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THE IMPACT OF INVESTMENT CLIMATE REFORMS ON THE DEVELOPMENT OF SMALL AND MEDIUM SIZED ENTERPRISES IN NIGERIA: A POLICY BRIEF

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ABSTRACT

Due to the relevance of SMEs in the economy of the African continent, it is relevant to re-evaluate how best to apply financial and non-financial resources to the sector, to achieve its full potentials. The investment climate and business environment within which SMEs operate are very important indices in measuring their status. This survey has examined them in Lagos, Abuja and Port Harcourt, Nigeria.Huge potentials exist in each of the states in regards to the contributions of SMEs to their local economies. However, due to political instability, ethnic crises, crime and corruption, the status of SMEs in Nigeria is still at the primary stage. Large amounts of resources have been spent from own-country finances, and foreign aids. But ineffective programming and inefficient implementation of policies by national, state and Local Area Government agencies have left the investment in the firms without much profit.Current polices for SMEs provide financial, technical and logistic supports. However, these policies are only well-documented than acted upon. In some instances where government officials implement any policy, they are not directed to the small investors, but to the big ones and in some cases, such implementations are done on relationship basis. This practice succeeds in Nigeria because of corrupt legal systems and the refusal of SME operators to register and participate in the activities of unions and government agencies. Though there is a risk of undue interference by the officials of these bodies, but the progress of the firms hinges basically on structured and equitable distribution of available supports. Stand alone firms do not maximize the access to government supports. When every SME registers with and attends meetings of unions and government agencies that offer necessary services to it, such businesses will be well coordinated, operators will access available support facilities and there will be internal synergy within SMEs groups through knowledge sharing and mutual logistic support. Further, corrupt government officials will be constrained in executing such practices. This is because a union of SMEs will have a voice which can be heard and respected.

Keywords: SMEs, Policies and investment climate

1. INTRODUCTION

Small and Medium Enterprises (SMEs) account for over 90% of business outfits in Nigeria. This reflects also in about a half of output and export shares of the country. However, many of the firms in the country are still in the primary stage of development. When managed effectively and efficiently, SMEs will serve as the pivot of economic growth in Africa. This is because; they have the potentials for job creation, income generation, sharing of technological know-how and poverty reduction. Perhaps due to other national income sources like oil and water, most states of Nigeria have over the last three decades, gradually neglected the SMEs sector. This neglect has reflected in arithmetic economic growth statistics, increase in structural unemployment and deepening of poverty levels in the country. Examples around show that SMEs have played significant roles in the economies of OECD and APEC countries. The issue is not whether there are SMEs in Nigeria, rather, there is need to evaluate how own-country investment policies and reforms have impacted the progress of SMEs in the three states under review.

SMEs are flexible and thus, respond quickly to evolving economic changes. They use more labor than capital intensive; hence, they attract lower capital cost in job creation. Lagos, Abuja and Port Harcourt are characteristically similar, particularly as it concerns the operation of SMEs. While geographical differences cannot be denied and aside from state-own initiatives, the policy structure and the business climate of SMEs are central to the Nigerian state. This will aid in policy construction to address the issue of improving the private sector in Nigeria. The basis for comparison and policy integration was applied by surveying Abuja, the administrative capital of the Nigeria, Lagos, the economic capital of Nigeria, which provided business concentration and Port Harcourt an oil rich state. This survey encapsulates the investment climate in each region, which is driven by local and national investment reforms. In all, a favorable investment climate will encourage private participation, which will reflect increase taxes, which will be used to cater for the welfare of the poor.

1.1. Statement of the Problem

Nigeria has enjoyed huge and varying financing progress towards its SMEs development. There are the external sources [Overseas Development Assistance (ODA), Foreign Direct Investment (FDI) and foreign trade income]. The domestic sources are made up of private sector savings, government sources etc. In the country, the external sources are preferable to the domestic. This reflects in inadequate improvement of the SMEs to drive the private sector. Deriving from the above, there is a wide gap between the SMEs programs/policies and the development status of the firms, because there is no intentional and consistent plans and programmes for them

1.2. Statement of the interest of Light Africa

The ICBE program is a research fund established in 2006, by Trust Africa and International Development Research Centre (IDRC). Deriving from its general goals, the program seeks to use research results to improve the investment climate and business environment in Africa. The achievement of this will enable the private sector operators in the continent to create jobs, alleviate poverty and enhance the national economic growth.

