In both developed and developing economies, there are evidences of the immense contributions of MSMEs to economic growth and development. Small enterprises are known to adapt with greater ease under difficult and changing circumstances because they are typically low in capital intensity and allow product lines and inputs to be changed at relatively low cost. With the collapse of the world oil market and the ensuing economic downturn in Nigeria, refocusing attention on the MSMEs will help reduce unemployment, create wealth and alleviate poverty. Hence, this paper set out to profile the structure of MSMEs in Nigeria, examine their firm characteristics, financing and operations and constraints with a view to proffering suggestions on how to use MSMEs as a strategy for economic development in Nigeria in the face of the current economic downturn. Results of the survey conducted indicated that MSMEs dominate Nigeria's economic landscape as 53.5 per cent of the respondents were in the micro-enterprise category, 29.6 per cent in the small-scale category, 14.1 per cent in the medium-enterprise category and only 2.8 per cent in the large scale category. Capacity utilization rate was highest for MSMEs in the agriculture/agro-processing sector at 70.2 per-cent compared with 55.4 per cent for those in the manufacturing sector. Inadequate fund/working capital was the most mentioned problem by the MSMEs. It was therefore, recommended that credit programmes that will take cognisance of the peculiarities of MSMEs in Nigeria be intensified so as to increase their access to funds in view of their dominance and potential contribution to the growth of the economy.

Keywords: Micro, Small and Medium Enterprises, Structure, Constraints, Economic Growth.
STRUCTURE AND CONSTRAINTS OF MICRO, SMALL AND MEDIUM SCALE ENTERPRISES (MSMEs) IN NIGERIA

1. INTRODUCTION

Micro, small and medium enterprises (MSMEs) are economic units whose number of employees or turnover falls below certain limits. The definition of MSMEs, change over time and depend, to a large extent, on a country’s level of development. Thus, what is considered small in a developed country like the USA could actually be classified as large in a developing country like Nigeria. However, the definition of MSMEs in Nigeria as contained in the National Policy on Micro, Small and Medium Enterprises produced by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2007, is adopted in this paper because it is in line with the definition in other developing countries like Indonesia (Timberg, 2000) and Ghana (Elijah and Nsikak, 2011) as well as in the European Union (EU) (European Commission, 2007).

Table 1: CLASSIFICATION OF MSMEs IN NIGERIA

<table>
<thead>
<tr>
<th>Size Category</th>
<th>Employment</th>
<th>Assets (excluding land and buildings) (in Naira)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Micro enterprises</td>
<td>Less than 10</td>
<td>Less than ₦5 million</td>
</tr>
<tr>
<td>2. Small enterprises</td>
<td>10 -49</td>
<td>5 to less than ₦50 million</td>
</tr>
<tr>
<td>3. Medium enterprises</td>
<td>50 -199</td>
<td>50 to less than ₦500 million</td>
</tr>
</tbody>
</table>


The National Policy document states that where there is a conflict in classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (₦7m) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro (SMEDAN, 2007). This is because employment-based classification tends to be a relatively more stable definition, given that inflationary pressures may compromise the asset-based definition.
2. ROLE OF MSMEs IN ECONOMIC DEVELOPMENT

The economic downturn that followed the collapse of the world oil market in the 1980s and the financial crisis in Asia in the 1990s brought to the fore the important role of MSMEs in the industrial and economic development of countries. Small enterprises are known to adapt with greater ease under difficult and changing circumstances because they are typically low in capital intensity and allow product lines and inputs to be changed at relatively low cost. They also retain a competitive advantage over large enterprises by serving dispersed local markets and produce various goods with low scale economies for niche markets (Olorunshola, 2003). In furtherance of this, MSMEs in Nigeria have expanded, following the adoption of the Structural Adjustment Programme (SAP), to fill the supply gap in industrial consumer goods created by the difficulties faced by large scale firms which could not easily adapt to the policy changes of SAP (Adebusuyi, 1997). Similarly, in Indonesia, their contribution to the country’s GNP grew during the period of the monetary crisis as opposed to that of large scale enterprises which were more affected by the crisis (Timberg, 2000).

