African continent. It has a land area of 925,000 sq. Km. enriched with large mineral and agricultural resources. Nigeria ensures a production of around 100,000 MT of crude oil per year which placed her at the 5th place within the OPPEC.

- The Country owns highly qualified and educated intellectuals and entrepreneurs, an adult literacy rate of 55% with a large labor force comparatively cheaper than that of the Asian and many other African countries.
- The country had put in place a significant amount of infrastructural facilities which includes a surfaced road net-work of more than 143,000 Km and with internal and international air line facilities.
- The country is located in the middle of the West African States where a convertible currency of Francs CFA is used. Nigeria exports many products to these neighboring countries which serve as an extended export market that could be promoted specially for the SMEs.
- The usage of English language as an official language constitutes additional advantages for strengthening its access to modern information systems and technologies, etc..
- In terms of financial infrastructure, the country had attracted in the past a much sophisticated financial system which included:
  - 66 Commercial Banks,
  - 54 Merchant Banks,
  - 5 specialized financial institutions,
 a large number of other financial and insurance institutions with many hundreds of branches (more than 2,300) in different parts of the country. while Some of these financial institutions have been distressed, the Federal Government had put in place most vigorous and stringent financial disciplinary systems to correct the situation.

In spite of the economic strengths and opportunities available, the general situation of the nigerian economy at present demonstrates serious difficulties.

- The GDP per capita is showing a down-ward trend, and the economy continues to depend on the production of oil, which accounts for more than 97% of the total export earnings.
- The manufacturing sector which has a large number of large, small and medium enterprises does not show an improving trend. The capacity utilization of the manufacturing sector is reported to be less than 30% and the official exports of manufactured goods is very limited.
- Performance of the enterprises in the public sector or the parastatals are significantly poor and uncompetitive.
- Employment in the organized manufacturing sector is following a declining trend over the past few years. Practically almost all the sub sectors in this sector registers a negative growth rate of employment.
- The industrialization process in the past was not equally beneficial to all the regions of the country. It is reported (Ref The World Bank - A Diagnostic review of the SME



Sector - December 1994), that an average of 46% of all establishments are located in the Western region (Bendel, Kwara, Lagos, Ogun, Ondo and Oyo) of which 17% in the Lagos State, whereas Eastern region has 28%, North Western 14.5% and North Eastern region 16%

- Thousands of micro- enterprises and informal economic activities are emerging in various parts of the country specially in the urban centres. This rapid expansion of the micro and informal activities push the economy towards an "extended informalisation" of manufacturing, trading, service activities creating serious difficulties to the development of the formal SME sector of the nigerian Economy.
- The GDP growth rate which was 4.7% in 1991 came down to 2.5 % in 1995 and provisional data of the FOS indicates a slight increase of 3.2% in 1996.
- The agricultural sector, particularly the cash crops sub sector, which was neglected following the oil boom in 1970s does not show a steady growth. The share of the agriculture sector in the GDP which was 39.5% in 1970, had come down to around 22% in 1990s, whereas the manufacturing sector occupies a share of 4 to 5% of the GDP, leaving the major share of more than 34% still to the crude petroleum and gas sector.
- The deteriorating situation of the infrastructure facilities: energy, water, transport, health, education, communication systems etc... is clearly apparent. The power generator is an essential investment in all industries as well as in hotels, restaurants, shops, households etc.. Many SMEs contacted reported that their production work is interrupted many times a day due to frequent power cuts resulting in increased and uncompetitive costs. It is reported in some studies that these additional costs add up to 25% of the production costs.
- A general deterioration of the efficiency of the public sector at many levels is noticed due to various reasons,
- The situation is still aggravated as a result of the private sector which has often adapted "wait and see attitude" to invest and to improve,

Considering the difficulties that country is undergoing at present many attempts are made to address some of these major constraints of the economy. The rolling plan of 1997-99, emphasizes fiscal discipline and solutions for the problems such as:

- inflation,
- ailing Government industries
- Low capacity utilization of industry and low productivity
- unemployment and poverty.

The 1997 budget attempts to address some of the above problems through:

- stimulation of private investments, domestic and foreign,
- Enhancing the private sector participation in sustainable economic growth,
- Intensification of rural development,
- Enhancement of agricultural productivity and food production,
- Creation of employment opportunities,
- Exchange rate stabilization,
- fiscal discipline, transparency, realistic exchange rate and appropriate monitoring and credit policy,
- Commercialization and privatization of public enterprises,
- Promotion and development of technological capabilities in various sectors,
- Intensification of Export Promotion,
- Intensification of revenue collection drive,
- Stimulation of the growth and development of the private sector.

Nigeria is making a serious effort to reorient the development of the economy with new strategies of development in which promotion and development of a dynamic SME Sector will find its critical place as a priority sector in order to respond to a number of issues and objectives of development.

### **3. 2. INSTITUTIONAL FRAMEWORK**

The promotion and development of SMEs in the Federal Republic of Nigeria involves at present a number of intervening institutions, actors and partners at different levels:

#### **3. 2.1. Federal Government Level**

Federal Ministry of Industries (FMI) through its Small and Medium Industries Department (SMID) in which UNDP SME support programme is housed plays the leading role. In addition, there are other Federal Government Ministries and Institutions that are involved in the Sector, mainly:

- National Council of Industries (NCI),
- Federal Ministry of Commerce and Tourism through its Nigerian Exports Promotion Council (NEPC),
- Federal Ministry of Science & Technology (Technology and Business and Technology Incubator Centres [TBICs]),
- Federal Ministry of Agriculture and Natural Resources,

- Federal Ministry of Women's Affairs and Social development(Family Support Programme [FSP]), Family Economic Advancement Programme (FEAP),
- Central Bank of Nigeria.(CBN),
- Federal Ministry of Labor and Productivity through National Directorate of Employment ( NDE),
- Raw Materials Research and Development Council (RMRDC),
- National Planning Commission (NPC),
- National Investment Promotion Commission (NIPC),
- Standards Organization Of Nigeria (SON).

### **3. 2.2. State Government Level**

The State Ministries of Commerce and Industry plays a main role in the promotion and development of SMEs in the respective States in the Country (36 States). In addition , a number of other intervening actors are involved in the SME sector at state levels and some of them are as follows:

- Industrial Development Centres (IDCs) of the FMI,
- Industrial Estates,
- Technological and Business Incubators of the FMST,

### **3. 2.3. Banks and Financial Institutions level**

A number of Commercial Banks and other financial institutions are often stated as partners of the SME industrial sector although their impact in the sector at present is minimal. The main institutions are as follows:

- Nigerian Bank for Commerce and Industry (NBIC),
- Peoples Bank,
- Nigerian Industrial Development Bank (NIDB),
- National Economy Recovery Fund (NERFUND).
- Nigerian Export and Import Bank (NEXIM),
- Private Sector Banks and financial Institutions.

A large part of the financing requirements of the SMEs, Micro and Informal activities are met through personal resources and through informal channels.

### **3. 2.4. Private Sector Level** (Direct economic operators)

A number of Trade Associations and Trade Chambers that represent the entrepreneurs of the SME sector are in operation both at National and State level.

- Manufacturers Association of Nigeria (MAN),
- The National Association of Small and Medium Scale Industries (NASSI),
- Nigerian Employers Consultative Association (NECA),
- National Association of Chambers of Commerce and Industries, manufacturers and Agriculture (NACCIMA),
- Nigerian Association of Small and Medium Size Enterprises (NASME),
- Chambers of Commerce and Industries at State levels,
- Bilateral Chambers of Commerce (Franco-Nigerian, German-Nigerian, Indian-Nigerian, Japan-Nigerian, Italian-Nigerian, etc),
- Nigerian Association of Women in Business (NAWB),
- Nigerian Association of Women Entrepreneurs (NAWE),
- World Trade Centers Association,
- State level trade associations such as Panteke Market Association in Kaduna and Ariara Market Association in Abia state.

### **3. 2.5. Other Economic Partners level**

This group includes, essentially the:

- NGOs, different entrepreneurial associations (Youths, Women, Informal Sectors, etc.)
- Bilateral & Multilateral Agencies intervening in SME support Programmes such as : The World Bank, UNDP, UNIDO, ILO, ITC, GTZ, British, German, French, Japan bilateral assistance programmes.

## **3. 3. WHAT ARE THE SMEs IN NIGERIA?**

### **3. 3.1. Definitions and Conceptual confusions on SMEs**

Many definitions and terms have been used and mentioned in various documents, studies and by various institutions concerned with the SMEs in Nigeria:

- (i) *Central bank of Nigeria (CBN) in its Credit Guidelines (1979) to Commercial Banks and Merchant Banks refers to a turnover of not exceeding 500,000 Naira (N) and / or*

capital investments of 500000 N excluding cost of land but including working capital as SMEs.

This definition was adopted by various institutions including the Federal Ministry of Industries (FMI).

(ii) *Nigerian Industrial Development Bank* (NIDB) refers Small Scale as enterprises with a capital investment excluding cost of land but including working capital of less than 750,000 N and Medium Scale 720,000 to 3 million Naira.

(iii) *The World Bank Economic Assistance to Nigeria*, referred: Micro enterprises as units having fixed assets excluding cost of land and including working capital, no exceeding 400,000 N, and SMEs not exceeding 10 million naira at 1988 Constant prices.

(iv) *Industrial Policy document* for Nigeria by the FMI (Federal Ministry of Industries) refer to: Small Scales enterprises:

having investments between 100,000 to 2 million naira excluding the cost of land but including the working capital.

Micro enterprises:

as units having less than 100,000 naira of capital investments.

(v) *The National Economic Reconstruction Fund* (NERFUND) identifies SMEs as enterprises having fixed assets less cost of land and including working capital up to 10 million Naira.

(vi) *National Council of Industries* (NCI) refers to the following definition:

"Cottage Industries"

Total cost/investment less cost of land including Working Capital less than 1.5 million Naira and employment less than 10 workers,

Small Industry

Total cost/investments excluding cost of land, including Working Capital between 1 million to 40 million Naira and with an employment of 11 - 35 workers.

Medium Scale Industry

Total cost/Investment excluding cost of land, including Working Capital of 40 million up to 150 million Naira and employment of 36 - 100 workers.

Large Scale Industry

Total cost/ investemet including working capital but excluding cost of land, is higher than N 150 million with a labour size of over 100.

- (vii) *The CBN Monetary Circular No. 30 of 1996 and Budget speech 1995 refer to SMEs as enterprises with total investments excluding cost of land and including working Capital of 1 million - 10 million Naira.*

A wide range of definitions on SMEs are very often introduced or used in developing countries often to facilitate:

- Political interpretations on development objectives of the sector referring to SMEs as a high/self employment generating sector,
- Statistical analysis,
- An implementation of specific programmes, schemes,
- Demarcation of administrative responsibilities of different institutions, etc vis-a-vis the sector etc...

The definitions using the investments criteria are questionable in a context of a local currency that experienced a vary high devaluation within a short period associated with an increasing inflation rate.

In addition to these definitions many terms are also used to speak about the SME sector in Nigeria, as in many other developing countries such as SMEs, Cottage Industries, Rural Industries/Enterprises, Micro Industries/Enterprises, Handicrafts, Informal Sector, self employment activities, etc..

The general tendency in the country at various levels is also to include informal economic activities which are also in turn identified in terms of a wide range of terms - (unorganized, unregistered, rural, self employment, parallel , irregular, etc.)

Many of these terms, interpretations and administrative type definitions have led to confuse SMEs by including a wide range of manufacturing activities in the same basket which has often neglected the organized SMEs from the technical and other assistance schemes but including Micro and informal sector as the SMEs to be assisted.

There is an organized and a structured SMEs in the country. There are also thousands of Micro, Informal, rural level manufacturing activities dispersed all over the country. Each of these sub - sectors constitute the total manufacturing structure.

Each of these sub sectors has significantly different technical, economic and socio-cultural characteristics and constraints. The development objectives, Policies and strategies of development, promotional and development mechanisms and instruments required are different from sub sector to sub sector. Economic actors and intervening institutions and experts should not be the same for all these sub sectors. Very often, officials, consultants, even funding agencies in some cases, generally tend to include informal, formal, micro, SMEs etc.. all type of manufacturing activities in to the category of SMEs and try to adapt uniform mechanisms to promote all of them together. These type of approaches result in an exclusion of the real SMEs from assistance and employment of unadapted methods to promote non SME type activities that may lead to irrational utilization of resources. The case of Nigeria is no exception of this experience.

Therefore, in an attempt to prepare an appropriate policy framework for the promotion and development of SMEs in Nigeria, it is very vital to clearly identify the real SMEs that the country intend to develop and promote in order to achieve the specific objectives assigned to the sector with a clear long term vision of establishing a structured and sufficiently mature SME sector that could be responsible to contribute to a sustainable economic development of the

country.

