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Developing Small and Medium-Sized Enterprise: A Discuss on the Role of Local Governments

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Abstract

This study examined the role of local governments in promoting the growth, development, and performance of Small and Medium Enterprises (SMEs) in Nigeria. The study was motivated by differing views among scholars regarding the extent to which government at various levels should intervene in SME operations and development. Relevant literature was reviewed to identify key issues surrounding government intervention in the SME sector, while secondary sources served as the principal method of data collection. The findings indicated that government, in collaboration with financial institutions, provides financial support that facilitates the establishment and development of SMEs. The study also found that various government institutions, policies, and programmes have been introduced to promote SME growth; however, further intervention is required at all levels of government to address existing challenges. The study therefore recommended stronger direct involvement by local governments through financial assistance and sensitization programmes, as well as increased collaboration between the public and private sectors through public-private partnerships (PPP) to support sustainable SME development.

Keywords: *Developing, Small, Medium-Sized, Enterprises, Role and Local Government.*

Introduction

Small and Medium Enterprises plays a role in enhancing public welfare to a large extent and providing employment opportunities in Nigeria. The rise in local government revenue from both the internal and external sources requires a robust initiative to support SMEs. Yudha et al (2017) in Portomo (2004) mention that small industries contribute to the economic development, provide employment opportunities, and reduce urbanization.

Small and Medium Scale Enterprises (SMEs) form a vital part of the industrial sector and stimulate industrial development. According to Ahmed S. (2006), SMEs are crucial for economic development, as pointed out by Emmanuel O. Oni and Daniya A.A. (2012) in their paper "The Impact of Small and Medium Enterprises on Economic Growth: Evidence from Nigeria". In tracking the development of post-1981 Nigeria, major policy themes and changes are evident by the movement away from capital intensive, large scale industrial projects largely predicated on import substitution with a tilt towards small and medium-scale enterprises after 1982. The change was inspired by how SMEs can promote national economic development by supplying the products and services necessary for economic expansion. Consequently, one of the approaches to tackling the developmental challenges confronting developing countries especially Nigeria is through promotion of entrepreneurial development schemes Ojo (2009).

Nigeria is blessed with numerous natural resources, but she has not escape the genta that accompanies sustainable developmental phase following her independence. Both quantitative & qualitative infrastructure provisioning has continued to pose challenges, which coupled with falling economic efficiency has led to persistently high unemployment valiantly hitting the growth tracks. As a result, large numbers of poor unemployed Nigerians now actively resort to entrepreneurship and self-employment as one of the preferred measures for diversifying means of livelihood. The surge of entrepreneurship in Nigeria is also linked to the short supply of traditional white-collar jobs for the growing population. With formal employment opportunities becoming more limited, entrepreneurship and small business have taken on increased importance as another source of income/employment.

This growing significance of SMEs has therefore necessitated that both government and individuals rethink strategies to effectively tackle the socio-economic challenges facing the country. Small and Medium Scale Enterprises improve self-reliance, generate employment, substitute imports, make effective use of locally available raw materials and facilitate overall economic development. Yet all this potential will only materialise with the right policy and support from government at all levels and our banks. This paper discusses the possible functions local Governments in Nigeria can undertake within the broader for the development of Small and Medium Scale Enterprises, with emphasis on their relationship between financial institutions in particular.

Review of Literature

Conceptualization of Small and Medium Scale Enterprises

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1. Link SME development with National Agenda;
2. Create a platform for dialogue, collaboration between federal and state/Local Government, the Organized Private Sector, Civil Society Organization and others to develop Small and medium Scale Enterprises and;
3. Improve sensitization/awareness of existing laws/policies that impact Small and Medium Scale Enterprises.