The flexibility, adaptability and regenerative tendencies of MSMEs have made the sub-sector a pivotal focus for the industrial development of many countries, particularly the developing ones (Raji, 2000). According to Sule (1986), they provide an effective means of stimulating indigenous entrepreneurship, create greater employment opportunities per unit of capital invested, and aid the development of local technology. Through their wide dispersal, they provide an effective means of mitigating rural-urban migration and resource utilization. By producing intermediate products for use in large-scale enterprises, they contribute to the strengthening of inter-industrial linkages.

In Nigeria, from 1986 when the Structural Adjustment Programme (SAP) was launched, there has been a decisive switch of emphasis from the grandiose, capital intensive large scale agricultural and industrial projects to MSMEs. This is because of their potentials for ensuring a self-reliant industrialization in terms of the ability to rely largely on local raw materials and their employment generation capacity (Sule, 1986; Inang and Ukpong, 1993; Essien, 2001; Central Bank of Nigeria/Nigerian Institute for Social and Economic Research (CBN/NISER), 2004). In both developed and developing economies, there are evidences of the immense contributions of MSMEs.

In the Organization for Economic Cooperation and Development (OECD) economies, MSMEs account for over 95 per cent of firms, 60-70 per cent of employment, and 55 per cent
of gross domestic product (GDP). They also generate the lion’s share of new jobs. In developing countries, more than 90 per cent of all firms outside the agricultural sector are MSMEs, generating a significant portion of GDP. For example, in Morocco, 93 per cent of industrial firms are MSMEs and account for 38 per cent of production, 33 per cent of investment, 30 per cent of exports and 46 per cent of employment. In Bangladesh, enterprises of less than 100 employees account for 99 per cent of firms and 58 per cent of employment. Similarly, in Ecuador, 99 per cent of all private companies have less than 50 employees and account for 55 per cent of employment (WBCSD, 2004). In Indonesia, SMEs account for 98 per cent of her enterprises and over 60 per cent of her Gross National Product (GNP) (Timberg, 2000). Not all these MSMEs are in the formal sector; some occupy the unofficial labour market, which varies in size from an estimated 4-6 per cent in developed countries to over 50 per cent in developing nations (WBCSD, 2004).

By global standards, large enterprises are very few in Nigeria. Peasant agriculture predominates, accounting for about 95 per cent of total agricultural output in Nigeria and employment in the sector (Research Dept., CBN, 2000), while the agricultural sector has been the mainstay of the Nigerian economy and currently accounts for 22.90 per cent of the country’s Gross Domestic Product (NBS, 2015). It is also estimated that non-farm MSMEs account for over 25 per cent of total employment and 20 per cent of GDP in Nigeria (SMEDAN, 2007). Empirical evidence shows that MSMEs dominate the industrial sector in Nigeria, accounting for about 70 per cent of industrial employment and 10 – 15 per cent of manufacturing output (CBN 2000). In addition, the number of persons employed by MSMEs over the years has generally risen (CBN, 2004). Available information confirms that informal manufacturing enterprises are dominated by small-size operators in the country, in terms of number of people employed with percentage distribution ranging between 92 and 98 across activity sectors. Furthermore, the contribution of the entire informal sector (agriculture sector inclusive) to the GDP was put at 38.7 per cent (Central Bank of Nigeria/Federal Office of Statistics/Nigerian Institute for Social and Economic Research (CBN/FOS/NISER), 2001). They have been very prominent in the manufacture of bakery products, leather products, furniture, textiles and products required for the construction industry.