### 3. 3.2. SMEs and the Structure of the Manufacturing Sector in Nigeria

Reliable and updated statistics on the manufacturing sector in Nigeria is difficult to obtained. However, in this study an attempt is made to identify the real situation, composition and characteristics of the manufacturing sector of Nigeria in order to identify deferent sub sectors (based on the enterprises registered in the industrial directories) in terms of size of enterprises as follows:

#### A. Organized Sector

An Organized Sector which could be sub divided in to

- (1) **Large**, (2) **Medium** and
- (3) **Small** which employ more than 10 persons,

#### B. Intermediary Sector

An Intermediary sector in which there are candidate enterprises that could be considered as enterprises in transition informal to formal sector. This sector is composed of **Micro production units** dispersed all over the country , employing less than 10 persons.

#### C. Informal / Unorganized Sector

An Informal and unorganized manufacturing activities composed of Informal and cottage level manufacturing activities dispersed in all over the countries,

**The organized sector** is considered as the formal manufacturing sector and is estimated in the context of this study to be about 4000 to 5000 enterprises (Based on the information published in the industrial directory, FMI. 1995) and are distributed as follows;

**Table 1**

#### **Organized Sector - Industrial Enterprises in Nigeria**

<i>Employment Number</i>	<i>Units</i>		<i>Definition</i>
	<i>Number</i>	<i>%</i>	
10 - 100	3,654	87	Small



100 - 300	363	09	Medium
300 - 1000	128	03	) Large
> 1000	<u>33</u>	<u>01</u>	) Large
	<u>4,178</u>	<u>100</u>	

The above statistics may be interpreted as under estimated figures as there may be enterprises that are not registered with the FMI. Even if one increases the total by a reasonable percentage the overall percentages related to the composition of the formal sector by size of enterprises may not be much deferent to the above situation.

On this basis :

- The SME sector could be identified as a sector that represents more than 95% of the organized and formal manufacturing units in the country.
- The micro enterprises that is identified as an intermediary sector has many as thousands of units dispersed in all over the country and representing the potential candidates that could be assisted and promoted through appropriate mechanisms to be formal and organized SMEs.
- The informal activities represent a wide range of products with a very large number. Some them could also be potential candidates to evolve towards Micro enterprises or SMEs.

The different characteristics and composition of the manufacturing sector in Nigeria is indicated as follows:

**TABLE 2**

**Structure of Manufacturing Activities in Nigeria**

<i>Type of Units</i>	<i>Sectors/Subsectors</i>	<i>Present Status</i>	<i>Actors</i>
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**A. Organized Sector**

<b>1) Large Scale &lt; 300 Units Employment &gt; 300</b>			
<ul style="list-style-type: none"> <li>- Public/Parastatals</li> <li>- Dynamic Private Sector</li> <li>- &lt;5% of total organized sector</li> <li>- Import intensive</li> <li>- Urban based</li> <li>- 50% Lagos</li> </ul>	<ul style="list-style-type: none"> <li>- Wide range of products</li> <li>- Textiles</li> <li>- Chemicals</li> <li>- Cement</li> <li>- Sugar</li> <li>- Rubber</li> <li>- Food</li> <li>- Beverages</li> <li>- Pharmaceutical</li> <li>- Printing, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Non Performing Parastatals</li> <li>- Private Dynamic Sector</li> <li>- &lt;30% capacity used</li> <li>- credible Private enterprises</li> <li>- No special assistance</li> <li>- Exports</li> </ul>	<ul style="list-style-type: none"> <li>- M.A.N.</li> <li>- NACCIMA</li> <li>- Bilateral</li> <li>- Foreign Partners</li> <li>- Multi-Nationals</li> <li>- State and Chambers</li> <li>- WTCA</li> </ul>

<b>2) Medium Scale &lt; 400 units Employment 100 to 300</b>			
<ul style="list-style-type: none"> <li>- Private/ Dynamic</li> <li>- Entrepreneurs</li> <li>- Urban based</li> <li>- &gt;50% in Lagos</li> <li>- &lt;10% of the organized sector</li> </ul>	<ul style="list-style-type: none"> <li>- Wide range of products</li> <li>- Food</li> <li>- Beverages</li> <li>- Chemicals</li> <li>- Food wear</li> <li>- Leather</li> <li>- Saw Milling</li> <li>- Plastics</li> <li>- Poultry</li> </ul>	<ul style="list-style-type: none"> <li>- Non assisted Sector</li> <li>- &lt;30% capacity used</li> <li>- Exports</li> <li>- Old Technologies</li> </ul>	<ul style="list-style-type: none"> <li>- M.A.N.</li> <li>- NACCIMA</li> <li>- BilateralChambers</li> <li>- State Chambers</li> <li>- WTCA</li> <li>- Nigerian/Foreign Partners</li> <li>- UNDP/UNIDO</li> </ul>
<i>Type of Units</i>	<i>Sectors/Subsectors</i>	<i>Present Status</i>	<i>Actors</i>

<b>3) Small Scale &lt; 5000 units Employment 10 to 100</b>			
<ul style="list-style-type: none"> <li>- Organized</li> <li>- Nigerians</li> <li>- Dispersed in all states</li> <li>- 30% urban based</li> <li>- 87% of organized</li> </ul>	<ul style="list-style-type: none"> <li>- Very limited range of products largely,</li> <li>- Bakeries</li> <li>- Wearing apparels</li> <li>- Furniture</li> <li>- Building materials</li> <li>- metal works</li> <li>- services</li> </ul>	<ul style="list-style-type: none"> <li>- sector in difficulty</li> <li>- poor quality</li> <li>- non assisted sector</li> <li>- financial limits</li> <li>- need to modernize</li> <li>- old technology</li> </ul>	<ul style="list-style-type: none"> <li>- M.A.N.</li> <li>- State Chambers</li> <li>- NASSI</li> <li>- Private Nigerians</li> <li>- Women's Associations</li> <li>- UNDP/UNIDO</li> </ul>

**B. Intermediary Sector - in Transition - From Informal to Formal Sector**

<b>4) <u>Micro Enterprises</u> 1000 of units all over Employment &lt;10</b>			
<ul style="list-style-type: none"> <li>- Nigerians</li> <li>- dynamic sector</li> <li>- urban based</li> <li>- emerging candidates for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>- wide range of products</li> <li>- food</li> <li>- drinks</li> <li>- footwear</li> <li>- furniture</li> <li>- metal</li> <li>- leather</li> <li>- garments</li> <li>- tailoring</li> <li>- printing</li> <li>- services</li> </ul>	<ul style="list-style-type: none"> <li>- low quality products</li> <li>- exports to countries around</li> <li>- some assistance</li> <li>- low level of technology</li> <li>- employment generation</li> <li>- no access to finance</li> </ul>	<ul style="list-style-type: none"> <li>- NASSI</li> <li>- Independent trade associations</li> <li>- NGO</li> <li>- Women's Associations</li> <li>- ILO,UNDP/UNIDO</li> <li>- FSP</li> <li>- GTZ</li> <li>- Technical Assistance Projects</li> </ul>

**C. Informal Manufacturing Activities**

<b>5) <u>Informal Production Units</u></b>			
<ul style="list-style-type: none"> <li>- dispersed production</li> <li>- subsistence sector</li> <li>- rural urban dispersion</li> <li>- possible candidates for Micro and SMEs</li> </ul>	<ul style="list-style-type: none"> <li>- Wide range of consumer products</li> <li>- agro-based</li> <li>- metal</li> <li>- repairs</li> <li>- use of waste materials</li> </ul>	<ul style="list-style-type: none"> <li>- low quality</li> <li>- low productivity</li> <li>- some technical assistance</li> <li>- less productive employment</li> </ul>	<ul style="list-style-type: none"> <li>- NASSI</li> <li>- NGO</li> <li>- WOMEN</li> <li>- Youths</li> <li>- Welfare Organizations</li> <li>- ILO/UNDP</li> <li>- Aid Projects</li> <li>- FSP</li> <li>- Technical Assistance Projects</li> </ul>

**3. 4. Importance of the SMEs in the National economy**

The formal and organized SMEs represents more than 95% of the organized manufacturing sector in Nigeria in terms of number of units. Although reliable statistics related to the present situation of the SME sector are not available, some studies indicate that about 70% of the manufacturing sector employment is from the SMEs and 10 to 15% of the manufacturing output comes from the SMEs.

A study by the World Bank (Diagnostic Review of the SME sector December 1995) indicates that, SMEs with employment of 5 - 100 workers represent 97.5% of the total structure of the industrial establishments in Nigeria.

The existence of a very large number of micro enterprises and informal units which are potential candidates to become SMEs indicate the potential importance and weight of the SMEs in the nigerian economy.

#### 4. **SME PROMOTION AND DEVELOPMENT IN NIGERIA : MAJOR OBSERVATIONS**

##### 4.1. **NEED FOR ALTERNATIVE SUPPORTING MECHANISMS - AFTER TWO AND HALF DECADES OF GOVERNMENT INTERVENTION POLICY**

The Federal Republic of Nigeria since its independence, implemented an extraordinary range of different assistance and supporting measures to promote and develop an SME sector. These measures covered mainly Policy Measures, Financial Assistance, Legal and Institutional Frameworks, Technical support and Extension Services, Training and entrepreneurial Development, Research and Development, Infrastructure facilities, Multilateral and Bi-lateral assistance Programmes, etc..

- (i). **The first Five-year Plan (1962-68)** identified the importance of SMEs in Nigeria's industrialization strategy which followed the establishment of the first extension institutions for SMEs, - **The industrial Development Center in Owerri - Imo State (1963)** and in **Zaria (Kano State in 1967)**.
- (ii). Following the emphasis made in the **2nd 5-year Plan (1970-79)** to promote **indigenous ownership of enterprises** 5.4 million naira was allocated to grant loans through banks to SMEs until 1978. This position of the government was further strengthened by 1972 - Nigerian Enterprises Promotion Decree (NEPD) reserving certain activities to nigerians.
- (iii). The Government published an **Industrial Policy paper in 1989**, in which the importance and priority of SMEs were highlighted, while the **4th Five-year Plan of 1981-85** emphasized the importance of SMEs.
- (iv). Following the decline of the oil boom in 1980, the **Structural Adjustment Programme (SAP)** gave a new dimension to SME development through various measures put in place such as **de-regulation, stabilization and privatization**. Some argue that SAP measures created more difficulties to formal SME resulting in an expansion of informal sector and at the same time it is observed that the SMEs did not really make use of the opportunities offered by the SAP partly due to absence of effective mechanism to promote the sector.
- (v). Many **fiscal incentives** were also made available to industries, including the SMEs during the past 2 decades:
  - The income tax relief under Industrial Development Act (1958), amended by Decree No. 22 of 1971)
  - Tax holiday for pioneer industries up to 5
  - Tax relief on R & D work in industry (Miscellaneous Taxation Provision No. 2 Decree No. 55 of 1989),
  - Tax holidays (3 years) on solid mineral mining,

- Tax relieve or replacement of industrial plants and machinery,
- Tax exemption on hoteliers and other tourism related services,
- Tax exemption on dividends distributed by unit trusts,
- Tax relief (25%) on purchase of locally made spare parts, tools and equipment,
- Tax relief Of 1.5% on purchase of locally manufactured plant and machinery and equipment.
- Tax relief for disadvantaged areas; Concession granted on taxes payable on electricity (50%), telephone (5%) no infrastructure (100%),
- Safe guard against double taxation on investment income of companies,
- Capital allowances,
- Incentives to industries/enterprises in Export Processing Zones,
- Series of incentives to export oriented enterprises composed of Tax incentives, duty rebates, tax holidays, capital allowance, pioneer status, etc.

- (vi). A series of **laws and regulations** are introduced that would be related directly or indirectly to SMEs. About 45 are mentioned in the Industrial Policy paper of 1989. These laws and regulations cover a wide range of subjects ranging from Customs Duties, Income tax, Merchandising, Workers' rights, Trade marks, Exchange control, Companies acts, Immigration, Patents, Standards, Wages, Trade unions, Excise duties, Trade disputes, Promotion, Productivity, Imports, Securities & Exchange, Exports, Privatization and commercialization, etc...
- (vii). A **number of institutions** have been created to promote the SMEs since 1962. More than 20 Industrial Development Centres (IDCs) in different States, Department of Small and Medium Industries ( SMID) and National Council of Industries (NCI) at the Federal Ministry of Industries, Technology and Business Incubation centres (TBICs), Financial Institutions, National directorate Of Employment, etc... represent the major institutions directly connected to SMEs. These institutions are supposed to ensure the implementation of effective programmes of financial and Technical and Training support to SMEs in the country.
- (viii). In terms of **Infrastructure facilities** ,the country possesses an impressive internal road network, a number of Industrial Estates ( more than 100 completed and many more are under construction), and developed sites established in many States for SMEs. Business and Technology Incubator Centres (BTIC) are launched by the Ministry of Science and Technology. These centres are supposed to develop and promote entrepreneurs who would eventually establish themselves at the Industrial Estates. A wide electricity grid and Telecommunications system are established. The functional efficiency of all these facilities is a matter of serious doubt.
- (viv) **Financial support to SMEs** is one of the most significant areas of intervention of the State to promote SMEs in the past two and half decades in Nigeria. Nigeria had an extremely complex financial system in the region. There had been 66 Commercial Banks with branches, 51 Merchant Banks with branches, more than 290 Financial Companies, 183 Foreign Exchange Bureaux, 156 Mortgage and Insurance Companies, Other specialized institutions; Central Bank, Nigeria Industrial Development Bank, Nigeria Deposit Insurance Corporation, Nigeria Stock Exchange, etc... A good number

of these institutions are currently distressed.