The policies classified Small and Medium Scale Enterprises in Nigeria as laid out in the revised National Micro Small and Medium Scale Enterprises policy (2021 – 2025) as follows:

S/NO	SIZE AND CATEGORY	EMPLOYMENT	TURNOVER (# M)
1.	Nano/ Homestead Enterprise	1 – 2	Less than 3
2.	Micro Enterprise	3 – 9	3 – 25
3.	Small Enterprise	10 – 49	25+ but less than 100
4.	Medium Enterprise	50 – 199	100+ but less than 1,000b

Source: SMEDAN: National Policy on Micro, Small and Medium Scale Enterprises

Financial Act (2020) defines a small company for tax purposes as an enterprise with an annual turnover of ₦120 million or less and a net asset value not exceeding ₦600 million. The European Commission (2003/361/EC) classifies SMEs as enterprises employing fewer than 250 workers, with an annual turnover not exceeding £50 million or an annual balance sheet total not exceeding £43 million. The Bolton Committee (1971) approaches the definition from both economic and statistical perspectives, describing a firm as small when it has a relatively limited market share, is independently managed, and is operated in a personalized manner by its owners. Similarly, the World Bank/IFC (2009/2010) applies a threshold of fewer than 250 employees, while commonly classifying enterprises with 10–50 employees as small and those with 50–300 employees as medium-sized. In Nigeria, SMEDAN defines SMEs primarily according to employment and asset criteria, covering enterprises with 11–100 employees and an asset base, excluding land, exceeding ₦50 million but not more than ₦200 million.

The Growth of Small and Medium Scale Enterprise and Government Contributory Scheme in Nigeria

According to Emmanuel O. Oni and Daniya A.A (2012) cited Jimodu (1998), Kayode (2001), Hassan herein defining 12 schemes that have facilitated the growth of Small and Medium Scale Enterprises (SMEs) in Nigeria. Industrial Credit and Industrial Credit Scheme is one of them which was incorporated, in 1971 through a revolving grant by the Federal and State Governments to finance SMEs needs under conditions somewhat more favourable systems than those provided at that time by private lending institutions. Other institutions and schemes include:

1. **The Nigerian Bank for Commerce and Industry (NBCI):** The Nigerian Bank for Commerce and Industry (NBCI) was initiated by the Federal Government and the Central Bank of Nigeria (CBN) in 1978 as an apex development finance institution for small and medium scale enterprises. The rationale for the establishment of the bank was to promote fiscal responsibility and effective use of the available scarce resources for the sustainable development of viable small and medium scale enterprises. It was also charged with the responsibility of managing the special funds for small and medium scale enterprises (SMEs) administered by the Federal Ministry of Commerce and Industry on soft loan basis.
2. **Central Bank of Nigeria Special Credit Programme for Small and Medium Scale Enterprises:** The Central Bank of Nigeria (CBN) as the primary policy implementing agency has been involved in the design and implementation of various schemes meant to promote easy access to credit for developmental needs, especially industrialization, of small and medium scale enterprises. The objectives of the scheme were categorized into three main areas by Bullion and CBN (1992) in accordance with CBN guidelines for SMEs as spelt out in the bank's monetary policy guidelines of 1988.
3. **World Bank Facilities for Small and Medium Scale Enterprises:** To promote further growth and development of small and medium scale enterprises in Nigeria, the Federal Government of Nigeria negotiated additional financial assistance from the World Bank to supplement other available funds to small and medium scale enterprises. The loan facility from the World Bank was in the amount of $270 million managed by SME Apex unit in the Central Bank of Nigeria.

Other programs formulated to cushion Nigerian economic problems according to Emmanuel O. Oni and Daniya A.A (2012) in Ogwu Mike F. (1995) include:

1. **Operation Feed the Nation (OFN):** The Operation Feed the Nation programme was introduced to counter the failure of the agricultural sector to adequately address the food needs of the nation. It was also introduced to create awareness and promote self-sufficiency in food production amongst Nigerians.
2. **National Directorate of Employment (NDE):** The National Directorate of Employment was established by decree in 1986, with the primary objectives of promoting skills acquisition, self-employment, and labour-intensive employment schemes. The programme targeted school leavers, apprentices, and graduates and covered four major areas: (1) Small-Scale Enterprise Programme, (2) Vocational Skills Development Programme, (3) Rural Employment Promotion Programme, and (4) Special Public Works Programme.
3. **Family Support Programme (FSP):** The Family Support Programme was simultaneously introduced with the Family Economic Advancement Programme (FEAP). The aim of both programs was to provide soft loans and credit facilities to Nigerian families to enable them to be involved in small scale businesses and better their living standards.
4. **National Poverty Eradication Programme (NAPEP):** The National Poverty Eradication Programme was introduced in 2000 to cushion the

effects of severe economic hardship experienced by a large number of unemployed Nigerians. The programme was structured to benefit three major categories: (1) skilled unemployed persons, (2) unskilled and semi-skilled unemployed persons, and (3) unskilled and uneducated persons.

5. **Youth Empowerment Scheme (YES):** The Youth Empowerment Scheme (YES) was initiated to empower youths in terms of economic status. It was made up of three programmes, which are; Capacity Acquisition Programme (CAP), Mandatory Attachment Programme (MAP), and Credit Delivery Programme (CDP). The CAP was meant for training the youths on skill acquisition while the MAP was to offer employment opportunities to graduates of NYSC who had completed their corps but were not gainfully employed. On the other hand, the CDP was to provide credit facilities to youths to empower them economically.

The remaining ones are Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) which is geared towards promoting the development of Micro, small and medium enterprises sector of the Nigerian economy, Small and Medium Industry Equity Investment Scheme; which is designed to address the challenge of financing of small and medium industries in Nigeria requiring all banks to set aside 10% of their pretax profit for equity investment in small and medium scale enterprises.

Contributions of Small and Medium Scale Enterprises to the Economic Growth of Nigeria

The contribution of SMEs to the growth and development of any economy need not to be over stressed, it is in attestation to that Cook and Nixon (2001) as cited by Joseph M.U. and Emmanuel A.N. (2021) stated that the development of small and medium scale enterprises should be considered as attempts towards the achievement of a wider economic and socio-economic objectives including poverty alleviation. Some of these contributions include:

1. **Creation of Employment opportunities:** SMEs are well known for employment generation the world over. This is because these enterprises are the types of business that can be established with little income. This highlights why many Nigerians are venturing into establishing SMEs, largely due to the high rate of unemployment in the country. Small and medium Scale Enterprises create ninety 90% of new jobs in the nation's private sector (the Guardian 2008).

2. **Providing Training Ground to indigenous Entrepreneurs:** small and medium scale enterprises constitute the foundation of reliable suppliers of entrepreneurs who are poised to contribute their quota to the economic growth. Thus, they provide opportunities to enterprising men and women to actively participate in the development of their different communities and the nation at large. (Oguri and Anyawu; 2006).

3. **SMEs Helps in Stemming Rural – urban Migration:** For the fact that small and medium scale enterprises can be easily established with little capital of an individual in all nooks and crannies anywhere in the world, rural-urban migration in search of greener pastures can be curtailed. Therefore, the SMES has gone a long way in employment generation to the rural dwellers and in turn discouraged them, especially the youths, from migrating to the urban centers in search of jobs.

4. **Establishment of Appropriate Interface with Large Scale Enterprises:** SMEs interface with various sectors of the economy for accelerated economic growth, they also constitute the market for agricultural extractive and industrial outputs. They also provide readily available sources of raw materials and labor inputs for large scale production (Onuoha;2008)

5. **Aid to Industrialization:** small and medium scale enterprises aids industrialization by ensuring the supply of raw materials, high-quality part and components of equipment required by factories for production (Akinyode;2004). He further added that the establishment and growth of SMEs into large factories accelerates the pace of industrialization. Having this in place industrial diversification is guaranteed.

6. **Promotion of Competition:** small and medium scale enterprises encourage healthy competition which is fundamental to growth of any economy. Therefore, the issue of monopoly is reasonably minimized in the society (Sanusi;2003) this could be traced in production of sachet and bottled water which has defied the menace of monopoly in Nigeria, where producer compete with each other.

