

The Issues, Challenges and Prospects of Small and Medium Scale Enterprises in Bauchi Metropolis

Abubakar Ahmad Yusuf, Abdulkadir Suleiman, Alhaji Kawugana
Federal Polytechnic Bauchi
P.M.B.0231 Bauchi, Bauchi State Nigeria
alhajikawugana@gmail.com, alhajiganak@fptb.edu.ng

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Abstract

The Study examine the Issues, Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) in Bauchi metropolis, Nigeria. The objective of the study is to determining factors influencing small and medium enterprises in Bauchi Metropolis. This was informed by the high rate of unemployment in the society and the poor performance of SMEs in employment generation. While the research will also addressed the extent to which poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation constitute major challenges in the performance of SMEs, it assumes that government intervention through the provision of financial assistance, social infrastructures and favorable taxation policies will reverse the trend. The research adopted a descriptive research design using 30 randomly selected registered operators of SMEs in Bauchi Metropolis. Data collected were analyzed using descriptive statistics while formulated hypotheses were tested using z-test. The major findings from the Results of the data analysis indicated that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Bauchi metropolis. Based on the findings from results of the data analyzed it was recommended that provision of soft loans to SMEs operators, government guaranteeing of long-term loans to SMEs operators, establishment of SMEs funding agency, public/private sector partnership in infrastructural provision, capacity building for SMEs operators and provision of tax incentives for SMEs operators., Nigeria.

Keywords: SMEs, SMEDAN, Poor Financing, Managerial Skills, Unemployment, Social Infrastructure

Introduction

After Nigeria's independence in 1960, much emphasis has been laid on the growth of small and medium scale industries as a means of reducing the incidence of poverty and unemployment in the country. Since the adoption of the economic reform programmer in 1986, there has been a decisive shift from grandiose, capital intensive and large scale industrial projects based on import substitution to small scale industries with immense potentials for developing domestic linkages for sustainable industrial development.

Small and medium scale enterprises (SMEs) are generally regarded as the engine economic growth and equitable development in developing economies. They are labour intensive, capital

saving and capable of helping create most of the one billion new jobs the world will need by the end of the century. They are also perceived as the key to Nigeria's economic growth, poverty alleviation and employment generation. But their unimpressive performance in employment generation in recent years has generated a lot of research interests on their challenges and prospects of small and medium enterprises.

SMEs have been discovered to be a key driver for a country's economic growth (Schliemann, 2018) hence; SMEs cannot be overlooked in the economic development to any country. Okongwu (2019) argues that SMEs are recognized as the main source of economic growth and a major factor in promoting private sector development and partnership, in developed and developing countries. SMEs help to create employment and are often seen as very important for the growth and innovation of dynamic economies (Mutula and Brakel, 2018). Therefore, economic growth and development in Africa can be achieved through the emergence of strong SMEs, which will later grow to become major players in the developing economy. SMEs help to diversify economic activities that have significant contributions to imports and exports, they are flexible and can adapt quickly to changing market demands (Ongori, 2018). Thus, SMEs contribute more and more to the national and international economies of the world.

According to Wattana Pruttipaisan (2018), the significance of SMEs for growth, productivity and competitiveness of the economies in both developed and developing countries is acknowledged universally, since SMEs bring about substantial local capital formation contribute to improved living standards and achieve high levels of productivity. SMEs are identified as a major means of achieving equitable and sustainable industrial diversification.

The contributions of SMEs to Nigeria's economy are not contestable as about 10% of the total manufacturing output and 70% of the industrial employment are by SMEs (Aina, 2018). Through the utilization of local resources, SMEs promote industrial and economic development and are responsible for the production of intermediate goods and the transformation of rural technology (Aina, 2018). Nigerian SMEs not only provide employment and income for majority of its citizens but are also recognized as the breeding ground for domestic entrepreneurial capabilities, technical skills, technological innovativeness and managerial competencies for private sector development (SMEDAN, 2019, Aina, 2018).

Apart from SMEs potential for self-reliant industrialization using local raw materials, they are in a better position to boost employment, guarantee even distribution of industrial development and facilitate the growth of non-oil exports. Fissaeha (2019), states that SMEs employ 22% of the adult population in developing countries while Fabayo observed that small firms are major source of employment opportunities for a wide cross-section of the work force: the young, old part-time workers and the cyclically unemployed. Kombo, et al (2019), submitted that "SMEs have contributed greatly to the growth of Kenyan economy, accounting for 12-14% of GDP, through creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low income households in the country". Hence, promotion of such enterprises in developing economies like Nigeria will bring about great distribution of income and wealth, economic self-dependence, entrepreneurial development and a host of other positive economic up lifting factors. SMEs are veritable engines for attainment of national objective in terms of employment generation at low investment cost, development of entrepreneurial capabilities and indigenous technology.