1.3. Objectives of the Survey

- Comparative review of investment policies, investment promotion initiatives and facilitation in Nigeria and to identify the extent to which these policies promote or hinder the development of SMEs in Lagos, Abuja and Port Harcourt.
- Survey SMEs operators on their awareness and perception of effectiveness of government policies for SMEs in the three states.
- Construct policy options and recommendations to improve policy formulation, to create investment reforms, so as to achieve the country-own objectives of SMEs.

1.4. Elements of the Survey

These are the processes and outcomes that were used in the survey to arrive at the needed response to the objectives. Literature review and primary data collection were adopted. The literature covered journals, reports and government publications on SMEs programs and policies in the study countries. A total of 400 questionnaires were administered and returned:

Nigeria: Lagos = 200
Abuja = 100
Port Harcourt = 100

The survey sought to establish the relationship between operation of SMEs in different regions of Nigeria and the implementation of government programs and policies for it.

1.5. Status of Current Policies in Nigeria

The Nigerian government has a handful of policies and programs that have shaped the landscape of SMEs in the country. After the poor agric-economy of the 1970s, Nigerian economy became an oil-dominated economy. During these years, the country applied poor economic management practices, such as inappropriate infrastructural projects, with unrealisable rate of return and high cost implications; protectionism and government controls. These created a poor manufacturing sector. Thus, the fall of oil prices in the first half of 1980s caught the national economic managers napping.

Measures of austerity were introduced from 1982, such as the Stabilization Policy and later, the Structural Adjustment Program (SAP) of 1986 (Oladeji, 1998) and (Osalor, 2011)Since then, different forms of policies and programs have been planned and implemented in an effort to develop the private sector and hence, improve the SMEs operation and their contributions to the GDP. (Akogu, 2003).

- The Small and Medium Enterprises Development Agency of Nigeria [SMEDAN] was established in 2003. It was designed to create a structured and efficient Micro, Small and Medium Enterprises (MSME). In the long run, it was to lead to the development of the national economy, through job creation, income generation and poverty reduction. (SMEDAN, 2007). Its main functions are provision of information on raw materials, machinery, equipment, market and the activities of other agencies such as Standards Organization of Nigeria (SON), National Agency for Food and Drug Administration and Control (NAFDAC), Corporate Affairs Commission (CAC) and Federal Inland Revenue Service (FIRS). (SMEDAN, 2010).

It also provided training and capacity building in book keeping and accounts management, business plans, quality control and computer appreciation.

The Small and Medium Industry Equity Investment Scheme [SMIEIS]was formed by the Bankers' Committee in 2001. From the start, the scheme was established to promote Small and Medium Industries [SMIs]. So as to impact on rapid industrialization, sustainable economic development, poverty alleviation and employment generation. In the programme, all banks in Nigeria were required to set aside 10% of their profit before tax (PBT) for equity investment in Small and Medium Scale Industries. Mainly, the fund so generated was used among other things to assist the establishment of new, viable SMI projects, thereby stimulating economic growth, development of local technology, promote indigenous entrepreneurship and generate employment. The fund was used for SMEs in the real sector of the economy, such as agro-allied, information technology and telecommunication, manufacturing, educational establishments, services (directly related to production in the real sector or to enhance production), tourism and leisure, solid minerals, construction, and any other activity as may be determined from time to time by the Bankers Committee. The stakeholders of the scheme are: the Nigerian Government, Central Bank of Nigeria (CBN), Bankers Committee and the individual banks. Some of the qualifications to benefit from the scheme are: excluding land and working capital, a maximum asset base of N 200 million, a range of 10 – 300 employees, and the SME must be registered with CAC.