- **The Central Bank was instrumental** in the area of financial assistance to SMEs through banks. The Government took over NIDB (Nigerian Industrial Development Bank) after the independence and SMEs were the target group to be assisted by the NIDB.
  - **The NBCI (Nigerian Bank for Commerce and Industry)** was established in 1973 particularly to support the SMEs. It was strengthened eventually by converting it to an apex institution for financing SMEs and its capital was increased to N200 million in 1984 from N50 million. The NBCI also administered the US \$41 million World Bank loan for SMEs and the Federal Ministry of Industries special fund for SMEs. 90% of loan portfolio of NBCI is reported to be non-performing.
  - **SMI 1 Programme of World Bank** was introduced in 1984 with a negotiated loan of US \$41 million following the failure of Small Scale Industry creation scheme.
  - **SME II funding loan scheme** was introduced in 1989 - with US \$270 million and it was reduced to \$ 142 million in 1992.
  - **IDCs were also created since 1963** to facilitate the financing process of SME.
  - **1975 - 80 Five-year plan launched a small industry credit scheme** which was discontinued in 1979.
  - **CBN directed commercial banks in 1970** to provide at least 16% of loan to local borrowers and it was progressively raised up to 20% by 1984.
  - **National Economic Recovery Fund (NERFUND)** established in 1989; to provide soft, medium to large term loans to wholly Nigerian owned SMEs. The NERFUND initially showed encouraging results but in the latter stages it was confronted with difficulties due to distress in the participating banks. As result the recovery rate of these loans were extremely poor.
  - **Credit Guarantee Scheme** to help self employment of graduates and matured persons was introduced through the Nigerian Directorate of Employment programme (NDE), which was also discontinued after some time. Recovery rate of these loans was as low as 12%.
  - **A programme which included funding** was institutionalized under Working for Yourself Programme (WFYP) with the Federal Ministry of Industries and International Labor Organization. More than 500 entrepreneurs were trained but less than 25% were financed through the scheme.
  - **Peoples Bank established in 1989** was given legal status in 1990 and was oriented to provide facilities to grassroots level operations. It has more than 278 branches with 508 satellite centres, and 67 mobile banks covering all the States. The Clientele of this bank is more or less micro and informal sector units and the bank has excessive overheads with heavy dependence on Government subsidy.
- (x) **A Rural Development Programme** including rural industries/enterprises was launched under the Directorate of Foods, Roads and Infrastructure Programme (DFRRI) which showed improved results but continuity was not assured due to lack of funds and accountability.

- (xi) In the area of **Research and Development** work related to SMEs have taken place at many institutions in the country. The Raw Materials Research and Development Council (RMRDC) has instituted a large number of documents, profiles, which could be of interest to the SMEs. Many other R & D institutions have developed local technologies which include processing and appropriate equipment which may be suitable for SMEs. A recent study on commercialization of R & D reported availability of 141 technologies for commercialization out of 303 findings carried out by various universities and R & D institutions.
- (xii) **Other SME support programmes** include the recent programme of UNDP with the FMI - SMID Department which includes an important budget, GTZ British Council, SME support programmes. These programmes cater for a wide range of support programmes including Training, Standards, Studies, Awareness, institutional strengthening, etc. As a result of these programmes a large number of studies covering practically all aspects of SME promotions and development are available in Nigeria.
- (xii) **Training and Entrepreneurship Programmes** were carried out for SMEs since many years involving many Ministries, NDE, SMID, funding agencies, Banks, etc. The WFY (Work For Yourself Programme) carried out entrepreneurship development programmes in 21 States providing training to more than 600 persons, in addition to training of trainers, consultants etc. The NDE created in 1986 carried out training programmes for SME target groups in 80 different trades which involved more than 392,000 persons under vocational skill development programme for youths. This is in addition to other programmes such as: National Open Apprenticeship schemes (NOAS), (35000 PERSONS were trained) Waste to Wealth Scheme (WWS), (4,150 persons benefitted), SME programme for graduates and matured persons, strategies and opportunities for Self Employment promotion (the ILO 3 phase EDP Project), Agriculture sector employment programmes, etc.

In spite of the multiple efforts which had taken place since the independence, the promotion and development of formal SMEs in Nigeria are today confronted with series of problems and constraints resulting in a stagnation of its further expansion and development. It is observed that the real organized SME sector did not benefit from many of these supporting programmes. Many assistance programmes were diverted and were continued to be directed towards micro and informal activities/enterprises. Many efforts are not sustainable. Financing of the sector at present through formal banking system appears to be difficult or impossible. Extension services, particularly IDCs are not operational and practically in a pathetic situation without funds, programmes, directives , clear objectives and have become white elephants with a highly demoralized staff who are in place without work etc. State level SME development programmes and plans are had-hoc or not in existence. Incubators are confronted with lack of resources and proper orientations. Officials involved in the promotion and development of the sector are frustrated and have low level of moral commitment to work. Loans recoveries from SME have fallen to a lowest rate.

Though there were much efforts and incentives given, these were over weighted by:

- inconsistency and ad-hoc character of policies and measures introduced ,

- instability, bureaucracy,
- unsuitability of investment climate and insecurity.
- Extraordinary interventions by the Government to promote the sector without a long term and a clear vision and without a clear identification of whom to be assisted,
- a very limited role of the private sector at the policy formulation implementation of programmes levels,
- Absence of specialized and a sustainable institutional mechanism to implement the promotional and developmental work of the SME at National and State levels,.
- Absence of coordination of efforts and too widely spread and isolated efforts by a multitude of institutions to promote SMEs.
- Confusion and misinterpretations of the concept related to SMEs and programmes to be accomplished.
- lack of awareness of what is available.
- Important aspect of information thoroughly neglected.
- Conflicts objectives between traditional bureaucracy and developmental administration.
- Absence of long-term plans for the sector.
- Non-transparency in the implementation of measures
- Inadequate reference in the policies and awareness to global changes and policies related to the SME sector.
- Inefficiency, mal-practices, and inadequacies of professionalism and commitment in the implementation of programmes.

In this context of a unclear situation of assistance and orientation to develop and promote a formal SME sector, and inadequacy of the efficiency of public sector led support, it is now widely observed that the organized private sector is attempting and struggling to survive with its own, methods and mechanisms of intervention in their own sectors. This is the dynamism created by many private sector trade associations, trade Chambers, pressure groups, etc in various parts of the country which could be considered as a point of departure towards a new policy framework for SMEs in Nigeria.

#### **4. 2. RAPID EXPANSION OF INFORMAL ACTIVITIES: RESULTING A SLOWDOWN OF THE DEVELOPMENT OF THE FORMAL SME SECTOR**

As in many other countries in the region, the Nigerian economy is experiencing a rapid informalisation of economic activities in which a wide range of products of manufactured nature and services are linked to the industrial activities. The activities in an informal sector are generally carried out at a subsistence level , where a population is struggling to survive by engaging in whatever possible commercial and manufacturing oriented activities that could ensure a minimum of income for the daily existence. This is an unregulated, and unstructured sector , with low levels of skills and productivity and heavily under capitalized.

In the case of Nigeria, this sector carries manufactured products ranging from light engineering goods, small machinery and equipment, tools, textiles, garments, food products, metal products, leather products, building materials, chemical products, footwear, beverages, to spare parts,



rubber products, repair shops, wood products etc. There are hundreds of products and services fabricated or carried out in as many as in thousands of units dispersed all over the country with an extraordinary expansion in the urban areas. The majority of them are involved in trading and service activities.

Although it is said that these informal activities do not pay any form of taxes, it is reported that local government authorities collect couple of dozens of taxes and levies from this sector which may exceed 100 types in some of the states.

This sector is not affected nor is it concerned with any form of State policies related to SMEs development. They hardly possess any collateral to obtain financing facilities from a normal Banking system. The quasi - totality of their funding is informal or self financing or loans derived from friends and relatives.

The expansion of the informal sector is said to have accelerated following the Structural Adjustment Programme in 1980s. The SAP, measures, liberalization of the economy resulted in a down-ward trend of formal SMEs to informal sector. It opened up opportunities for informal activities.

The informal sector in Nigeria is a dynamic sector. The sector is involved in a widely extended distribution system, where a large number of products are exported even to neighboring countries mainly through informal channels. Within this sector, there operates also "large scale" production and trading channels offering a supply of products sometimes in very large quantities at relatively low prices.

In many areas, there exist micro entrepreneurs who are in between formal and informal sector. They are the potential candidates to become formal SMEs if assisted and promoted with appropriate mechanisms. There are also dynamic associations formed and micro industrial establishments in places such as Panteke Market Associations in Kaduna State, Shoe Manufacturers Association in Ariara in Abia State. The private initiatives that have taken place in this sector is considerable in the absence of other direct support. In places such as Kaduna State, the informal sector supplies skilled workers to Government contract work and there are self funding mechanisms operated among them. The regular arrivals of traders from neighboring countries to import products from these units in deferent states that include food , metal, plastics products, footwear etc.. was reported.

Quantified reliable information related to the informal sector in Nigeria is not available except for a few isolated studies. A study group on this sector is found at the Central Bank of Nigeria with a view to carry out specific studies. The NDE in collaboration with the ILO is involved in training and other development activities related to the sector. This sector is the largest employer and creator of work opportunities both in rural and urban areas. Its contribution to GDP is not negligible. It is a sector that provides work opportunities, goods and services to a population seriously affected by poverty and who are left without any other alternative and productive remuneration or employment.

In spite of positive results, the informal sector results also serious dangers to an economy. The quality of products are far from acceptable, condition of work of all levels including for children are of very low levels, low costs of its products practically eliminates the products from the

formal sector in the markets, environment conditions are threatened seriously in many areas of the country particularly in the urban centres; security, law and order in a modern society is threatened under an expanding informal production systems. Hence, it is often observed that, in such a system, if no attempt is made, to transfer whatever the micro units to a formal, regulated sector, the progress of a modern formalized industrial development will be a difficult objective to achieve in a country.

#### **4.3. EXISTING INSTITUTIONAL FRAMEWORK - INADEQUATE TO DELIVER APPROPRIATE MECHANISM TO PROMOTE AND DEVELOP A SUSTAINABLE SME SECTOR**

A number of public sector institutions are directly and indirectly responsible for the promotion and development of the SMEs as mentioned earlier in this report.

The small and medium industries department of the FMI, is responsible only for industries plays major administrative role rather than a development role in the sector. The institutions related to SMEs under this department such as IDCS have so far proved incapable of delivering any effective assistance as at present to SMEs due to various reasons.

The activities/programmes related to SMEs by other public sector institutions such as Ministries, R & D institutions, NEPC, etc are more or less implemented in an isolated and uncoordinated manner rather than incorporating in a framework of an organized plan of action spread over a period of time with clearly defined responsibilities of a macro level action plan. Many of these public sector institutional programmes have a very limited input from the private sector, except in some interventions included in the activities such as SME programme of the FMI/UNDP.

The essential elements that are needed for a well formulated SME development programme are marginalised or practically limited. Trade information, product development market development and promotion, counselling to SMEs, trade facilitation, policy related assistance to SMEs in addition to financing are some of the areas inadequately addressed in the existing programmes.

In an overall view of the present institutional frame-work, absence of a technically specialized institution with an important participation of the private sector which could be served as the national apex body responsible for promotion and development of the SMEs in Nigeria is a serious handicap.

#### **4.4. AVAILABILITY OF A MULTITUDE OF STUDIES RELATED TO SME SECTOR**

There is extra-ordinary quantity of studies related to SMEs in Nigeria carried out over the past few years. Major aspects of the SME sector were studied, analyzed over and over again. Many studies repeat what had been said over and over again. These studies are found at various institutions, Ministries, consultancy firms and funding agencies.

The major areas covered by the studies are as follows<sup>1</sup>:

- *Financing of SMEs in Nigeria*
- *SME policies in the past*
- *Challenges for SMEs*
- *Urban informal Sector*
- *Institutional Support to SMEs*
- *Apex Organizations to promote SMEs*
- *Assessment of Industrial Estate, incubators*
- *SME/extension Agents*
- *Access to Institutional Credit*
- *Entrepreneurship development programmes*
- *Industrial Development Centres*
- *R & D results and its Commercialization*
- *Raw Materials for SMEs*
- *Incentives and guarantees,*
- *Subcontracting possibilities for SMEs.*
- *Credit delivery system for SMEs*
- *SME development project documents*
- *Private Sector participation in development*
- *Rural industries*

All these studies carried out by national and international consultants World Bank, private consulting firms, Universities, constitute an important wealth of information and data which could be made use of to put in place policies, mechanisms, and to determine the ways and means necessary to promote and develop the SMEs in Nigeria. However, some of these studies:

- include repetitions
- confusing concepts related to SMEs and informal sector activities
- lack long-term vision taking into account the globalization and economic liberalization trends
- marginalise the importance of information needed to improve the competitiveness of the sector, and export potential of the sector.
- lack firm proposals and recommendations to implement clear mechanisms for promotion and development of SMEs at National and State levels.