7. **Utilization of Local Resources:** Small and medium scale enterprises are known for their utilization of indigenous raw materials, they often concentrate on the utilization of farm produce and other natural resources in their business activities such as food processing, textile weaving, wood work etc.

8. **Provision of Specialize Services:** There are numerous specialize services most large firms

cannot undertake, services such as dry-cleaning, hair dressing and barbing, tailoring etc. are usually provided by small and medium scale enterprises to their customers in their immediate environment

9. **Poverty Alleviation:** SMEs contribute to alleviation of poverty among the populace. Cook and Nixon (2001) concluded that the development of SMEs is purely an attempt towards the achievement of wider economic and socio-economic objectives including poverty alleviation. Since they are those types of business that can be easily established with little capital and skill people with meager income and those without any skill or capital can secure a means of livelihood, thereby eradicating poverty.

Roles of Local Governments in the growth and development of Small and Medium Scale Enterprises

The contribution of Small and Medium Scale Enterprises to the growth and development of Nigeria cannot be over-emphasized. Small and medium scale enterprises have contributed enormously to the economic growth and development in Nigeria. However, to fully tap to the benefits optimally from the operations of small and medium scale enterprise at aimed at achieving economic growth, poverty alleviation and unemployment reduction among people, it is imperative for government at all levels to render financial assistance, infrastructural facilities, vocational training as well as favorable tax regime most be provided. In view of all the forgoing Local Governments as the third tier of government that are closer to the rural populace and inhabiting people that are vulnerable to poverty have to play the following roles to ensure the growth and development of small and medium scale enterprises it in light of this Jeo M.L. Moose F.S.; (2023) and other scholars identify the following roles to be performed by Local Governments in ensuring the growth and promotion of Small and Medium Scale Enterprises as follows:

1. **Supporting small and medium enterprises for Job Creation:** How to Be Informed: Local governments need to develop action-plans with ministries and agencies like ministry of youth, sports and child development that systematically mobilize multisectoral engagement sectors in demonstrating how local government can effectively address the issues of youth employment and empowerment in their respective locality. These collaborations will provide jobs and enable young men and women in the country to thrive. To quickly implement this agenda, through the integration of local governments with some relevant government agencies, financial institutions and other stakeholders to support SMEs which can absorb labour for the rising population. Pointing to the major impact of SMEs on Nigerian economy, preliminary figures from a study carried out by the Federal Office of Statistics showed that 97 percent of all businesses in Nigeria are small businesses and employing over 70 percent of working Nigerians. The sector was also said to account for an average of 50 per cent of Nigeria’s employment and 50 per cent to total industrial output in fact, there seems to be general agreement that the growth of small and medium enterprises as SMEs in Nigeria is an integral part of a robust and diversified economy is to develop (Mahmoud 2000).

2. **Agricultural Support:** Agriculture is a viable source of raw material to agro-allied industry, therefore, local government should various Agriculture Development Project, to teach famers, give them extension service and financial incentives to boost productivity and make the nation self-sufficient in food and became a veritable instrument for the supply of raw materials to agro-allied industries that depend on agriculture.

3. **Financial Assistance:** Small and medium-scale enterprises are expected to facilitate economic growth towards general economic growth and development particularly in the rural sector. Nigerian government in collaboration with the different states of the federation had, in the past devised policies and incentives for the development and promotion of SMEs. Such efforts according to Adebusuyi; (2001) as cited by could be categorized into three namely: incentives (fiscal and export), tariff regimes and tax relief for SMEs during their first operation to six years and other similar incentives. Therefore, local government needs to collaborate with all stakeholders to woo financial assistance to SMEs and also its personal efforts is highly required.

4. **Infrastructural and Resource Support:** Another area in which local government could play role in the development and promotion of SMEs is the provision of infrastructural and resource support such as providing business premises, infrastructure and improving access to capital.