In 1995, the NIPC (The Nigerian Investment Promotion Commission) was established. This was done under Act N0. 16. It was established to promote, co-ordinate and monitor all investments in Nigeria. The commission has a perpetual succession and a common seal. This means that the NIPC has a continual existence of corporate identity. Specifically, the NIPC was established among other things, to: Co-ordinate, monitor, encourage and provide necessary assistance and guidance for the establishment and operation of enterprises in Nigeria; Initiate and support measures which shall enhance the investment climate in Nigeria for both Nigerian and non-Nigerian investors; Promote investments in and outside Nigeria through effective promotional means; Collect, collate, analyze and disseminate information about investment opportunities and sources of investment capital and advise on request, the availability, chance or suitability of partners in joint-venture projects; Register and keep records of all enterprises to which the NIPC Act legislation applies; Identify specific projects and invite interested investors for participation in those projects; Initiate, organize and participate in promotional activities such as exhibitions, conferences and seminars for the stimulation of investments; Maintain liaison between investors and Ministries, government departments and agencies, institutional lenders and other authorities concerned with investments; Provide and disseminate up-to-date information on incentives available to investors; Assist incoming and existing investors by providing support services; Evaluate the impact of the Commission on investment in Nigeria and recommend appropriate remedies and additional incentives; Advise the Federal Government on policy matters, including fiscal measures designed to promote the industrialization of Nigeria or the general development of the economy; and Perform such other functions as are supplementary or incidental to the attainment of the objectives of NIPC Act.

The NIPC has many departments, such as the One Stop Investment Centre [OSIC], investment promotion, investor relations, human resources development etc. Arguably, the most important of all the departments is the investment promotion. Its functions, investment generation and image building are the core functions of the agency.

Micro Finance Institutions [MFBs] metamorphosed from community banks in the 1990s to promote national economy growth, through the financing of SMEs and other functions. (Adeleye, 2009). Many reasons are available for the establishment of the MFBs. Some of them are: weak institutional capacity and capital base of the then community banks, existence of huge un-served market, utilization of SMEEIS fund, to increase savings opportunities for low income earners and to empower the poor economically. MFBs were established to be private sector-driven. They were supposed to be well-capitalized, technically sound and oriented towards lending. Two categories of MFBs exist.

- Licensed to operate as a unit: this was to operate as a community bank. With a minimum paid up capital of ₦ 20.0 Million.
- Licensed to operate in a state: within a state and its Local Government Areas. It has minimum paid-up capital of ₦ 1.0 billion. (CBN, 2005).

The third type is licensed to operate nationally. This was in expectation of the growth of MFBs. The banks were designed to serve the financial needs of rural areas. Thus the licensing of any of the banks was based on its intentional spread within its area of establishment. However, the MFBs were planned to have an organic growth path. Such that the unit one may open branches within its community of operation and the licensed to operate in a state can open branches in other states, provided that they have established branches in at least $\dot{2}\frac{1}{3}$ of the LGAs of its current state of establishment.

The specific objectives of MFBs centered around making available financial services to many Nigerians, who need them, connecting the informal sub-sector to the national financial system and enhancing service delivery to SMEs. The policy outlook of the banks was to make available financial services to many Nigerians, connect the informal sub-sector to the national financial system and enhance service delivery to SMEs so as to transform the rural areas. The targets centered on the creation of jobs so as to reduce poverty, to eliminate gender inequality by improving women's access to financial services by 5% per annum.

For all the national SMEs agencies discussed above, there are state branches or implementations, from which Lagos, Abuja and Port Harcourt were never exempted, though at differing rates. Lagos is the fastest growing megacity in the world, it expands at more than 5% per annum and the state accounts for over 60% of total investments in Nigeria. However, on its own, Lagos state has made efforts to support and thus, create an enabling environment for SMEs in the region. Lagos state established 102 agencies and between 2008 and 2009, the state had spent over 20 billion naira on capital development, to aid SMEs operations and performance. The state has also established Fiscal incentives and protective fiscal policies, favorable tariff structure exemption and preferential treatment in excise duties, establishment of export processing zones, reservation of items for the sole manufacture of SMEs sub-sector. The state government has established the following infrastructure: Marina city project; Lekki/bar beach tourism complex; 4th mainland bridge and coastal road; Intercity road arteries and Water Works and water distribution lines. Power supply is a major obstacle to SMEs in the state; as a result, Lagos state has introduced the Emergency Power Promotion [EPP] and has encouraged the PPP platform in power generation. In the state, Biomass and Biogas schemes have been established to use domestic and industrial waste products. The state has introduced state rail mass transit and mini-industrial cluster.