Nevertheless, all the information already documented, with valid recommendations and proposals could be useful as a point of departure to improve the technical and financial assistance delivery capacity to promote and develop the SME sector.

#### **4. 5. FINANCING OF SMES IN NIGERIA: A MAJOR CONSTRAINT FACED BY THE SECTOR**

In spite of the existence of one of the most complex financial systems in Nigeria in relation to

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<sup>1</sup> A list of some documents are indicated in the Annex .

that of the region, financial system to support industries, especially the SMEs is at present in a turmoil in Nigeria.

- Most of the past SME financial schemes introduced during the past two and a half decades did not achieve the results expected.
- Existing commercial and development banks suffer from various problems and practically no delivery capacity to fund SMEs.
- State owned banks are reported to have worst loan portfolios and some of the banks are declared technically insolvent.
- NBCI - Bank that was created for SME funding is in a difficult situation and 90% of its loan portfolio reported to be non-performing.
- People's Bank and other community banks limit themselves to fund grass-root level small operations and largely depend on government subsidies.
- Entrepreneurship development programmes introduced by various institutions do not have long-term funding resources to ensure the sustainability of their efforts.
- Though the interest rates have come down recently SMEs have not won the confidence of the banking system to obtain loans.
- After 35 years of existence of Nigerian Stock Exchange since 1961, is not yet developed to a level to facilitate access for SMEs at the present.
- Foreign banks consider the many SMEs in Nigeria are too small and are not viable to be provided financial facilities.
- The findings of a recent study on subcontracting carried out under the SME support programme UNDP/FMI states that, among the 1498 SMEs surveyed, 69.2% of SMEs are funded by personal savings. Only 3.6% of 569 SMEs obtain credit facilities from banks.
- Many of SMEs, private sector institutions contacted consider that difficult access to finance is the major problem faced by the SMEs.

Many developing countries after many years of experience have put in place sustainable mechanisms to fund SMEs. Specialized institutions are set up for this purpose, in countries such as South Korea, Malaysia, India Bangladesh, Philippines, etc.

As long as there is no specialized financing institutions working through transparent mechanisms implemented by a specialized staff, also included in an integrated SME promotion and development plan any aspirations to establish a healthy and formal SME sector will not be a reality.

#### **4. 6. EMERGING PRIVATE SECTOR INSTITUTIONS: A SOURCE OF STRENGTH FOR FUTURE SME DEVELOPMENT PROGRAMMES**

The role of private sector as the engine of economic growth is becoming increasingly important in many developing countries. This is still more important with the liberalization of economies and in a globalization approach.

With the breakdown of the Government directed mechanisms, and the financial assistance

schemes, there is a new dynamism emerging in the private sector in order to strengthen their own delivery capacity of assistance to their member enterprises. In this context a number of trade related associations and professional organizations are active.

Among them the following are important to be mentioned:

- NASSI
- NACCIMA
- MAN
- WOMEN'S ORGANIZATIONS

The private sector organizations are active both at National and State levels having very large number of members.

In addition, there are state level associations of entrepreneurs and product sector associations are formed at different States such as Kaduna, Abia, etc.

These private sector organizations and institutions would constitute an essential element of the future technical and financial assistance delivery mechanism of the SME sector at different levels and at National and State levels.

#### **4. 7. SPECIFIC CONSTRAINTS FACED BY THE SMEs IN NIGERIA**

The studies on SMEs often tend to mention constraints of general nature faced by the SMEs rather than those of specific to the enterprises in the country.. Many of the enterprises contacted indicated different problems and often emphasized the constraints connected to difficult access to finance, bureaucracy and general economic environment in the country. Some foreign investors contacted confirm that they studied the possible constraints in the creation and development of industries in Nigeria the country and they were prepared with appropriate solutions. These enterprises function smoothly without much assistance from the State.It is the formal SMEs and the other categories of micro and informal sectors are more confronted with many difficulties as these enterprises are not prepared nor have they studied the feasibility of the ventures they initiate.created .

Many of these constraints of the SMEs in Nigeria could be grouped under the following broad categories:

- (i) Concepts, definitions and objectives of the SMEs,
- (ii) Constraints related to the development of the SMEs,
- (iii) Constraints related to Promotion which include mainly production and Marketing related constraints

##### *(i) Constraints related to Concepts, Definitions and Objectives*

- Inadequate clarity of the concept of SMEs to be promoted and confusion of SMEs with other micro/informal/self employment etc..activities, in introducing various assistance

programmes. Often the organized are marginalised from assistance programmes .

- Objectives of the SME sector are not clearly defined. As a result specific requirements of different types of enterprises are not properly studied before implementing promotional mechanisms.

*(ii) Constraints related to the development of SME in Nigeria*

- Inconsistency of policies and inadequate commitment at various levels of public and private sector for an establishment of formal SME sector with a precise long term vision.
- Insufficient recognition of private sector as the engine of growth and an absence of mechanisms and support to private sector participation as delivering agencies of assistance to SMEs.
- Absence of a specialized institutional framework, professionally and technically equipped including resources, appropriate mechanisms to ensure the responsibility of the promotion and development of real SMEs at both national and States level.
- Uncoordinated actions and plans to support SMEs by a multitude of State institutions.
- Breakdown of extension services set up such as IDCs,
- Inadequate incentives specific for SMEs particularly in the backward areas and non-urban centres.
- Exchange rate, in spite of recent improvements to stability.
- Multiple taxes and levies particularly to micro enterprises at Local Government levels,
- Difficult access to financing facilities, and deteriorating financing systems in the country
- Serious deficiencies of the functioning of the basic infrastructural facilities - regular interruptions of electricity and water supplies; telephone and communication facilities.
- Inaccessibility of enterprises to obtain infrastructural facilities - telephone, electricity, etc.
- Bureaucratic and cumbersome procedures in the country,
- Rapidly expanding informalization process of economic activities.
- Inadequate assistance and Clear policies related to development of SMEs at state level,
- Lack awareness at all levels on SME strategies and globalization process, liberalization policies.

*(iii) Constraints related to promotion of SMEs:*

(a). Production related problems

- Inadequate technical and financial assistance, consultancy services to SMEs to improve business of the SMEs,,
- Difficult access to financing under the existing system resulting from inadequate collateral available to enterprises,
- Inadequate information and awareness of new products, raw material sources, incentives, assistance, modern technologies, and absence of financing facilities to acquire technological modernization and information,
- Absence of specific schemes for quality improvement, standards.
- High cost of production supplemented by the additional costs related to security.
- Environmental pollution and inadequate assistance on information and training for cleaner production.
- High expenditure and problems related to security faced by the enterprises.
- Low productivity

- Inadequate permanent training facilities for entrepreneurship and Management capabilities, skilled personnel and for development of professionalisation of services and manufacturing activities.

(b) Market Related Constraints

- Rapid expansion of informal sector activities which introduces a large range of products into the market.
- Lack of information, assistance and awareness of quality standards for products and poor quality of products.
- Inadequate marketing arrangements to commercialize SME products locally and abroad.
- Inadequate assistance to promote export oriented SMEs at various levels.
- Inadequate training, on pricing and marketing to personnel involved in the SMEs.
- Absence of specific schemes, programmes and promotional mechanism to encourage market for products of SMEs.

The major constraints identified in the field will constitute the basis for elaboration of an appropriate policy to promote and develop the sector in Nigeria.

## **5. TOWARDS A POLICY FRAMEWORK FOR THE PROMOTION AND DEVELOPMENT OF SMEs IN NIGERIA**

Many developing countries in the past experienced traditionally an dominant state intervention policy in the process of promotion and development of SMEs. These public sector led interventions were more oriented towards extensive direct assistance to micro,informal activities rather than preparing an organized SME sector capable of facing the Changes and challenges of a new world economic order pushed by a globalization process. The Nigerian experience was not an exception to this situation.

Hence, in this present context of globalization and free economic policies, all the support and assistance to the SME sector should be oriented for it to be :

- structured, sustainable and responsible to contribute efficiently for the economic growth,
- competitive in the internal and external markets.
- linked and co-exist with large firms and other sectors,
- environmentally friendly,
- developed to absorb an increasing work force that could join the expanding informal sector otherwise,
- to produce sustainable and successful entrepreneurs in the country

In short, Nigeria should adopt an SME policy capable of removing the maximum possible existing disincentives and constraints in order to facilitate the private sector to invest and develop sustainable enterprises and to produce successful entrepreneurs.

It is with this vision that the major recommendations to establish an appropriate policy framework for promotion and development of SMEs in Nigeria are proposed, taking into account the issues raised and constraints identified related to the sector which are classified under the following broad categories which constitute the major components of a SME policy frame work:

- (i) Concepts, definitions and objectives of the sector,
- (ii) Development of the SMEs
- (iii) Promotion of the SMEs.
- (iv) Changing the role of the sector.



## 5. 1. CONCEPTS, DEFINITIONS AND OBJECTIVES OF THE SECTOR

Clarification of the problem of **Definition of the sector** and its objectives as exactly as possible is the point of departure to finalize an appropriate policy frame work for the effective promotion and development of SMEs in Nigeria.

The **employment** aspect should be the main criterion recommended to be considered and all the other criteria such as investments, turnover etc.. could be taken in to consideration to identify SMEs that need to be assisted through specific programmes and schemes. The definitions therefore suggested are as follows:

- |     |                                 |   |  |
|-----|---------------------------------|---|--|
| (1) | <i>Large Scale Enterprises</i>  | - | <i>Employment more than 300 persons,</i> |
| (2) | <i>Medium Scale Enterprises</i> | - | <i>Employment 100 to 299 persons,</i>    |
| (3) | <i>Small Scale Enterprises</i>  | - | <i>Employment 10 to 99 Persons,</i>      |
| (4) | <i>Micro Enterprises</i>        | - | <i>Employment less than 10 persons,</i>  |

The SMEs that will covered by the proposed policy framework therefore will be the manufacturing enterprises and the service enterprises linked directly and indirectly to the industrial activities and that employ 10 to 300 persons. This definition will not exclude the potential candidates of micro and informal sector enterprises and units that could be promoted to the formal sector through appropriate promotional mechanisms and interventions.

The **Objectives of the SME Sector** that should be developed and promoted to be a competitive and sufficiently matured and responsible to contribute effectively for a sustainable economic growth of Nigeria:

1. Create Productive employment opportunities throughout the country.
2. Increase the utilization of local raw materials, Technologies, skills and other resources, and to increase value addition by the manufacturing sector.
3. Provide an effective instrument to Federal and State governments to strengthen rural/regional development policies.
4. Reduce the rapid expansion of informal Manufacturing activities through up-scaling of these to formal sector.
5. Increase non-oil income from exports by promoting direct and indirect exports through promotion and development of export oriented SMEs in Nigeria.
6. Strengthen the Technological base of the manufacturing sector through transfer Technologies and introduction and development of new products and services and through encouragement of the innovativeness of the SMEs.

## 5. 2. MAJOR COMPONENTS OF POLICY RELATED TO THE DEVELOPMENT OF THE SMEs

The main components of the development of the sector that the appropriate policy framework should take in to consideration are as follows:

1. Macro economic and structural measures to create an enabling environment for the development of the SMEs,
2. Supporting and strengthening the SME sector to establish itself to confront successfully the internal and external shocks resulting from liberalization of internal and external trade and the rapid globalization process,
3. Facilitate the SMEs to overcome the difficulties resulting from the fluctuating and unstable interest rates, Inflation and exchange rate situations,
4. Revision of the existing fiscal incentives in favor of the development of SMEs in a much more level playing field,
5. Revival and improvement of the deteriorating financial sector and introduction of delivery mechanisms of financial support specific to the SMEs,
6. Improvement and development of infrastructure facilities with the participation of the private sector ,
7. Introduction of appropriate regional/rural development policies in order to use SMEs as an effective instrument of production and development by the state governments,
8. Creation of a specialized institutional promotional mechanism with active participation of the private sector,
9. Improvement of the working conditions of the workers of the SMEs,

### **5.3. MAJOR COMPONENTS RELATED TO THE PROMOTION OF THE SMEs**

1. Assistance related to
  - Create new SMEs,
  - Develop and rehabilitate the existing SMEs,
  - Facilitate the passage of potential SME candidate enterprises /units of the micro and informal sector to the formal SMEs sector,
2. Support the private sector to improve the delivery capacity to assist the SMEs,
3. Diversification of the products and services of the SMEs,
4. Improvement of the quality standards of the SMEs,
5. Improvement of the productivity of the SMEs,
6. Entrepreneurship and training for the SME sector,
7. Improvement of competence of the intervening organizations (private and public),
8. Encouragement of successful entrepreneurs,
9. SMEs and environment concerns,
10. Marketing facilities for SMEs,
11. Establishment of appropriate information networks for SMEs,
12. Development of skills required by the modern SMEs.