5. **Capacity Building:** Also, Local Government could support SMEs through giving them the required capacity building by engaging them in skills training for SMEs owners e.g. in agriculture, construction and reduces reliance on large

enterprises. The acquisition of practical and applied skills as well as business education should be taken into consideration by the local governments in order to exert a positive impact on the economy. The various economic activities of SMEs have constituted a veritable instrument for national building and economic growth in Nigeria and the world over.

Methodology

In the process of writing that led to the production of this paper, the researchers primarily relied on existing resources and publications related to the subject. Conclusions, as well as recommendations, were drawn from examining the most salient issues reported in the literature. The reason for this approach was dictated by the limited time available for completing the task. As such, using questionnaires would have required engaging a large audience of small and medium-sized enterprises, relevant government agencies, commercial banks, and other stakeholders nationwide. However, examining the works of other researchers offers a more comprehensive understanding of the subject and helps formulate appropriate conclusions and recommendations.

Conclusion

There is no doubt that Small and Medium Scale Enterprises (SMEs) play a leading role in the economic development of the nation. However, there are a lot of efforts that need to be made in order to fully utilize the potential of the SMEs. Such efforts require the closest attention from the governments at all levels, local governments in particular, since they are the ones who work directly with the poor and vulnerable populations. There have been multiple policies which were intended to address the needs of SMEs but have not yielded the expected results because of the inadequate and inconsistent funding of the government's schemes and various administrative hurdles. These issues have made it impossible for existing and potential SME owners to benefit from the funds allocated to the development of their business. The banks that are supposed to support the government in addressing the issues often require significant collateral which most of the borrowers do not have. Even if potential borrowers are able to satisfy the requirements of the banks, rising interest rates can compel them to remain indebted for an extremely long time. Therefore, SMEs in Nigeria may continue to face a lot of problems if the government and banks do not show a higher degree of commitment to the implementation of the available schemes and consistent funding.

Recommendations

Based on review of related literature and findings of this paper, the following recommendations are hereby put forward for the Local government administrators to enhance the development of Small and Medium Scale Enterprises in their locality

1. The Local Governments should initiate policies and schemes peculiar to their environment and develop holistic approach to them in order to promote SMEs;
2. The Local governments should jointly in collaboration with CBN and other financial institutions should sensitize entrepreneurs extensively on the operation of banks on SMEs;
3. The local governments and ministry for Local Government and line ministries should help in creating opportunities to access information and guidance, as an efficient method to develop technology-based SMEs,
4. All administrative bureaucracy which makes funds accessible to SMEs operators should be mitigated
5. The Local Government should help the operators and prospective operators of SMEs access to finances; the Local Government should annually provide funds in their annual budget to finance especially Nano and Small enterprises this will lead to the establishment of SMEs and make possible expansion of existing ones;
6. To create capacity building and skills Local Government should ensure that more skill training centers are built and adequately equip to improve skills and enhance productivity in the economy;
7. The local Governments should stand between prospective entrepreneurs and financial institutions to serve as guarantors for loans to Small and Medium Enterprises that requires heavy capital investment
8. The Local Governments should liaise with other governments to ensure a lasting solution to infrastructural deficit, especially electricity;
9. To make agriculture and business doable in their domains, the Local Government should put efforts into the security situation to improve it;
10. The local Government and the line ministries and operators of SMEs should be strengthened by having SMEs conference session from time-to-time review matters of business enterprises in the Local Governments
11. The Local Governments, should make a survey and documents various business undertakings for prospective entrepreneurs that may find it difficult to choose a line business such as meat retailing,

restaurants (Buka) service, backyard poultry, Nursery for children, charcoal making, carwash, tailoring, bricklaying, plumbing rearing day-old chick to three or four weeks etc.

12. Finally, the attention of the Local Governments should aimed at rural communities to top the list rather than the already semi developed urban centers, so as to discourage rural-urban migration.

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