The Lagos state government have since 2010, established numerous agencies to among other functions, support the SMEs business. Some of the are: Lagos State Metropolitan Area Transport Authority (LAMATA); Lagos State Signage and Advertising Agency (LASAA); Lagos State Infrastructural Maintenance and Regulatory Agency; Lagos Infrastructure Improvement Programme; Public Private Partnership; Lagos State Technical and Vocational Agency; Office of the Public Defender; Citizen Mediation Centre; Lagos State Market Development Board; Lagos State Waterfront and Tourism Development Corporation and Lagos State Industrial Development Company. Others are Lagos State Ferry Services; Lagos State Planning and Environmental Monitoring Authority (LASPEMA); Lagos State Electricity Board; Lagos State Environmental Protection Agency; Lagos State Agricultural; Development Authority; Lagos State Agricultural Input Supply Authority; Urban Renewal Board; Women Development Centre

(WDC); Agricultural Land Holding Authority; Management Services and Reform Office and Lagos State Central Business Office (Ministry of Economic Planning and Budget, 2010). These areas of support include finance, infrastructure, land, legal, transport, power, environment, etc.

Abuja enterprises agency (AEA) was established to stimulate growth in the capital city. So as to generate employment create wealth and reduce poverty. The agency is a joint initiative of the Federal Capital Territory Administration (FCTA), SMEDAN, and Department for International Development (DFID), United Kingdom. AEA serve prospective and existing cottage SMSE in the FCT. The agency provides services in entrepreneurial skills acquisition and development, financial support, business information and advisory services and outreach services.

1.6. Critique of the Current Policies

Generally, SMEs programs and policies in Nigeria have records of poor implementation experience. While reasons for this may differ from region to region, top-down approach to planning and implementation of such programs, political instability and ethnic crises are encumbrances.

The policy, outlooks, targets and objectives of the Micro finance banks (MFBs) were good, but the structure of ownership was such that the rich hijacked the ownership of the banks. Thus, instead of granting loans to the poor applicants, the banks engaged in relationship lending. (Berger and Udell 2002). Institutional bureaucracies were introduced in the process, which practically exempted the poor for whom the MFBs were established. As a result, some measures have been put in place to check the operations of the banks in line with laid down policies and objectives. Some of them are the establishment of National Microfinance Consultative Committee (NMFCC), off and on site supervisions, and Credit Reference Bureau, to provide data on microfinance clients.

The SMEIS is a laudable one. However, most participating banks were more interested in grants to big companies than SMEs. Such banks claim that MSEs cannot meet with their requirements for loans. Also, most of the banks concentrated on Lagos, thus most of the agency loans were granted to SMEs that were based in Lagos state. This practice impoverished other SMEs outside the region. This has led to the establishment of the SME Manager Limited (SML). It is an independent funds manager, which plays investment advisory roles to SMEs. The company is established by African Capital Alliance (ACA) to promote SME sector-led investments in Nigeria by making equity investments in Nigerian SMEs.

Though SMEDAN is an umbrella agency in Nigeria for SMEs, yet its impact has not been felt much. One main reason is that though the agency has Business Support Centers, these centers depend heavily on the head to make decisions. This is because practically all the programs are organized form head office. Thus the network of state centers is not effective. This lack of adequate authorization for the centers is an outgrowth of corruption, from the head office to the centers and vice versa. The educational status of SMEs operators makes it difficult to meet with

SMEDAN requirements such as business registration with CAC, development of business plans and feasibility studies. As a result of these, most of the SMEs are unable to qualify for SMEDAN-supported loans.