#### **5. 4. COMPONENTS RELATED TO THE CHANGING ROLE OF THE SME SECTOR**

1. Export orientation of the SMEs with specific programmes and schemes,
2. Promotion and cohesion between SMEs and large scale enterprises specially through subcontracting ,
3. Introduction of programmes for specific target groups engaged in SME development such as women, youths etc...
4. Specific programmes for micro and informal sector development,
5. Promotion and development of a environmentally friendly SME sector.

The details of each of these major components to establish a favorable SME policy frame work are given below.

**Table 3. MAJOR ISSUES, CONSTRAINTS AND RECOMMENDATIONS FOR AN APPROPRIATE POLICY FRAMEWORK FOR PROMOTION AND DEVELOPMENT OF SMES IN NIGERIA**

Issue	Nature of the Constraints	Recommendations
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**1.55 CONCEPTS, DEFINITIONS AND OBJECTIVES OF SMES**

<p><b>1.1 Concept Definition related to SMEs.</b></p> <p><b>1.2 Objectives of the Sector</b></p> <p>- Create and develop organized sustainable and competitive formal enterprises sufficiently matured and responsible for economic growth in Nigeria.</p>	<p>1.</p> <ul style="list-style-type: none"> <li>- Absence of a constant/clear definition of SMEs</li> <li>- Confusion SMEs including all informal, Micro enterprises, SSEs</li> </ul> <p>2. Major objectives are not precised.</p> <ul style="list-style-type: none"> <li>- Objectives and Strategies are confused.</li> </ul>	<p>1. Appropriate definition for SME and Micro Enterprises</p> <ul style="list-style-type: none"> <li>- SMEs: Organized and a formal Sector to be promoted and developed</li> <li>- Definition based on employment to be adopted:               <ul style="list-style-type: none"> <li>1. Large &gt; 300</li> <li>2. Medium 100 to 300</li> <li>3. Small 10 to 100</li> <li>4. Micro &lt; 10</li> </ul> </li> <li>- Existence of candidates for SMEs in informal and Micro sectors to be recognized.</li> <li>- Investment and turnover criteria to be used for specific objectives as financial,special schemes etc..</li> </ul> <p>2.1. Objectives of the Sector:</p> <ul style="list-style-type: none"> <li>a) Create Productive employment opportunities throughout the country</li> <li>b) Increase the utilization of local raw materials, Technologies, skills and other resources,and to increase value addition by the manufacturing sector.</li> <li>c) Provide an effective instrument of production to Federal,States Govmts. to strengthen rural /regional development policies.</li> <li>d) Reduce the rapid expansion of informal Manufacturing activities through up-scaling these to formal sector.</li> <li>e) Increase non-oil export income from exports by promoting direct and indirect exports through SMEs.</li> <li>f) Strengthen the Technological base in the manufacturing sector through transfer of Technologies and introduction and development of products/services and through encouragement of the innovativeness of the SMEs.</li> </ul>
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## DEVELOPMENT OF THE SME SECTOR

<p><b>2.1 Macro economic and Structural measures to create an enabling environment.</b></p>	<p><b>1. Inadequate Commitment to recognize the priority role of the SMEs as a major instrument of economic Development.</b></p> <ul style="list-style-type: none"> <li>- Prejudices of investors on inadequate security and respect to law and order.</li> <li>- Lack of investor confidence on consistency of policies and other promotion mechanisms.</li> <li>- Dominant role of Government intervention in SME promotion.</li> <li>- Inadequate recognition of the private sector as engine of economic growth.</li> <li>- Cumbersome bureaucratic processes, resulting in delays and efficiency related to registration of companies, Imports exports, obtaining rebate, etc.</li> </ul>	<p><b>1.1 Firm Declaration by the highest level on SME role in the economy.</b></p> <p><b>1.2 An inter-ministerial committee to monitor the implementation of the SME Programmes - NCI with the participation of other ministries concerned.</b></p> <p><b>1.3 Strengthening the measures for civil security and appropriate measures to maintain strict law and order in general to protect industries.</b></p> <p><b>1.4 Maintenance of Consistency, Transparency and efficiency on implementation of policies.</b></p> <p><b>1.5 Consultation of all actors involved including the private sector before making drastic policy changes. Regular meetings with the Private sector and the government.</b></p> <p><b>1.6 Strengthen the private sector capacity of delivery of assistance.</b></p> <p><b>1.7 Consultation of private sector on major economic policy decisions.</b></p> <p><b>1.8 Create professional/ technical institutions with private sector for promotional activities.</b></p> <p><b>1.9 Diversion of external assistance to private sector beneficiaries directly.</b></p> <p><b>1.10 Appointment of Committee/Task force composed of private sector investors and professional consultants to advise the Government on SME development.</b></p> <p><b>1.11 Government to retain the role of policy directives, monitoring &amp; evaluation role, maintaining the balance of the other social and economic interests, ensuring that the rules are followed by all the actors and private sector to be the main delivery agencies of technical assistance to SMEs.</b></p> <p><b>1.12 Review of the procedures and simplification and streamlining at all levels to facilitate SMEs rather than creating difficulties ensuring also the transparency.</b></p> <p><b>1.13 Strengthen capacity of the institutions, computerization/ training of staff for a better efficiency.</b></p>
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<p><b>2.2 Liberalized economic Policy and globalization process and industrial development</b></p>	<p>2. Lack of knowledge, understanding and information at all levels of entrepreneurs, Administrators, general public, etc.</p>	<p>2.1. An awareness campaign at different levels Investors Officers, bureaucrats, schools, Universities.</p> <p>2.2. Creation of special cell to study/research on globalization aspects/issues.</p>
<p><b>2.3 Interest rates</b></p>	<p>3. Unpredictable changes in the interest rate,</p> <ul style="list-style-type: none"> <li>- Negative real interest rate and high inflation rate.</li> <li>- Unpredictable changes in the past, putting investors in serious difficulties.</li> </ul>	<p>3.1. Measures to maintain fiscal discipline.</p> <ul style="list-style-type: none"> <li>- Minimize budget deficits and introduce schemes, measures.</li> <li>- Incentives to SMEs to meet the rising cost of production.</li> </ul> <p>3.2 Appropriate measures to reduce inflation and special low interest loan schemes for SMEs.</p>
<p><b>2.4 Exchange rate situation</b></p>	<p>4. Wide difference between official and parallel market rates.</p>	<p>4.1. Measures to unify the official and autonomous rates.</p> <p>4.2. Free access to foreign exchange loans to SMEs.</p>
<p><b>2.5 Other Fiscal Incentives available:</b></p> <ul style="list-style-type: none"> <li>- Customs&amp;Excise Tariffs /7 Tear Tariff System</li> <li>-Exception/prohibition of certain goods</li> <li>- Export Incentives Duty rebates, grants, financial assistance, reduction of S.T, bills, tax exemption, tax holidays, pioneer status, depreciation allowances</li> <li>- Pioneer status tax holiday /tax deductible on R&amp;D expenditure</li> <li>- Allowances on capital expenditure</li> <li>- Tax exemption on hotelier /</li> </ul>	<p>5. Many of these incentives are not beneficial for SMEs.</p> <ul style="list-style-type: none"> <li>- Unawareness of incentives by SMEs</li> <li>- Multiple local taxes.</li> <li>- No tax concessions for SME level indirect exporters.</li> <li>- Tax relief precludes SMEs having a capital investment of less than \$9000.</li> <li>- Duties on capital equipment no totally exempted.</li> </ul>	<p>5.1. Review of fiscal incentives to make available the benefits to SMEs.</p> <p>5.2. 100% tax holidays for new SMEs for a longer (12 years) fixed period.</p> <p>5.3. Full tax exemption and fin.support to SMEs on expenditures on training, Technology, modernization, productivity, improvement, exports, marketing, Pollution, Control, Environmentally friendly products, and Technologies, infrastructure development, security.</p> <p>5.4. Awareness on incentives,</p> <p>5.5 Steamline and rationalise local taxes,</p> <p>5.6 Exemption of sales tax and duties on exports,</p> <p>5.7 Total exemption of duties on machinery and equipment imported for industry.</p> <p>5.8 Progressive return to uniform lower tariff regime.</p>

<p><b>2.6 Financial facilities to SMEs</b></p>	<p><b>6 Inaccessibility of SMEs to finance</b></p> <ul style="list-style-type: none"> <li>- Continuously weakening financial institution system at high level of insolvency of Banks.</li> <li>- Lack of confidence of Banks vis a vis the SMEs and their conservative attitude vis a vis SMEs as nonviable sector.</li> <li>- Inadequate capacity of banks to process small loans and SME projects.</li> <li>- Lack of innovative approach of banks on SME funding.</li> <li>- Lack of collateral</li> <li>- Tradition of obtaining finances from non Banking systems.</li> </ul>	<p><b>6.1. Strengthen a formal SME sector that could build up the confidence of the normal banking system of the country.</b></p> <p><b>6.2. Financial reforms including restructuring of the system.</b></p> <ul style="list-style-type: none"> <li>- Review of DFIs, NBCI, and other special funds created.</li> <li>- Negotiation of special credit lines for SMES.</li> <li>- Adaptation of more flexible liquidity policies.</li> </ul> <p><b>6.3. Sensitizing of Banks to be more development oriented.</b></p> <p><b>6.4. Creation of a special fund for SMEs - <i>SMEFUND</i> - .</b></p> <ul style="list-style-type: none"> <li>- Creation of special counselling and evaluation, Research &amp; Training cells for SMEs in all possible lending banks.</li> <li>- Creation of specialized bank branches in the areas with the association of SME groups such as Grameen Banks in Bangladesh, Sava Bank in India.</li> <li>- Assistance to Community Banks, as Peoples Banks to fund micro enterprises.</li> <li>- Education and awareness of SMEs to build confidence with Commercial Banks to obtain Working Capital and fixed capital.</li> <li>- Education of SMEs to better utilize the Company profits and funds to develop and expand the enterprise rather than engaging funds in unproductive expenditures such as purchase of luxurious vehicles.</li> </ul> <p><b>6.5. Diversion of financial assistance to SMEs in priority to:</b></p> <ul style="list-style-type: none"> <li>- Modernize improve productivity of Competitiveness</li> <li>- Promote R &amp; D Promote quality and Standards.</li> <li>- Product development.</li> <li>- Export promotion link up through subcontracting with large industries.</li> <li>- Packaging Credit.</li> <li>- New products introduction.</li> </ul>
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<p><b>2.7 Infrastructural facilities</b></p>	<p><b>7. Undermanaged, underequipped, malfunctioning Industrial Estates.</b></p> <ul style="list-style-type: none"> <li>- Inadequately developed industrial sites.</li> <li>- Under resourced Industrial incubators.</li> <li>- Unsatisfactory functioning of public sector managed facilities of electricity, water, telephone.</li> <li>- High cost of infrastructure unacceptable to SMEs and Frequent interruptions of power, water and telephone facilities.</li> </ul>	<p><b>7.1. Reduce State intervention in managing Industrial Estates, TICBs, IDC, etc.</b></p> <p><b>7.2 Encourage State governments to provide infrastructural facilities to SMEs.</b></p> <p><b>7.3. Management of TBICs by private sector NASSI/MAN.</b></p> <p><b>7.4. Priority to SMEs to obtain telephone, electricity and water facilities.</b></p> <p><b>7.5. Development of all transport facilities to less developed states with the private sector.</b></p> <p><b>7.6. Encourage BOO (<i>Build, Own &amp; Operate</i>) and BOT (<i>Build, Operate &amp; Transfer</i>) arrangements to infrastructural facilities.</b></p> <p><b>7.7. Subsidize cost of generators, water, subs, etc.</b></p>
<p><b>2.8 Regional Development and SMEs.</b></p>	<p><b>8. Regional imbalances of industrial dispersion.</b></p> <ul style="list-style-type: none"> <li>- Lack of clear policy directives to state governments.</li> <li>- Absence of a proper institutional mechanism and network to promote SMEs at state level.</li> <li>- Breakdown of the extension services IDCs, incubators and other services. Control by the Federal Government.</li> <li>- Rapid expansion of the informalization process in all sectors.</li> <li>- lack of resources, training information, awareness and assistance flowing down to state government level</li> </ul>	<p><b>8.1 Creation of state Industrial Services Coordinating Committee composed of public sectors headed by the private sector to facilitate, coordinate assistance to industries/SMEs.</b></p> <p><b>8.2. Regular dialogue between State Government, FMI NCI.</b></p> <p><b>8.3. Strengthen of private sector delivery agencies .</b></p> <p><b>8.4. Identify and strengthen focal points for dissemination and receiving of information.</b></p> <p><b>8.5 Transfer of IDCs regional level Management with the private sector and transfer them to function as Resource Centres for SMEs to cater to the needs of SMEs.</b></p> <p><b>8.6 Transfer of Industrial Estates, and TBICs to the management of private sector supported with adequate resources in collaboration with State Governments.</b></p> <p><b>8.7 Introduction of special Promotion programmes for informal/micro</b></p> <p><b>8.8 Decentralized training Centres</b></p> <p><b>8.9 Regular awareness programmes at state level</b></p> <p><b>8.10 Map of local raw material of Nigeria</b></p>