MSMEs can play bigger roles in developing national economies, alleviating poverty, participating in the global economy and partnering with larger corporations. They do, however, need to be promoted. Such support requires commitments by and between governments, business and civil society (CBN, 1981; National Association for Small and
Medium Enterprises (NASME), 2003; NISER, 2005; Akinyosoye, 2006; SMEDAN, 2007; Oyelaran-Oyeyinka, 2007; Ojo, 2010). However, MSMEs in Nigeria have not performed like their counterparts in Asia, Latin America and some other African countries (Oyelaran-Oyeyinka, 2007; Ojo, 2010; Elijah and Nsikak, 2011). Hence, the objective of this paper is to determine the constraints limiting the performance of MSMEs in Nigeria with a view to proffering suggestions on how to use MSMEs as a strategy for economic development in Nigeria in the face of the current economic downturn since they are said to dominate the economic landscape in Nigeria like most developing countries. This was effected with the aid of primary data obtained through a survey by administering a questionnaire to MSMEs in the country.

3. METHODOLOGY

With the aid of a structured questionnaire administered between January and March, 2010, primary data were sourced from MSMEs in five of the six geopolitical zones of the country where the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) funds were disbursed being the most recent finance initiative in the country. From inception in 2001 to March 2009 when the participation in SMEEIS was made optional to banks, a total of 333 projects were financed in 24 states and the Federal Capital Territory. Thus, a purposive random sampling technique was used to draw a sample of 100 for the study. The questionnaire was used to gather information on the socio-economic characteristics of MSME operators, firm characteristics, financing and operations of the MSMEs as well as their constraints.

A combination of analytical tools was employed in order to achieve the objective of the study. These include descriptive statistics (measures of central tendency and dispersion, proportional analysis, growth rate and trends, and frequency distribution).

4. STRUCTURE AND CHARACTERISTICS OF MSMEs IN NIGERIA

Results of the survey, revealed the following salient information on the structure and characteristics of MSMEs in Nigeria.

1. Age of respondents: The analysis of the survey returns showed that the ages of the respondents ranged from 24 to 72 years with a mean age of 45 years ± 12.1 years. This shows that the respondents were still in their active age range.
2. Educational qualification: The result of the survey showed that all the respondents were highly literate and had one form of formal education or the other. More than half of them (50.7 per cent) had a first degree and above. This is a positive development as a high literacy rate will impact positively on the operations of the MSMEs (The Urban Institute, 2008).

3. Gender: Most of the operators in the MSME sector were men as they constituted about 80 per cent of the respondents. This has implication for the business climate in Nigeria in view of the fact that women constitute about 50 per cent of Nigeria’s population (CBN Statistical Bulletin, 2006).

4. Type of business enterprise: The result showed that 37.7 per cent of the respondents were engaged in the agriculture/agro-processing sector, 42.9 per cent were in the manufacturing sector, 16.9 per cent were in the services sector, while 2.6 per cent were in the construction sector. This sectored distribution of business enterprises confirms that MSMEs are dominant in the real sector of the Nigerian economy.

5. Size of enterprise: Enterprises were classified into sizes based on the number of employees as contained in the National Policy on MSMEs (SMEDAN, 2007). More than half of the respondents (53.5 per cent) were in the micro-enterprise category (having less than 10 workers). This was followed by those in the small-scale category (29.6 per cent), employing 10 to 49 workers. The medium enterprise category constituted 14.1 per cent (employing 50 to 199 workers). The least were those in the large scale category (2.8 per cent), employing 200 workers and above. This result further validates previous studies that MSMEs dominates Nigeria’s economic landscape (CBN, 2004, SMEDAN, 2007, Ojo, 2010).

6. Years of operation: Among the respondents, young businesses dominate as 37.1 per cent of them started their business in the last five years. This group was followed by those who had been in business for 10 years which constitute 25.7 per cent. Those who had remained in business for 15 years constituted 5.7 per cent, while those who had been in business for 20 and 25 years constituted 10.0 and 11.4 per cent respectively. Those whose businesses were 30 and 35 years old constituted 4.3 and 4.3 per cent respectively while only 1.4 per cent of the respondents had remained in business for over 40 years.

7. Ownership structure/business registration: In terms of legal status, 84.2 per cent of the respondents had their businesses registered with the CAC, while 15.8 per cent of them had not done so. Most importantly, an analysis of the ownership structure by respondents reveals
that 46.6 per cent of the businesses were registered as limited liability companies, while 40 per cent were sole proprietorships. Partnerships constituted 5.3 per cent while cooperatives and public limited liability companies each constituted 4.0 per cent. This implies that only 46.6 per cent of the MSMEs in this survey were qualified to access funds meant for limited liability companies.