The assistance of SMEs to any economy are obvious, as SMEs are known to contribute to the development of several economies in terms of output of goods and services and creation of jobs at relatively low capital cost (Apulu and Latham, 2018). SMEs also improve forward and backward linkages between economically, socially and geographically diverse sectors of many economies (SMEDAN, 2019). Thus, the development of SMEs is an essential element in the growth strategy of many economies including Nigeria.

STATEMENT OF PROBLEM

Stagnated growth of Small Scale Business (SSB) in Bauchi State as a state, Nigeria as a developing country is an issue of great concern. This is because its persistence may serve as a stumbling block to any effort by the Government to eradicate poverty and unemployment because of its impact on income distribution and employment generation. Small and medium enterprises are mostly managed by owners and relations. The financing in most cases are normally provided by the owners. The owners fail to realize the importance of external source of capital as such affect expansion in the business; in most cases, the owners are mostly members of the family and friends. In another development, small and medium enterprise experiences difficulties in raising equity capital from the finance houses or individuals. Even when the finance house agrees to provide equity capital, the conditions are always dreadful. All these result to inadequate capital available to the sector and thus lead to poor financing. This is the bane of most cottage industries in Nigeria. About 80% of small and medium enterprises are stifled because of this problem of poor financing and other problems associated with it (Chukwuemeka 2019). The problems that emanated from poor financing include: Lack of competent management which is the consequence of inability of owners to employ the services of experts. Use of obsolete equipment and methods of production because of owner's inability to access new technology and Excessive competition which resulted from sales which is a consequence of poor finance to cope with increased competition in the industry. The study intends to enlighten the owners on Issues , challenges and sources of financing their SMEs in Bauchi City as a Gap to Fill

OBJECTIVES OF THE STUDY

The objectives of the study is to:

- i. To identify the determining factors influencing small and medium enterprises in Bauchi Metropolis
- ii. To assess the roles of small and medium enterprises in employment generation and entrepreneurial development.
- iii. To assess the extent poor financing has affected small and medium business operation in Nigeria.
- vi. To recommend appropriate measures through which small and medium businesses can be more effectively developed in Nigerian economy

LITERATURE REVIEW

Conceptual Framework

SMEs in Nigeria are seen as the backbone of the economy and a key source of economic growth, dynamism and flexibility. A study done by the Federal Office of Statistics shows that 97% of all businesses in Nigeria employs less than 100 employees, implying that 97% of all businesses in Nigeria are "small businesses". The SME sector provides, on average, 50% of Nigeria's

employment and 50% of its industrial output. Indeed, there appears to be an agreement that the development of SMEs in Nigeria is a step towards building a vibrant and diversified economy. The definition of SMEs depends mainly on the level of development of the country. In most developed market economies like the United States of America (USA), U.K. and Canada the definition criterion adopt a mixture of annual turnover and employment levels.

In Nigeria, the Small and Medium Industries Enterprises Investment Scheme (SMIEIS) defines SME as any enterprise with a maximum asset base of N200 million excluding land and working capital and with a number of staff employed not less than 10 or more than 300. Nwokoye (2021) defines Small and Medium-Scale business as “any enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400, 000). The Federal Ministry of Commerce and Industry defines SMEs as firms with a total investment (excluding cost of land but including capital) of up to N750, 000, and paid employment of up to fifty (50) persons. SMEs exist in the form of sole proprietorship and partnership, though some could be registered as limited liability companies and characterized by: simple management structure, informal employer/employee relationship, labour intensive operation, and simple technology, fusion of ownership and management and limited access to capital. The seven major sources of funding available to SMEs in Nigeria include: personal resources, family and friends, partners or business associates, in formal financial markets, banks, and specialized funding facilities e.g. NERFUND and specialized financial institutions e.g. NBCI, BOI, NIDB etc. Their role in economic development includes: technological/industrial development, employment generation, technology acquisition, capacity building, promotion of economic growth, increased standard of living, industrial dispersal or spread, servicing of large-scale industries, export promotion, structural transformation of rural areas, flexibility and low take-of.