<p><b>2.9 Institutional Framework for SME Promotion and Development</b></p> <p><b>2.10. Working conditions of workers in the SME</b></p>	<p>- Lack of marketing facilities of the products of SMEs.</p> <p>- Inadequate technical facilities, standard and quality control at state level.</p> <p>- SMEs, Micro Enterprises burdened with local taxes and levies more than 100 in some States</p> <p>9. Absence of professional and specialized institutional framework for SMEs at National and State levels.</p> <p>- Breakdown of the government managed Extension services.</p> <p>10. Working conditions of the SME sector is generally not a matter of much concern.</p>	<p>8.11 State level professional trade fairs for SMEs,</p> <p>8.12 Decentralized Centres of SON and introduction special schemes for quality control and standards for SMEs.</p> <p>8.13 Streamline and rationalize local taxes for SMEs.</p> <p>9.1. Strengthen the role and the powers of NCI to an interministerial level Industrial Development Council.</p> <p>9.2. Role of the FMI/SMID to be Coordination, monitoring and policy directing and not promotional function.</p> <p>9.3 Creation of an advisory committee on Industries with private/public sector.</p> <p>9.4. Creation of a specialized agency for SME development (<i>SMEDAN</i>) as an apex organ jointly with the private sector.</p> <p>9.5. Setting up of State level industrial service Committee, as an advisory and service body to facilitate investors. The committee will be comprised of senior officials of all service sector and private sector.</p> <p>9.6. IDCs, TBICs to be managed by the State level with the private sector as Resource Centres that will be a one stop Center for SMEs at State levels.</p> <p>9.7 Industrial estates to be managed by the private sector</p> <p>9.8. Establishment of Information network linking with all the States.</p> <p>10.1 Awareness for employers and review of laws related to labor to improve the working conditions of the workers of SMEs.</p>
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<p><b>3.1. Assistance to SMEs to create new SMEs.</b></p> <ul style="list-style-type: none"> <li>- Develop/rehabilitate the existing SMEs,</li> <li>- Upgrade the Micro and informal potential SME candidates.</li> </ul> <p><b>3.2. Support the private sector to improve delivery-capacity to assist SMEs</b></p> <p><b>3.3. Diversification of the products and services offered by the sector</b></p> <p><b>3.4. Quality and standards of the products and services offered by the sector,</b></p> <p><b>3.5. Productivity of the SMES,</b></p> <p><b>3.6. Entrepreneurship and training required.</b></p> <p><b>3.7. SME</b></p>	<p>1. Adhoc assistance to Informal and Micro Enterprises confused for SMEs.</p> <p>2. Inadequate consistent delivery capacity of public/private sectors.</p> <p>3. Absence of clear identified product sectors that have comparative advantages to be promoted.</p> <ul style="list-style-type: none"> <li>- Absence of innovative strategies for the sector.</li> <li>- Resource base potential not exploited.</li> <li>- Non utilization of local R&amp;D. - More than 140 R&amp;D findings available locally.</li> </ul> <p>4. Inadequacy or ignorance of quality and standards.</p> <p>5. Low productivity.</p> <p>6. Entrepreneurial skills inadequate.</p> <p>7. Inadequate training of staff of delivery institutions.</p>	<p>1.1. Identify with the private sector MAN NASSI, NACCIMA etc. the SMEs to be assisted and promoted.</p> <p>1.2. Separate different Mechanisms delivery institutions to assist different sub sectors.</p> <p>2.1. Strengthen the delivery capacity of private/ public sectors</p> <p>3.1. Identify priority product sectors should be specially assisted without marginalizing other private initiatives.</p> <p>3.2. Awareness and popularization of local R&amp;D among SMEs.</p> <p>3.3. Preparation of a map of local resources by RMRDC.</p> <p>3.4. Regular review of strategies of the sector</p> <p>4.1. Promotion of programmes, special schemes to encourage SMEs for standards and quality control (SON).</p> <p>5.1. Training of productivity improvement programme among SME.</p> <p>6.1. Conduct of entrepreneurship programmes for SMEs.</p> <ul style="list-style-type: none"> <li>- specially designed modules</li> <li>- at State levels</li> <li>- by specialists</li> <li>- through creation of special institutions.</li> <li>- on Development of enterprise culture in schools and universities.</li> </ul> <p>7.1. Special training programmes for staff of the delivery institutions.</p>
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<p><b>3.8 Encouragement to be successful.</b></p>	<p><b>8. Inadequate encouragement for SME promotion.</b></p>	<p><b>8.1 Counselling cells, welcome services for SMEs at state levels, banks, focal points.</b></p> <p>8.2 Preparation of project profiles.</p> <p>8.3 Assistance for creation of new enterprises.</p> <p>8.4 Awards to best SMEs State and National levels.</p>
<p><b>3.9. Environment concerns and SMEs.</b></p>	<p><b>9. Ignorance of environmental concerns.</b></p>	<p>9.1 Environment awareness programmes.</p> <p>9.2 Encouragement of production of environmental friendly products.</p> <p>9.3 Special awards for environmental friendly enterprises.</p>
<p><b>3.10. Marketing facilities for SMEs</b></p>	<p><b>10. Inadequate marketing facilities.</b></p>	<p>10.1 Creation of permanent trade/exhibition centres at State levels at proposed Resource Centres.</p> <p>10.2 Special trade fairs at state levels.</p> <p>10.3. Schemes for local trade fair participation</p> <p>10.4. Assistance to established trading houses for SME products.</p>
<p><b>3.11. Information for SMES.</b></p>	<p><b>11. Inadequate information on Trade, Technology, designs, services, markets, etc. flowing down to SMEs.</b></p>	<p>11.1. Establish modern trade information network with focal points at State levels.</p>
<p><b>3.12. Skills requirements for the modern SMEs</b></p>	<p><b>12. Inadequate middle level skilled personnel for Industrial sector.</b></p>	<p>12.1 Organization with the NDE skill development programmes.</p> <p>12.2. Orientation of universities, technical institutions to carry out human resource development training programmes for industry</p>

**4. CHANGING ROLE OF SMEs SPECIFIC MEASURES/PROGRAMMES TO STRENGTHEN SMEs**

<p><b>4.1. Export Orientation of SMEs.</b></p>	<p>1.1. Strengthen the capacity of NEPC to introduce special schemes for export oriented SMEs.</p> <p>1.2. Special awareness and training programmes for export oriented SMEs.</p> <p>1.3. Creation of Export production villages.</p> <p>1.4. Improve competitiveness of SMEs.</p> <p>1.5. Regularize the Export trade of SME products with neighboring countries.</p> <p>1.6. Development of linkages, out grower systems between suppliers and exporters.</p> <p>1.7. Strengthening of Export trade information.</p> <p>1.8. Schemes to promote Export trading houses with the participation of SMEs.</p>
<p><b>4.2 Promotion of cohesion between SMEs and Large Scale Enterprises Subcontracting</b></p>	<p>2.1 Promotion of different subcontracting arrangements.</p> <p>2.2. Promotion Partnership relationships between SMEs and Large Scale Industries.</p> <p>2.3. Continuous updating of project ideas for subcontracting.</p> <p>2.4. Introduce basic laws related to subcontracting.</p> <p>2.5. Special tax exemptions/rebates for subcontracting enterprises</p> <p>2.6. Organize product sectors and promote interdependence leading to clustering of product sectors and provide technical support.</p> <p>2.7. Special assistance schemes for subcontracting operations through improving competitiveness.</p>
<p><b>4.3 Promotion of programmes for specific target groups women , youths.</b></p>	<p>2.8. Portfolio of product/services for subcontracting by SMEs</p> <p>3.1. Entrepreneurship programmes for women in industrial development.</p> <p>3.2. Information network for women entrepreneurship.</p> <p>3.3. Training programmes for product sector where women are involved.</p> <p>3.4. Specific technical &amp; entrepreneurial assistance for young entrepreneurs.</p>
<p><b>4.4 Micro Enterprises and informal sector.</b></p>	<p>4.1. Organization of consistent programmes to identify the candidate enterprises of the informal/ micro sectors potential to be SMEs.</p>

	4.2. Systematic assistance to these sectors to ensure their passage or transition towards SMEs.
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<p><b>4.5 Environmental Concerns</b></p>	<p>5.1.Installation of Central Pollution Control measures in the Industrial Estates and Industrial areas.</p> <p>5.2.Awareness and information on cleaner and environmentally friendly Products and Technologies.</p> <p>5.3.Familiarization awareness of ISO 9000/14000</p> <p>5.4.Promotion of environmentally friendly products, packaging materials.</p>
<p><b>4.6 Transition of Micro Enterprises and informal activities to formal sector.</b></p>	<p>6.1. Special Training and awareness on formalization of informal sector.</p> <p>6.2. Special programmes, counselling services, financial assistance, modernization of micro enterprises.</p> <p>6.3. Joint programmes with UNIDO/ILO/NGOs/ other agencies and an Information network for women entrepreneurship.</p>

## **6. CONCLUSIONS AND RECOMMENDATIONS**

### **6.1. CONCLUSION**

A policy framework for promotion and development of SMEs in the Federal Republic of Nigeria has to be comprehensive taking in to consideration the complexity of constraints, specific requirements of the sector and the changing role of the sector. Therefore, in suggesting the recommendations an attempt was made to identify all the components possible that would be useful to the establishment of a stable and consistent policy while retaining the possibility of flexibility to adapt to internal and external changing situations that could effect the economy. The proposed components of the policy frame work covers :

- Not only what is required for the development of the SME sector,
- but also for the creation and promotion of new enterprises in the sector.

Taking in to consideration the situation in the field, the SMEs in Nigeria that need to be covered by the new policy framework include :

- Formal/organized sector SMEs employing 10 to 300 persons, and
- Potential candidate entrepreneurs /production units of micro enterprises and the informal sector employing less than 10 persons which could be promoted to the organized sector with appropriate mechanisms of promotion.

### **6.2. RECOMMENDATIONS**

#### **- For the Government**

##### **a. Immediate Action Plan.**

- Discussions and consultations with the various actors/partners concerned; private sector, government, donor agencies etc.. and incorporation of suggestions, amendments to the proposed framework before end of June 1997,
- Preparation , Editing, a final policy document to be submitted for the approval of the government,
- Definition of the major policy measures suggested to be implemented following the approval of the policy framework for SMEs. Some of the measures suggested could be carried out concurrently pending the government approval to avoid unnecessarily long delays,

**b. Follow up of implementation of the policy measures**

- Elaboration of basic documents/laws related institutional mechanisms to be put in place;
- Texts related to modification of the status of National council on Industries to an **"Inter-ministerial Committee for Industrial Development"** (ICID) to provide policy directives, coordinate the implementation of SME policies. This committee should include all the relevant ministries ; industries, Agriculture, Finance, Planning, Public Works, Commerce, Science and Technology, Labor , Women Affairs, Telecommunications, etc..
- Policy declaration on the priority role of the SME sector and the recognition of the private sector as "the engine of growth" in the economic development for which the government commitment to facilitate it, is firmly pronounced,
- Texts related to Fiscal and other incentives to be introduced in favor of the SME sector including the code of investments,
- Creation of a specialized agency for SME promotion and development (SMEDAN) which should be an apex organization at national level that looks after the interests of the SME sector. This is the technical arm and the implementing agency of the SME policy measures with the private sector and donor agencies. The agency could start with establishing a simple structure manned with professionals and could carry out the following functions:

Policy and Planning,

Promotion and development,

Extension and Training,

Information,

Projects and SME promotion fund management and administration.

The agency should be develop with the evolution of the requirements of the sector to a self supporting and a sustainable institution. The SMEDAN should be a professional institution, managed by the professionals and not bureaucrats. It should be an institution that will evolve with the time, to play the role of the " Philosopher, Guide and friend of the SME sector" and which will be responsible for creating an environment facilitating all the actors involved in the promotion and development of the sector to create sustainable SMEs in Nigeria.

