

CHAPTER ONE INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The production of goods and services in the most efficient manner has continued to be the only viable and reliable option for development, growth and survival of any economy. SMEs have been fully recognized by government and development experts as the main engine of economic growth and a major factor by extension in promoting the realization of the financial systems strategy 2020.

This is because the development of this sub-sector is an essential element in the growth strategy, not only in contributing to improved standard of living; they also bring substantial local capital formation and achieve high level of productivity and capacity.

From a planning stand point, SMEs are increasingly recognized as the principal catalysts for achieving equitable and sustainable industrial diversification and dispersal and in most countries SMEs account for well over half of the total share of employment, sales and value added (Udechukwu, 2003). This is not surprising because the industrial sector in Nigeria has no significant record of meaningful contribution to economic development since independence in 1960 because it has not experienced any notable growth, traceable to indigenous industrial entrepreneurship (Adewale, 2007). The Nigerian economy, since the early seventies, has been dependent on oil products. As a result of the enormity of revenue generated from oil, very little attention has been paid to proper development of the industrial sector. The reason for the lacklustre performance of the industrial sector is mostly associated with the poor attention paid to the promotion and development of the small and medium scale sub-sector, which is accepted worldwide to be the engine of economic growth and the basic foundation for the industrialization process of any nation that desires to experience solid development. This is more so because entrepreneurship development is a critical aspect of skills development and keystone for economic revival and growth.

Furthermore, the vital role of small and medium scale enterprise (SMEs) as the only authentic foundation for accelerated industrialization, growth and development, as witnessed in all the Newly Industrialized Countries of South East Asia, referred to as Asian Tigers, is recognized for its accelerative effect in achieving macro-economic objectives such as full

employment, income distribution, development of local technology and stimulation of indigenous entrepreneurship, mitigation of rural-urban migration, support and linkage of the entire industrial sector by training of semi-skilled and non-skilled manpower as well as the manufacturing and supply of spare parts and raw materials to large scale industries.

1.2 STATEMENT OF THE PROBLEM

Several studies have identified financial constraint as the major obstacle to Small and Medium Scale Enterprises Development in developing countries including Nigeria. For instance, Adelaja (2003) argued that the access to institutional finance has always constituted a pandemic problem for SME development in Nigeria. He recalled that in the past, a number of schemes have been put in place to provide special credit lines/windows for SMEs but this achieved very limited impact.

The primary focus of this study emanates from the fact that small scale enterprises owners do not have sufficient finance to carry on their due to the low saving culture of the people in this part of the world. The reason for this is not far fetch: low level of income basically. While it is an established fact that Small and Medium Scale Enterprises face financial challenges, no research has been conducted to investigate the effect the financial problem on their contribution to economic development. Asaolu et al (2005) and many other authors and researchers have deduced that the financial challenges mar the developmental role of Small and Medium Scale Enterprises. But this may not be true especially in the case of Nigeria where the informal sector, which is constituted largely by the Small and Medium Scale Enterprises play a very important role in the development of the nation's economy. Therefore, this study seeks to evaluate the impact of government funding in the promotion and development of Small and Medium Scale Enterprises (SMEs) in Nigeria.

1.3 OBJECTIVES OF THE STUDY

The main objective of the study is to critically examine the impact of government funding on the promotion and development of SMEs in Nigeria. Specific objectives of the study are:

1. To appraise financial challenges of Small and Medium Scale Enterprises in Nigeria.
2. To appraise the effectiveness of various SME agencies set up by the federal government to promote activities of SMEs in Nigeria.

3. To examine the impact of government funding on Small and medium scale enterprises in Nigeria.

4. To recommend various strategies that can be adopted by the government to promote and develop SMEs effectively.

1.4 RESEARCH QUESTIONS

In-order to achieve the objectives of the study, the following research questions will guide the study:

1. What financial challenges are faced by Small and Medium Scale Enterprises in Nigeria?
2. How effective are various SME agencies set up by the federal government to promote activities of SMEs in Nigeria?
3. What impact government funding had on Small and medium scale enterprises in Nigeria?
4. What strategies can be adopted by the government to promote and develop SMEs effectively?