Theoretical Framework

This research is based on the active learning model of Erickson and Pakes which states that a firm explores its economic environment actively and invests to enhance its growth under competitive pressure from both within and outside the firm. The potential and actual growth changes over time in response to the outcomes of the firm’s own investment and those of other actors in the same market. According to this model of M.O. Agwu and C.I. Emeti 107 © 2014 The Author. Journal Compilation © 2014 European Center of Sustainable Development. learning, owners or managers of SMEs could raise their efficiency through formal education and training that increases their endowments while government may support their activities through the creation of the enabling environment. Entrepreneurs or managers of SMEs with higher formal education, work experience, training and government assistance would therefore be expected to grow faster than those without these qualities. This implies that SMEs in Nigeria have prospects of experiencing growth and contributing meaningfully to employment generation only when appropriate investments are made into them by all the stakeholders. This could best be achieved by government intervention through the provision of financial assistance, social infrastructures, capacity building of SME operators and favourable

Socio-Cultural Problems: Most Nigerian Entrepreneurs do not have the investment culture of plugging back profits. Bala (2020) state that the attitude of a typical Nigerian entrepreneur is to

invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

Strategic Planning Problems: SMEs often do not carry out proper strategic planning in their operations. Ojiako (2018) stated that one problem of SMEs is lack of strategic planning. Sound planning is a necessary input to a sound decision-making.

Location/Economic Problems: The market stores by politicians are crowding real small-scale operators out of the market. The high rents charged by store owners on good locations have forced real small-scale operators into the streets or at best into accessible places. Also, domestic economic problems of deregulation and removal of protection as well as the global financial crisis have been detrimental to SMEs.

Poor Accounting System: The accounting system of most SMEs lack standards hence, no proper assessment of their performances. This creates opportunity for mismanagement and eventually leads to the downfall of the establishment.

Hurst and Pugsley (2020) discovered from a study that multiple taxation has become a major problem especially given the role of tax consultants and agents hired by local governments. They are often crude in their operation, excessive in their assessment and destructive in their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect to household incomes and employment.

Unstable policy environment: Instability in government policies have caused some SMEs to collapse. One of such policies is that of the 1980s when government specified that cocoa should not be exported in raw or unprocessed form after a specified deadline.

Many SMEs had to import machineries only for government to reverse this policy. This negatively affected so many SMEs in the cocoa industry. The present high mortality rate of SMEs in Nigeria is awful to contemplate and constituted anger to the entire economic system. It represents serious financial pressure on the nation's economy as well as a waste of valuable resources. The business owner should always consider challenging situations and be prepared to meet them with pre-planned strategies. The survival of SMEs is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies of overcoming them, through a proper understanding of the business environment.

For a business to survive in unfriendly environmental conditions it should adopt a strategy that utilizes its strengths to exploit opportunities while avoiding its weaknesses. Nwoye, argued that strategic changes might take place in a firm without initial formulations, such decision could be informed by expansion strategy, preference to cash sales policy, innovation strategy, change in production techniques, local sourcing or use of alternative materials, backward integration and merger. Thus, any entrepreneur who wants to succeed must identify business opportunities, by creative, visionary, daring, risk taking, courageous and sensitive to changes in the business environment.

Prospect of small and Medium Enterprise in Bauchi City

In spite of the operational problems of small and medium enterprise in Bauchi metropolist, the enterprise still has bright prospects for further growth and success. In his analysis of growth potentials of small Businesses in Nigeria Morgan points out the fact that the growth of the number

of small and medium enterprise. In all goods and service in every town is enormous. In particular, he states that the growth of small and medium enterprise is commendable, attributing this to the relatively low amount of finance required setting it up and the low level of skill required to manage it. He expresses that small and medium enterprise in Bauchi East ventures has growth potential. In Nigeria given the population of the country which he states will always provide adequate patronage or market for the service and products. Besides, he notes that the increasing number of school leave and young graduate has a factor that promises growth prospects for small and medium enterprise. According to him, such unemployed school leavers become self-employed in the small and medium enterprise. Supporting this view, Ugbaja states that the growth potentials of small and medium enterprise in the state also produced with local raw materials easily sourced from the local market.

In conclusion, he said that as far as the present socio-economic condition is concerned the small and medium provides the alternative to employment opportunities that the nonexistent in the public sector, hence, its growth potentials.