- Texts related to the rehabilitation and conversion of IDCs and TBICs in to **SME Resources Centres** which will play the role of a " one stop center for SMEs" at State level which will have a professional reception center for entrepreneurs, supported with extension and counselling services, Technical and marketing (export and local) assistance, a permanent trade center, a information network, training, Meeting,restaurant, communication, computer,accommodation facilities, etc... These centres should function as income generating and self supporting centres having an appropriate legal status, and resources managed by the private sector and the State Governments,



- Texts related to the creation of "**State Industrial Service Committees**" to advise, facilitate to obtain all services related to the SME and industrial development of the state. This committee will consist of high level representatives of all the relevant institutions responsible for industrial development - Industry, Commerce, public works, communications, energy, technology, labor, exports, insurance, finance, chambers, SME organizations, headed by the private sector. This committee should meet regularly and review the progress of the SME development and constraints faced by the SMEs and proposes appropriate solutions and measures to develop the SMEs at state level.
- Preparation of a detailed five year development plan for the SME sector in collaboration with all the actors and partners concerned for the SME sector of Nigeria. This plan should contain mainly the following:
  - SME policy
  - Objectives and Strategies of the sector,
  - Constraints confronted at different levels- Development , promotion, production , marketing, exports, state level etc..
  - Recommendations to overcome the constraints and responsibility of all the actors : government, private sector, donor agencies,, etc..
  - costs of implementation.
  - Time frame,
  - Monitoring and evaluation mechanisms.
  - Awareness programmes on the new SME policy in the States to be organized to sensitize various groups of the population, officials, private sector, entrepreneurs, etc..

**- To the Private sector:**

- Active participation of the private sector - NASSI MAN, NACCIMA, Women's entrepreneurs association , independent associations at States level, in adoption of a favorable policy framework for SMEs, implementation of the policies and promotional and development mechanisms,
- Creation of a specific units in the private sector associations to follow up the implementation of the policies adopted,
- Training of a professional staff attached to the associations in order to increase their delivery capacity of assistance to SMEs.
- Establishment of a private sector SME promotion funds at all the States level with the voluntary contributions of the private sector which is managed by the private sector.
- Final objective of the implementation of a favorable policy for the SME sector is to create a sustainable private sector enterprises. Hence, this objective cannot be achieved, with out a firm commitment and a leadership by the private sector.

**- To the donor agencies :**

The intervention of the UNDP, UNIDO, ILO, and other bilateral and multilateral donor agencies is important from the pilot stage particularly to implement the proposed institutional,

promotional and development mechanisms for the SMEs. Their interventions could cover mainly:

- Technical assistance and methodological instruments,
- Expertise and supporting funds,
- Assistance to establish modern information systems and networks for industry and trade,
- facilitation to obtain assistance from all other possible donor agencies and bilateral assistance to implement deferent components of the mechanisms and policies proposed. For example; some external assistance could be diverted to facilitate the implementation of pilot programmes in selected states and the experience to extended to other states depending on the experiences achieved.

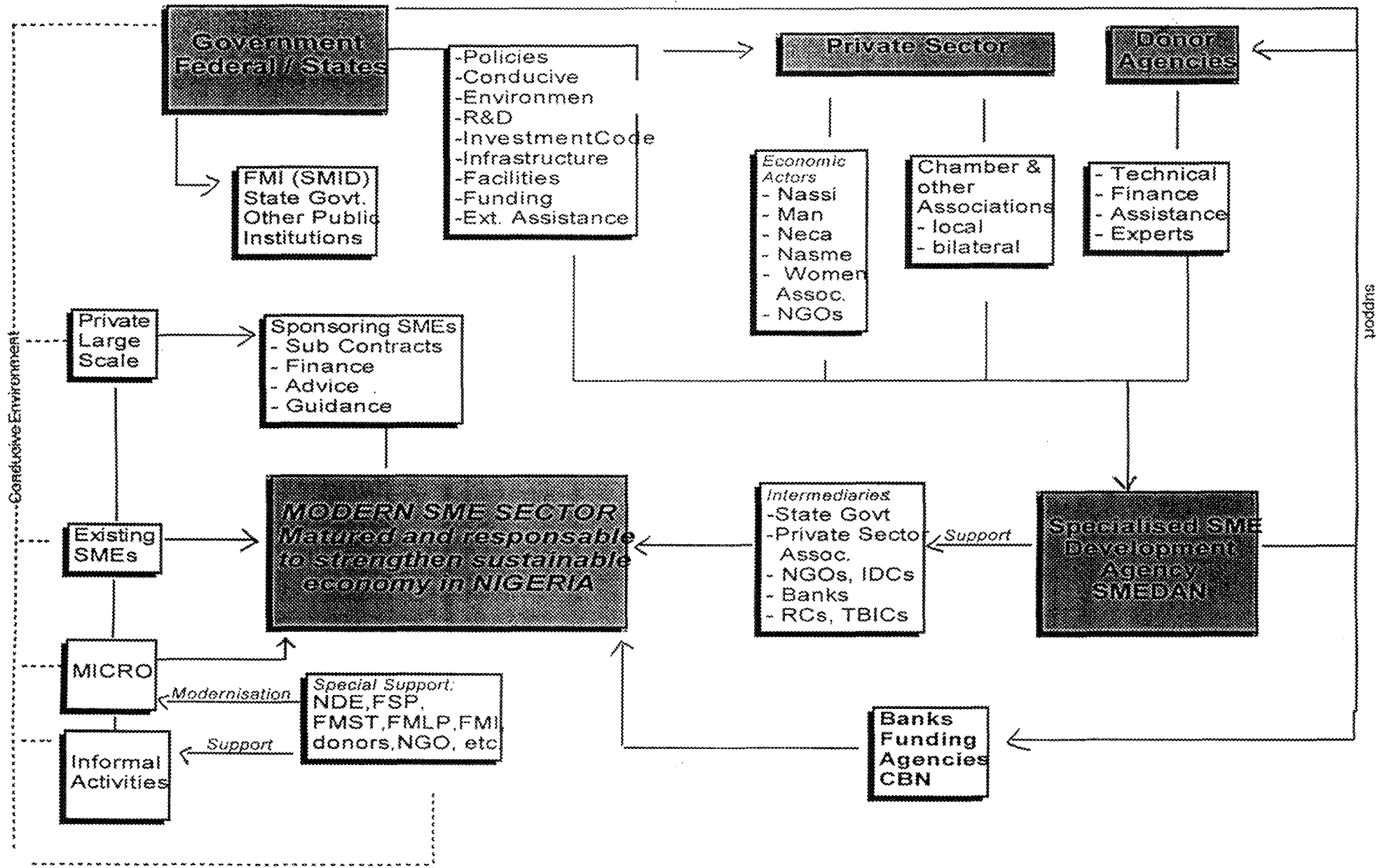
### **6.3. DESIRED SITUATION**

Implementation of an appropriate SME policy means finally to put in place:

- An environment conducive for the private sector to invest in industry,,
- A professional promotional and development mechanisms that works implemented by specially trained, motivated and committed persons who believes the role of SMEs in the developing economies,
- A system that is sustainable in which all the actors play an active role,
- and A dynamic private sector capable of creating SMEs that are organized and sufficiently matured and responsible to strengthen the sustainability of a diversified economy of the Federal Republic of Nigeria.

The interactions that are ideal to reach this situation is presented in the following page.

**Towards a favorable Environment for promotion and Development of a dynamic Formal Sme sector in Nigeria:  
Proposed interaction between major Actors and partners and the SMEs**



## **ANNEX I MAIN COMPONENTS OF THE TERMS OF REFERENCE OF THE INTERNATIONAL CONSULTANT**

### **Purpose of Project**

This project comes within the general programme of the development of SMEs, in Nigeria and is especially dealing with the preparation of coherent SME policies and also of an investment code for SMEs. The objectives of the studies for the preparation of SME policies is in general to propose an economical framework for SME development in Nigeria.. the policies should be more people-oriented, comprehensive and effective as tools for rapid industrialization, employment generation and export promotion.

The other aim of the project is to organize a consultation mechanism for the preparation of more effective laws and regulations on SMEs and on the investment code.

### **Duties**

Working together with the national co-ordinator of the programme with the officials of the Small SMEs Department of the Federal Ministry of Industry and with representatives of the various entrepreneurial associations as well as with the other international consultants, the consultant will have the following tasks:

1. Carry out a thorough review of the entire policy documents on SME development in Nigeria; make preliminary suggestions in order to prepare documents which are more effective for SME promotion and for industrialization.
2. Organize meetings between representatives of the main associations of entrepreneurs and of the State and Federal Governments about ways and means to promote and enabling an environment for SMEs (by organizing at least 2 national workshops on the enabling environment).
3. Suggest the main components and the main stages for the preparation of an enabling economic framework which will have SMEs in Nigeria (on the basis of suggestions made during the workshops referred to above).
4. Prepare a draft document for SME policies which will also recommend specific activities for each of the main sub-sectors of SMEs (industrial sub-sectors, services); included in this document will be a detailed proposal for the setting up of a co-ordinating agency which will be responsible for the dialogue among all parties concerned and for insuring that an enabling environment is created.  
Examine the actual situation of the technical support and infrastructural facilities for SME, identify problems and gaps and recommend measures to be taken at the policy level to improve support to SMEs.
5. As a final report, to produce a SME policy document which can be validated by all the parties concerned.

## **ANNEX 2 PERSONS AND INSTITUTIONS CONTACTED**

### **1. UNIDO Vienna:**

1. Mr. Frederick Richard
2. Mr. Ivan De Pierpont
3. Mr. V. Golnyakov
4. Mrs. Li.

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2. Miss Joke Van der Ven Programme officer UNIDO
3. Mr. A. Ajani Programme Officer
4. Mr. D. de Crombrughe Consultant UNIDO

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5. Mr. M. Bello Deputy Director, Planning
6. Mr. O. O. Olayinka
7. Mr Sonnie Anya Asst.Chie Industrial Officer, (SME)
8. Mr J. M. Kating Industrial Officer
9. Mr O. N. Adeniran Planning Officer (PRSD),
10. Mr Ibrahim M. H. Dikko Senior Legal Officer, F.M.I.,
11. O. B. Ode Martins SMID-FMI

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### **P.M.U. Kano**

1. Mr. Mohammed Yaro Programme Accountant
2. Mr. Ibrahim Sanni Small Entrepreneur, Informal Sector, Zaria

### **4. PRIVATE SECTOR**

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3. Mr. L. A. Kotey Product Extract Limited, Block C9, Lagos State Small Scale Ind. Estate, Fatai Atere Way, Matori, Oshodi, Lagos.
4. Mr John Adeyemi Adeleke World Trade Centre Association
5. Mr Jeajea Managing Director Quality Foods,

- |     |                         |  |
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| 6.  | Mr Gafor Salami Atare   | Chairmen Somini Nig. Ltd. Oshojbo.   |
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| 8.  | Mr. Adekunle A. Olumide | Director General LCCI, Tel.: 613898  |
| 9.  | A. Bala Panola          | D.G., LCCI   |
| 10  | Alh. Lawal Jibrin       | Wood and Metal, Furniture Manufacturer, Zaria  |
| 11. | Dr. M. O. Omidiji       | Director, Research & Production, Premier Seed Nigeria Ltd, Zaria, Kaduna State.                                |
| 12  | Alh. Mohammed I. Ebame  | Executive Director, Yamaghi Metal Construction Co. Ltd. Panteka, Kaduna.                                       |
| 13  | Alh. Ahamed Abdulahi    | Deputy Chairman, Panteka Market Association  |
| 14. | Mr. Babs Olu Abosedi    | Chairman Aboseldehyde Laboratories Plc, P.O. Box 10338, Lagos - Tel 822577.                                    |
| 15. | Mr. Bunmi Ayo           | Works Manager, Aboseldehyde Laboratories,  |
| 16. | Mr. P. Vaidya           | Dy. Chairman Swantex. Nigeria Ltd, 14, Industrial Avenue, Apapa. Tel. 820609, P.O. Box 1239, Lagos.            |
| 17. | Alh. Musa Usman         | Mai Gado, Nasarawa Metal Works, Zaria  |

#### **Trade Associations**

##### **M.A.N.**

- |    |                 |  |
|----|-----------------|--|
| 1. | Mr. Segun Ajayi | Executive Secretary, MAN, North West Zonal Office, Kaduna State. |
|----|-----------------|--|

##### **ABA Chamber of Commerce UBA Building, Aba, Abia State.**

- |    |                         |   |
|----|-------------------------|---|
| 1, | Mr. Amaechi Agboe       | Admin. Secretary                        |
| 2. | Mr. Ngozi Obeke         |   |
| 3. | Mr. Joseph U. Okoronkwo | MD - Joka Industries Ltd. Aba.          |
| 4. | Mr. A. H. Onyebuchi     | Tanu Group, Aba.                        |
| 5. | Mr. G. O. Ahumakaeze    | Int-Equitable Associates, Aba           |
| 6. | Mr. Steve Anum          | Chiemeka Tarpaulin Industries Nig. Ltd. |

##### **NASSI**

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| 1. | Dr M. C Okonkwo        | National President |
| 2. | Mr Charles I.K. CHUKWE | Admin.Sec.         |

##### **(Lagos)**

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| 2. | Mr. Kayode Okan Rende | Chairman - NASSI, Tel/Fax 01 - 5219950   |

##### **(Osun State)**

- |    |                  |          |
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| 1. | Mr Do.o. Olawayo | Chairmen |
|----|------------------|----------|