1.5 RESEARCH HYPOTHESES

1. Ho: Government Agencies set-up to promote and develop SMEs have not been effective in the discharge of their duties.

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2. Ho: Government funding on SMEs does not have a significant impact on the promotion and development of SMEs in Nigeria.

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1.6 SIGNIFICANCE OF THE STUDY

Small and Medium scale Enterprises (SMEs) in Africa rely largely on own savings, not only to grow but also to innovate, firms often need real services support and formal finance assistance, failing which under-investment in long term capabilities (training and R&D) may result, (Oyelaran-Oyeyinka, 2003). Besides finance, there are critical elements (including: knowledge, skills and experience of staff; capacity and quality of internal facilities; information and knowledge of market; intellectual and managerial leadership; external infrastructure and the incentive system at the micro and macro levels) that lacking

within technology support institutions themselves. These undermine the effectiveness of their support to Small and Medium scale Enterprises (SMEs). This study is significant because it would help to evaluate the operations of a vital segment of the industrial sector – Small and Medium Scale Enterprises (SMEs), which have been identified as having very high potential in promoting economic growth and development (Oni and Daniya, 2012). The evaluation shall be done with special focus on their financing thereby adding to the existing literature on the subject matter.

1.7 SCOPE OF THE STUDY

This research work focuses on the impact of government funding on the promotion and development of Small and Medium Scale Enterprises (SMEs) in Nigeria paying special attention to the impact the government of Nigeria has on the development of Small and Medium Scale Enterprises through the establishment of SMEDAN. The research intends to study the essential problems encountered by Small and Medium Scale Enterprises and suggest ways by which they can be adequately and efficiently financed.

Most of the information and data needed for the study would be gathered from existing literature and from relevant government agencies such as the National Bureau of Statistics (NBS) and Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) etc.

1.8 LIMITATIONS OF THE STUDY

The only limitation faced by the researcher in the course of carrying out this study was the delay in getting data from the various respondents. Most respondents were reluctant in filling questionnaires administered to them due to their busy schedules and nature of their work. The researcher found it difficult to collect responses from the various respondents, and this almost hampered the success of this study.

1.9 DEFINITION OF TERMS

Business: The Oxford Learner's Dictionary defines business as a commercial activity, a means of livelihood, a trade, profession, occupation, etc.

Capital: capital can be defined as man-made productive assets that are set aside for the production of other assets. In other restricted cases, it is defined as money set aside to start business.

Economic Development: it can be defined as the process whereby a country's real per capita

gross national product of income increases over a sustained period of time through continuing increases i.e. per capita productivity.

Economic Growth: Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or *real GDP*. Growth is usually calculated in *real* terms, i.e. inflation-adjusted terms, in order to obviate the distorting effect of inflation on the price of the goods produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment".

Economy: the word is used to mean a particular system of organization for the production, distribution, and consumption of all things people use to achieve a certain standard of living.

Entrepreneurship: The willingness and ability of an individual to seek out investment opportunities in an environment, and an environment, and be able to establish and run an enterprise successfully based on the identified opportunities.

Role: according to Merriam-Webster's dictionary is defined a function or part performed especially in a particular operation or process or major.

SMEs: Small and medium enterprises or small and medium-sized enterprises (SMEs, small and medium-sized businesses, SMBs, and variations of these terms) are companies whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors.

SMEDAN: This is the short form for Small and Medium Enterprises Development Agency of Nigeria. **(SMEDAN)** was established by the SMEDAN Act of 2003 to promote the development of the MSME sector of the Nigeria Economy. The Agency positions itself as a **One Stop Shop** for MSME Development. Micro Enterprises are included in the clientele of the Agency since they form the bedrock for SME's

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