Challenges in facing small and medium Enterprise in Bauchi Metropolis

There are various challenges facing small and medium enterprise in while some are financial others are non-financial. The financial constraints include those factors that prevent small and medium enterprise (SMEs) from accessing funds easily inadequate sources and supply of funds has been a major setback to the realization of much brilliant business idea and outward expansion of existing business. The inability of the small business owners to raise funds expand their business has been linked to poor business history, high risks, associated with starting new business, which banks tend to avoid, insufficient collaterals, inadequate record keeping and knowledge of the risks facing their business.

Record keeping is particularly important to the integrity of the business. The prevailing corrupt tendency in Nigeria society, which has permeated the fabric of the society including Nigerian society, which has permeated the entire fabric of the society, including Nigeria entrepreneurs, He previews most small and medium enterprises operators from keeping adequate records. Many entrepreneurs avoid paying tax into the relevant out writes.

Poor governance structure is another factor preventing small and medium enterprise to access funds easily from banks and other specialized financial institution. An industrial analysis recently observed that one of the reasons why small and medium enterprise (SMEs) funds has not been invested, is the operator prefer to get the funds as loan, rather than as equity contribution

METHODOLOGY

The research method adopted in this work is the survey research techniques The study used both qualitative and quantitative method of research. Data were collected through primary and secondary sources. The secondary was collected from annual reports, journals and survey data were obtained from A sample size of thirty registered SMEs operators in Bauchi (30) was selected and used for the study. In order to cater for those selected respondents who may for one reason or the other, fail to complete and return their questionnaires, a total of thirty registered SMEs operators in Bauchi (30) were chosen as respondents and questionnaires sent to them.

FINDINGS

The major findings of the research are:

- ❖ The research identify the issues faced by Small Medium Enterprises in Bauchi Metropolis

- ❖ It assumes that government intervention through the provision of financial assistance, social infrastructures and favorable taxation policies will go a long in addressing the major challenges of SMEs.
- ❖ Awareness of the importance/benefits of sources of Finance to finance in simplifying their business,
- ❖ The financial institution should reduce the level of strictness in granting credit facilities and the collateral need for obtaining these credit facilities in Nigeria through bank of industry particularly in Bauchi state
- ❖ Discover creative potentialities of SMEs
- ❖ Ensure and maintain standards of SMEs

CONCLUSION

Based on the findings made, the study arrived at the conclusion that the forgoing analysis above, and discussion of the finding and summary, the researchers concluded that the issues, challenges and prospect of SMEs in Nigeria are very important and should be given much regard to the challenges of SMEs in Nigeria.

The research discussed issues, challenges and prospects of small and medium scale Enterprises (SMEs) in Bauchi metropolis, Nigeria. It assumes that government intervention through the provision of financial assistance, social infrastructures and favorable taxation policies will go a long in addressing the major challenges of SMEs.

Finally, the financial institution should reduce the level of strictness in granting credit facilities and the collateral need for obtaining these credit facilities in Nigeria through bank of industry particularly in Bauchi metropolis.

RECOMMENDATION

Arising from the findings of this study, it is recommended that the following steps to address the major challenges of SMEs in Bauchi metropolis:

- i. **Provision of soft loans to SMEs:** Bauchi state government should encourage Banks in Bauchi metropolis to set aside 20% of their annual profits before tax as soft loans to SMEs at a very low interest rate.
- ii. **Government guaranteeing of long-term loans to SMEs:** Bauchi state government should guarantee long term loans to SMEs in Bauchi metropolis since they lack the necessary collateral to access such funds from financial institutions.
- iii. **Establishment of SMEs funding agency:** Bauchi state government should set up an agency that will assess the working capital requirement of SMEs Bauchi metropolis and make such funds available to them at a very low interest rate with long term repayment period.
- iv. **Public/Private sector partnership in infrastructural provision:** Bauchi state government should partner with the private sector in the provision of efficient public utilities (power supply, water supply, good transport/communication facilities etc.) in Bauchi metropolis to ensure uninterrupted supply of these public utilities.

- i. Capacity building for SMEs operators:** Bauchi state government should liaise with the Bauchi chamber of commerce and other non-governmental agencies in the organization of regular training programmers/seminars for potential and actual SME operators, where they should be educated on how to plan, organize, direct and control their businesses.
- ii. Provision of tax incentives for SMEs operators:** Bauchi state government should abolish multiple taxation of SMEs operators in Bauchi metropolis. The use of private revenue contractors/task force in the assessment/collection of taxes from SME operators should be discouraged.

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