8. Sources of finance: An analysis of survey results indicated that 75.7 per cent of the respondents relied mostly on own funds to finance their businesses, while 20.3 per cent relied mostly on banks to finance their operations. About 2.7 per cent of the respondents financed their operations from the share capital, while only 1.3 per cent relied on suppliers’ credit. This survey result confirms the copious literature on the problem of access to credit by MSMEs in Nigeria (Inang and Ukpong, 1993; Essien, 2001; Owualah, 2002; Anyanwu, Adebusuyi and Okafor, 2003; CBN, 2004, Ogujiuba, Ohuche and Adenuga, 2004; Akinyosoye, 2006; Adelaja, 2007; Meludu and Adekoya, 2007; Adamu, 2009).

9. Sources of raw materials: Most of the respondents sourced their raw materials locally (83.1 per cent) while 10.8 per cent of them used imported raw materials. However, a few of them (6.2 per cent) obtained their raw materials from both local and foreign sources. The fact that over 80 per cent of MSMEs raw materials were sourced locally confirms that they promote and contribute immensely to national economic activities through backward and forward linkages (Sule, 1986; Udechukwu, 2003).

10. Capacity utilisation rates: The analyses of the survey returns showed that capacity utilisation rate is highest for MSMEs in the agriculture/agro-processing sector. It averaged 70.2 per cent, while for those in the manufacturing sector it averaged 55.4 per cent. This implies that MSMEs in the agricultural sector are better off in terms of raw materials supply.

11. Disaggregation of Survey Results by Size of Enterprise

In the attempt to give this work a sharper focus the results discussed above were disaggregated by size. Table 2 reveals that respondents in the small scale category had the least mean age of 40 years, while those in the medium scale category had the highest (47 years). Respondents with a first degree and above were more prevalent in the Micro enterprise category (86.5 per cent) and less in the Medium enterprise category. Females were also more prevalent in the Micro enterprise category (30 per cent compared with 15 per cent in the small scale category), and there was no female in the Medium enterprise category.
Table 2: Socio-economic and Firm characteristics of respondents by size of enterprise

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>MICRO ENTERPRISE</th>
<th>SMALL ENTERPRISE</th>
<th>MEDIUM ENTERPRISE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Age of respondent</td>
<td>43 years</td>
<td>40 years</td>
<td>47 years</td>
</tr>
<tr>
<td>Education(percent with 1st degree plus)</td>
<td>86.5 percent</td>
<td>85 percent</td>
<td>80 percent</td>
</tr>
<tr>
<td>Gender(percent)</td>
<td>Male = 70 percent</td>
<td>Male = 85 percent</td>
<td>Male = 100 percent</td>
</tr>
<tr>
<td></td>
<td>Female = 30 percent</td>
<td>Female = 15 percent</td>
<td>Female = 0</td>
</tr>
<tr>
<td>Type of Business(percent share)</td>
<td>Agric. = 26.3 percent</td>
<td>57.1 percent</td>
<td>20 percent</td>
</tr>
<tr>
<td></td>
<td>Manu. = 36.8 percent</td>
<td>42.8 percent</td>
<td>70 percent</td>
</tr>
<tr>
<td></td>
<td>Serv. = 36.8 percent</td>
<td>0</td>
<td>10 percent</td>
</tr>
<tr>
<td>Age of Business Enterprise(1-10yrs)</td>
<td>81 percent</td>
<td>47 percent</td>
<td>50 percent</td>
</tr>
<tr>
<td>Ownership structure (percent registered as Limited Liability)</td>
<td>26 percent</td>
<td>67 percent</td>
<td>90 percent</td>
</tr>
<tr>
<td>Sources of Funds</td>
<td>Own Funds = 95%</td>
<td>40 percent</td>
<td>40 percent</td>
</tr>
<tr>
<td></td>
<td>Bank = 5%</td>
<td>60 percent</td>
<td>60 percent</td>
</tr>
</tbody>
</table>