##### **(Zaria)**

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|---|------------------|------------------------|
| 1 | Alhaji Ali Abdul | Secretary NASSI, Zaria |
|---|------------------|------------------------|

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| 1. | Mr. Kalu, S. O.  | Chairman      |
| 2. | Mr. Matthew KALU | Treasurer     |
| 3. | Mr. S. K. Chukwu | Vice Chairman |

- |     |                        |                       |
|-----|------------------------|-----------------------|
| 4.  | Mr. Grant U. Eze       | Publicity Secretary   |
| 5.  | Mr. Felix E. Osakwe    |                       |
| 6.  | Mr. M. C. Madugba      | Manager Co. Shoe Ind. |
| 7.  | Mr. Charles, Obinekwu  | Secretary             |
| 8.  | Mr. Chijioke Uko       | Fin. Secretary        |
| 9.  | Mr. Charles I. Obiukwu | M.D.                  |
| 10. | Mr. Rev. I. Agwe       | Exec. State Sec.      |
| 11. | Mr. M. S.C. Igbokwe    | Coordinator           |

**Nigerian Association of Women in Business.**

- |    |                           |                                       |  |
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| 1. | Mrs. Kanmi Ogunade Devise | M.D. - Medium Holdings Nig. Ltd.      | 20, Adebisi Street,<br>Onitiri, Yaba, Lagos.                       |
| 2. | Mr. Nonn Olu Akinolu      | Chairman, Ektonia Venture Ltd.        | P.O.Box 50516, Falomo Post<br>Office, Ikoyi, Lagos. Tel.: 264-7804 |
| 3. | Mrs. Patricia Agbakwu     | Patsie Creations, 26, Ogunlana Drive, | P.O. Box 2944,<br>Surulere, Lagos, Tel. 830687                     |

**5 PROJECTS**

**GTZ**

- |    |                           |  |              |
|----|---------------------------|--|--------------|
| 1. | Mr. Gerhard W. Pristinger | SME P., LCCI GTZ 1, Idowu Taylor Street, Victoria Island | Tel. 2623663 |
|----|---------------------------|--|--------------|

**6 Consultants**

- |    |                           |   |  |
|----|---------------------------|---|--|
| 1. | Mr. F. Scott,             | West African Committee 4, Eloko House, Ikoyi, P. O. Box       | 2184, Lagos Tel. 2691974   |
| 2. | Dr. M. Eshalomi           | Eshohalomi Associates Ind. & Investment Consultants           | Western House 7th Floor, Suite 719 P. O. Box 8219, Lagos.<br>Tel 26300190, 2634117 |
| 3. | Mr. Olumlage/A.A. Adeyemo | Sole Administrator  |  |
| 4. | Mr O.W. Oma Williams      | Director SMEs. Center for Management & ev.Shangisha,          | P.M.B. 21578, Ikeja, Lagos, Fax 01-961167, Tel. 901120                             |
| 5. | Mr Oladapo Fajowora       | Consultant - Unity House 5th Floor, 37 Marina, Lagos, - Tel.: | 2641316, Fax 2641450   |

**7. Nigerian Export Processing Zones Authority**

- |    |                   |   |  |
|----|-------------------|---|--|
| 1. | MR R. T. Famodile | Gen. Manager, Investment Services. Ratio House, Herbert | Macaulay Way, Area 7, P.M.B. 037, Garki Abuja. Tel.<br>2343060 |
|----|-------------------|---|--|

**8 Nigerian Export Promotion Council**

- |    |                        |  |   |
|----|------------------------|--|---|
| 1. | Mr Alhaji Yuguda Usman | Director Market Development, NEPC Block 312, Kumba | Street, Zone 2, Wuse, P.M.B. 133, Garki, Abuja.<br>Tel. 09-5230981, Fax 09-5230931-34 |
|----|------------------------|--|---|

**9. Nigerian Export-Import Bank (NEXIM)**

- |    |                      |                    |                   |
|----|----------------------|--------------------|-------------------|
| 1. | Mr. T. F. Oluwagbemi | Senior Manager,    | Tel. 01-2841041   |
| 2. | Mr. Timothy          | Asst. Gen. Manager | Tel. 09-2346141-7 |

**10 Central Bank of Nigeria**

- |    |                    |   |                 |
|----|--------------------|---|-----------------|
| 1. | Mr. Korede Obitaya | Assistant Director, Industrial Studies Office | Tel. 01-2660100 |
|----|--------------------|---|-----------------|

2 Mr. E. U. Olisadebe  
3 Mr. M. A. Adegbite

D-D, Research  
Planning Economist, Research Department.



11. **National Planning Commission - NPC**  
 1. Mr E.A. Omotoso Chief Planning Officer, NPC, Ikoyi, Lagos. Tel. 688590  
 2. O.A.O. Agbola Deputy Director, Commerce & Finance,
12. **Federal Ministry of Women Affairs & Social Development**  
 1. Dr. Mrs. Sofiya Muhammed Director, Family Support Programme Fed.Secretariat  
 Annex P.M.B. 220, Garki, Abuja - Tel.: 5237113
13. **Raw Materials Research & Development Council**  
 Plot 427 Aguiyi Ironsi Street, Maitama District, P.M.B. 232, Garki, Abuja.  
 1. Dr. L. Obyo Nelson Director, Admin. Finance & Supply  
 2. Dr. Iyobo B. Olafimihan D.D Investment Promotion  
 3. Mrs. Chris Eokpalefe Head, Science & Technology Promotion.
- 14 **Industrial Development Centers**  
**- Zaria**  
 1. Mr. Gombe Yusuf Zonal Coordinator, IDC, Samaru, Zaria  
 2. T. D. Olujoka Asst. Technical Officer  
 3. F. D. Agada Senior Mechanical Officer  
 4. M.T. Salawa Principal Technical Officer
- IMO & Abia States Industrial Development Center, Owerri P.M.B. 1013, Owerri, Imo State.**  
 1. Mr. O. A. Oladebo Coordinator  
 2. Mr. C. N. Nwachukwu Officer  
 3. Mr. Onyamekeka Admin. Officer
15. **Ministry of Commerce Industries and Cooperatives, State of Kano.**  
 1. Mr. Habib Abdullahi. Director Commerce
- 16 **Technology Business Incubator Center**  
 1. Mr. Abdul Malik Ndagi Planning Officer  
 2. Mr. Daniel A. Obiako Admin. Officer
- 17 **State Ministries**  
**- Kaduna State Ministry of Commerce Industry & Tourism**  
 1 Mr. Nathaniel K. Hayab. Director of Industries - Tel 062 - 216748
- 18 **Banks**  
**-N.B.C.I.**  
 1. Mr. Bledima Francis-Hart 26, Idejo Street, Victoria Island - Tel. 61234/615748  
 - Commercial Bank - (Credit Lyonnais) Nigeria Ltd.  
 2 Mr. Robert Cessac Managing Director. 214 Broad Street,P.M.B. 12829, Lagos -  
 Tel. 2665043
19. **Standard Organization of Nigeria**  
 9th Floor Federal Secretariat, Ikoyi, Lagos  
 1. Prof. J. A. Abalaka Director General  
 2. Mr. Jiri Sobola UNIDO Expert  
 3. Dr. Jahim Ndanusa Akanya National Expert, UNIDO

20 **Securities Exchange, Lagos**

1. Mr. Charles Okafor                      Securities Exchange Commission P.M.B. 12638, Lagos: Tel  
2661586, 2661552

21. **National Directorate of Employment - 21, Boyle Street, Onikan, Lagos**  
**P. O. Box 71649 - Tel.: 2630444, 2601630**

1. Dr. Sunday Okpanachi                      Ag. Director (SSEs)
2. Mr. A. G. Abubakar                      Coordinator
3. Joseph A. Ajakaye                      Programme Management Adviser

22 **Others**

1. Mr. Herbert Girumes   African Center for Strategic Studies - ACDESS.

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**ANNEX 4 NIGERIA - COUNTRY PROFILE - GENERAL  
INFORMATION AND MAJOR ECONOMIC INDICATORS.**

**1. Geographical Situation**

- Location : West cost of Africa
- Bordering Countries :
  - : North : Niger,
  - : West : Benin,
  - : North West : Chad,
  - : South East: Cameroon.
- Climate : -Tropical (South) and sub tropical (interior of the country), desert in certain parts of the north.
  - Dry season: Nov. to April,
  - Rainy season: May to october,

**2. Land Area**

: 925000 km<sup>2</sup>

**3. Population**

: more than 100 millions

- Rate of growth : 2.1% (1995)
- Adult Literacy Rate : 55% (1995)

**4. Political Administration**

: Federal State with 36 States,

- Capital- Abuja
- Commercial City- Lagos

**5. Languages**

: English - official language,  
Haoussa - North,  
Yourba - Southwest,  
Ibo - Southeast.

**6. Religions**

: Muslims - 45%  
Christens- 39%  
Others - 16%

**7. Transport**

: One of the most developed network of roads in Africa- 143000 km.  
: 2 international air ports frequented by a number of european and african air lines,  
: Internal air transport to many major cities of the States by a number of private companies.

**8. Communication**

: A wide network of telephone and postal system operating with difficulties.

**9. Electricity**

: A wide network installed but operates with frequent interruptions.

**10. Finance**

: Currency : Naira- N  
Off.rate : 1\$ = 09.0 N (1991)  
: 1\$ = 21.3 N (1995)  
Av.AFEM rate : 1\$ = 85 N (1997)

## 11. Other Economic Indicators.

-Per Capita GDP	:	(at 1980 constant Prices)
		1970 - 1032 \$
		1980 - 1225 \$
		1990 - 1147 \$
		1992 - 1066 \$
		1995 - 1063 \$
-Inflation rate	:	1991 - 13.0%
		1995 - 72.8%
		1996 - 55.0% (june )
- GDP growth rates	:	(At 1980 Cost.Prices)

SECTOR	Period			
	1970/80	1980/90	1990/93	1995
Agriculture	2.2	3.8		4.0
Total Industry	7.7	-0.6		5.2
Manufacturing	13.7	0.4		-0.3
Construction	8.9	-7.7		3.0
Trade	4.1	2.1		3.1
Other Services	13.9	6.2		4.0
GDP Per Capita	1.7	-0.8		0.9

## 12.Economic Sectors

- Natural resources :
  - \* 5 th exporter of the OPEC, 190 million MT of oil reserves, and an annual production of around 100000 MT
  - \*Natural gas 18213 billion M3 with an annual production of 4703 million M3
  - \* Solid minerals- Bentonite, gypsum,Phosphate, manganese, Gold, Kaolin, barrettes, Talc, Copper, etc...
- Agriculture :
  - \* Employs around 55% of the active population,
  - \* Was the largest world exporter of Cocoa in 1970s collapsed after the oil boom,
  - \* Cash crops - Ground nuts, Sugar Cane, Cotton, Soya Bean, Wood, Cocoa, rubber, palm kernel, cadjunuts, Timber, animal products, and fisheries,
  - \* Other agriculture- Rice, yams, fruit and vegetables, Maize, Millet, Sorgham, Potatoes, Cassava.
- Manufacturing sector : \*large scale industrial sector of which a large fraction is owned by the private sector. (Petroleum products, chemical products, automobiles, textiles, plastics and rubber products, food and beverages, cement etc..., \* Modern SMEs imports substitution products largely oriented towards consumer goods,

\* rapidly expanding an a large number of Informal/  
Micro / Cottage /Rural production activities.

Capacity utilization : 1991 :  
39.4%  
1993 : 37.2%  
1995 : 29.8%

### 13. Composition of the GDP by sectors (at 1980 const.prices)

Sector	Year (in %)				
	1970	1980	1990	1992	1995
-Agriculture	39.5	20.9	22.7	22.5	
-Total Industry	24.2	36.6	25.9	26.3	
-Manufacturing	2.3	04.9	04.5	04.0	
-Construction	04.6	07.6	03.3	03.2	
-Trade	21.3	20.1	20.7	20.4	
-Transport	02.4	03.7	02.2	02.2	
-Other services	04.3	08.6	16.2	16.1	
-Stat. Discrepancy	03.7	02.5	08.9	09.3	
-Total GDP (\$Mn)	56837.5	88221.6	11023.8	123913.3	

(Source UNIDO)

### 14. Composition of the Export Sector

Sector	Year		Value-	Year	
	1991 %	1995 %		N. Mn	
Agriculture Pdts (include Forest Pdts)	2.8%	1.8%	13441.1		
Manufactures and Semi Manufactured Agri.Pdts	0.2%	0.2%	1361.1		
Textiles		0.3%		0.2%	1419.6
Minerals	96.2%	97.4%	728648.3		
(Petroleum	96.2%	97.3%	726265.3)		
Manufactured Pdts.	0%	0.2%			
Other exports	0.1%	0%			
Total	100%	100%	748368.1		

### 15.Share - Exports/Imports as % of the GDP (at cost.prices of 1980)

Year	Exports	Imports
1970	14.2	11.3
1980	30.9	32.0
1990	31.7	05.8
1992	26.6	07.0
1995		