Policy Options

a. **Local policy options:**

- ➢ Increased number of SMEs that operate business beyond 10 years and growing require funding, training and monitoring of the progress of the business. Many operators in Nigeria have the tendency of insolvency due to poor management style.
- ✓ **Advantages**: business operators will become accountable and thus attain slandered business life and management system
- ✓ Number of years of operation of business in Africa will increase from its present 0-10 years to more than 20 years
- ✓ **Disadvantage**: government agencies that provide funds and training may interfere in the decision-making process
- ➢ The maximization of the agricultural sector participation presupposes the need for infrastructural and technical support to the sub-sector
- ✓ **Advantages**: increase in own-food consumption
- ✓ Creation of export product possibility
- ✓ **Disadvantage**: possible neglect of other sectors
- ➢ The establishment of partnerships and private companies is relevant. This is a departure from the dominance of sole proprietorship. It calls for a re-orientation of SMEs operators, to engage in multidisciplinary production processes.
- ✓ **Advantages**: Synergy of ideas, finance and materials
- ✓ Eligibility/application for large loans from banks
- ✓ Ease of going public.
- ✓ **Disadvantages:** in-fighting may occur, which may result from mismanagement of diversity of personalities and ideas
- ✓ Dominance of an outstanding member.
- ➢ Gender inequality in favour of male employees need the establishment of female- owned SMEs. Hopefully, female operators will be favourably disposed to employ more females.
- ✓ **Advantages**: women empowerment in the operation of SMEs in Nigeria
- ✓ An economic goal in favour of women liberation
- ✓ **Disadvantage**: women may not take the opportunity or if they do, they may not maximize it.
- ➢ Increased production strategies necessitate the use of computers, internet, phones and faxes in daily work. Employees will become skilled and thus innovate on the job process.

- ✓ **Advantages**: Mass production to serve the large and increasing population of the country.
- ✓ Specialization, which will improve task performance of each employee.
- ✓ **Disadvantage**: possibility of a capital-labour trap.
- ✓ High cost of production due to regular power outages.
- ➢ Proper dissemination and promotion of SMEs' programs is apparent. It will impact favorably on the belongingness of SMEs operators to unions and agencies. These bodies serve as connections between the operators and government programs/agencies.
- ✓ Advantages: More access to available support from government agencies and investment information.
- ✓ Connectivity of SMEs operators and within- group strengthening.
- ✓ **Disadvantage**: infiltration of government agency operators into the operation of SMEs.

b. International policy options

- ➢ Local supplies sources provide a domestic opportunity to create international market. This will create an acid-test for products of SMEs in Nigeria to compare with foreign ones.
- ✓ **Advantages**: expanded market beyond the borders of the continent
- ✓ Product-Standard Watch **(PSW)**, so as to sustain foreign consumers and attract domestic ones
- ✓ **Disadvantage**: creation of price-war which may cripple the relevant SMEs in Africa.
- ➢ When SMEs in Nigeria use International supplies, it vitiates the harnessing of local resources. Idle domestic resources imply loss of foreign exchange in the region.
- ✓ **Advantages**: opportunity to harness country-own natural resources
- ✓ Local capacity development and home-grown technological know-how
- ✓ **Disadvantage**: discourages foreign interest and investment in the Nigeria state.
- ➢ Reduction of poverty and hunger is a function of peace and security. Presence of violence in a region reduces economic progress. Violence-Business Swap **(VBS)** will create a new business community out of a state where local social violence has existed for more than a year. Tribal wars never come to an end. The evacuation of the warring tribes and invitation of the international business community to inhabit the land will establish non-tribal neighbors. The war will end and business will thrive.
- ✓ **Advantages**: the end of few intertribal wars in Nigeria and the creation of a unique business community
- ✓ Discouragement of intending communal wars
- ✓ **Disadvantage**: creation of spotted environmental skirmishes around the new business community.

- ➢ The full potential harnessing of local natural resources requires exchange of technological ideas. Unitary Technology Transfer (UTT) allows foreign technology owners to invest in local natural resources on a Build Operate and Transfer (BOT) basis. Local owners of resources understudy the technology and operate it at the end of the BOT.
- ✓ **Advantages**: harnessing of idle natural resources in Nigeria
- ✓ Identification and exploitation of new useful natural resources
- ✓ Creation of local employment and income generation
- ✓ **Disadvantage**: inability of local natural resources owners to understand, operate and maintain the transferred technology, without technical demands from the foreign counterpart.
- ✓ Intentional complicated transfer of the technology by the foreign technology owner

1.7. Policy Recommendations

There is an evident apathy among many SMEs in Nigeria on the issue of belonging to unions and government agencies. Though there is a risk of undue interference by the officials of these bodies, but the progress of the firms hinges basically on structured and equitable distribution of available supports. Stand alone firms do not maximize the access to government supports. When every SME registers with and attends meetings of unions and government agencies that offer necessary services to it, such businesses will be well coordinated, operators will access available support facilities and there will be internal synergy within SMEs groups through knowledge sharing. Further, corrupt government officials will be constrained in executing such practices. This is because a union of SMEs will have a voice which can be heard and respected.

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