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Lending to Small and Medium Scale Enterprises and Economic Growth in Nigeria, 1992 - 2011

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Abstract

This study examined the trend of lending to SMEs in Nigeria and the impact of lending to SMEs on economic growth in Nigeria over the period 1992 to 2011 using ordinary least squares methodology. The results indicate that lending to SMEs increases the rate of economic growth in Nigeria. Unfortunately, the trend analysis indicates that lending to the SMEs sector in Nigeria had been on the decline since 1992. Accordingly, the study recommends that various credit schemes targeted at SMEs in Nigeria should be re-energized, coordinated and monitored so that they can effectively impact on the growth and development of the economy. Also, basic infrastructure, such as adequate power supply and passable roads, and satisfactory security of lives/property should be provided for SMEs to thrive in Nigeria.

Keywords: Small and Medium Scale Enterprises; Economic Growth; OLS; Cointegration; Nigeria

Introduction

There is no universally accepted definition for small and medium scale enterprises (SMEs) in the literature. This is mainly because different countries use diverse criteria in classifying their SME sector. Examples of such criteria include the value of assets, the number of workers employed and the volume of production or annual turnover (Aremu and Adeyemi, 2011; Ofoegbu, Akanbi and Joseph, 2013; Umar, 1997). According to Aremu and Adeyemi (2011), the federal government of Nigeria in its 1990 budget defined SMEs for the purpose of commercial loan as those enterprises with annual turnover not exceeding N500, 000 and for merchant loan as those enterprises with capital investment not exceeding N2 million (excluding cost of land or a maximum of N5 million). The Nigerian Economic Summit Group, NESG (2002) defined SMEs in Nigeria based on the nature and magnitude of business to include roadside artisans, petty traders, bottled water producers, bakers, local fabricators and their likes. Udechukwu (2003) explained that Nigeria's National Council on Industry defined SMEs in terms of number of employees as those enterprises with between 10 and 300 employees. This study is anchored on the views of Small and Medium Industries Equity Investment Scheme (SMIEIS) of 1998, which defined SMEs in Nigeria as enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million (including working capital, but excluding cost of land) and/or with a staff strength of not less than 10 and not more than 300.

However, in the European Union, SMEs are defined in the Commission's recommendation of May 6, 2003, based on the following criteria: not more than 250 employees; not more than 50 Million Euros turnover; a balance sheet total of less than 43 Million Euro; and if not more than 25% of the shares of such an enterprise are in the ownership of another enterprise (Ofoegbu, Akanbi and Joseph, 2013). Daft and Marcic (2006) defined a business as small if it has fewer than 500 employees; while Hallberg (2000) defined the lower and upper limits for small scale enterprises at 5 and 100 workers while that of medium scale enterprises is set at 100 and 250 workers respectively. The World Bank (2006) defined medium enterprises as those that have at most 300 employees and an annual turnover not exceeding 15 million US dollars, while small enterprises are those having fewer than 50 staff members and up to 3 million US dollars turnover. In the UK, Sections 382 and 465 of the Companies Act 2006 defined an SMEs as follows: a small company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million and not more than 50 employees; a medium-sized company has a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million and not more than 250 employees (Ofoegbu, Akanbi and Joseph, 2013). Clearly, the concept of small and medium scale enterprises varies from country to country and indeed from industry to industry depending on the developmental stage of the country in question and level of its economic activity and industrial growth.

The importance of SMEs in the growth and development of a country has been widely emphasized in the literature in terms of their role in backward integration, production of goods and services, job creation, income generation, reduction in income disparity, poverty alleviation, entrepreneurial development, technological innovation, skill development and acquisition, encouragement of economic self-dependence and vibrant private sector, among others (Onakoya, Fasanya and Abdulrahmna, 2013; Ofoegbu, Akanbi and Joseph, 2013; Safiriyu and Njogo, 2012; Aremu and Adeyemi, 2011; Ayozie and Latinwo, 2010). Daniel (1994) estimated that SMEs employ 22% of the adult population in developing countries like Nigeria. Indeed, the roles of SMEs in contemporary Nigeria cannot be over stressed. Simply put, SMEs are the panacea for the economic development and growth of indigenous entrepreneurs in Nigeria (Kilby, 1985). In recognition of these multivariate contributions and potentialities of SMEs in Nigeria, especially their importance in promoting economic growth, several micro-lending institutions have been established in Nigeria to enhance the development of SMEs. Some of these institutions include microfinance banks, entrepreneurship development centers (EDCs), Small and Medium Industries Equity Investment Scheme (SMIEIS), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (Nerfund), the People's Bank of Nigeria (PBN), the Nigerian Export and Import Bank (NEXIM), as well as the liberalization of the banking sector (Ofoegbu, Akanbi and Joseph, 2013).

Despite the numerous economic contributions of SMEs in Nigeria, they still face lots of challenges. According to Basil (2005), these challenges include insufficient capital, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, infrastructural inadequacies (such as power supply, water, roads, and so on), inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, and cut-throat competition. Aremu and Adeyemi (2011) and Sokoto and Abdullahi (2013) noted that SMEs in Nigeria are generally characterized by inadequate capital base, low managerial skills, and high levels of technical inefficiency, which reduce their potential output levels significantly. They further articulated the challenges of these enterprises to include inadequate access to credit; lack of decision-making skills, sound management and accounting practices; and inability of lenders, especially deposit money banks,