Source: Survey Returns

More respondents were in the agricultural sector in the small scale category 57.1 per cent compared with 26.3 and 20 per cent in the micro and medium scale category respectively. Those involved in the manufacturing sector dominated the medium scale category (70 per cent). Younger businesses dominated the Micro enterprise sector as 81 per cent of the respondents in this sector started their business in the last ten years compared with 47 and 50 per cent respectively in the small and medium scale categories. In the medium scale category, 90 per cent registered their companies as limited liability companies compared with 66.7 and 26.3 per cent by those in the small and micro enterprise sectors respectively. In the same vein, those in the medium and small scale category had more access to bank finance (60 per cent respectively) compared with 5 per cent by those in the micro enterprise sector.
The analysis above is highly instructive and validates earlier studies that micro enterprises are less likely to access formal credit. This survey result also show that the micro entrepreneurs are more literate and most of their businesses are young, which validates the claim that the micro enterprise sector has become the residual sector, to which fresh graduates are flocking. The small scale category was dominated by agriculture/agro-processing enterprises, which confirms that the agricultural sector in Nigeria is still largely small scale oriented. The medium scale category on the other hand was dominated by manufacturing enterprises and most of them were registered as limited liability companies. Furthermore, they were all owned by men. This confirms the fact that women’s access to capital is very low, as substantial capital is needed to set up manufacturing enterprises.

5. CONSTRAINTS LIMITING THE PERFORMANCE OF MSMES IN NIGERIA

In order to appreciate the problems militating against the effective performance of MSMEs in Nigeria, they were asked to list them in the order of severity in the questionnaire administered to them.

A frequency analysis indicated that inadequate fund/working capital was the most mentioned problem with a percentage share of 60.7 per cent. This therefore means that access to credit is still a major problem militating against the effective performance of MSMEs in Nigeria despite all the funding programmes that have been put in place all over the years. The problem of poor power supply/inadequate infrastructure was also mentioned severally. It took a per cent share of 55.7 percent. This also confirms that the problem of inadequate infrastructure which has been a major issue being focused since the new democratic governance started in Nigeria in 1999 is still with us. Inadequate power supply has been reported as largely responsible for low capacity utilization rates by Manufactureres Association of Nigeria (MAN) while this together with poor road network and other infrastructure has been reported to have been responsible for high overhead cost (MAN, 2008), which ultimately reduce MSMEs operators profit margin.

Unfriendly macroeconomic policy (monetary, fiscal and external sector policies) also rated highly at 26.2 per cent. High cost of raw materials also featured prominently at 21.3 per cent. So was the problem of low demand due to a sluggish economy. MSMEs also complained of problem of high labour turnover/unskilled labour. This may not be unconnected with problem of poor wages as workers will always seek ‘greener pastures’. The problem of lack of modern equipment was also mentioned (8.2 per cent) which may not be
unconnected with the problem of inadequate funding which most of them complained about. Problems caused by natural disasters like flooding, etc, and insecurity also featured.

**Table 3: The major constraints listed by MSMEs in order of severity**

<table>
<thead>
<tr>
<th>Type of Constraint</th>
<th>Percentage share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate fund/working capital</td>
<td>60.7 percent</td>
</tr>
<tr>
<td>Poor power supply/inadequate infrastructure</td>
<td>55.7 percent</td>
</tr>
<tr>
<td>Unfriendly Macroeconomic Policy</td>
<td>26.2 percent</td>
</tr>
<tr>
<td>High Cost of Raw Materials</td>
<td>21.3 percent</td>
</tr>
<tr>
<td>Low Demand</td>
<td>21.3 percent</td>
</tr>
<tr>
<td>High labour Turnover/Unskilled Labour</td>
<td>13.1 percent</td>
</tr>
<tr>
<td>No Modern Equipment</td>
<td>8.2 percent</td>
</tr>
<tr>
<td>Natural Disaster</td>
<td>4.9 percent</td>
</tr>
<tr>
<td>Security Problems</td>
<td>3.3 percent</td>
</tr>
</tbody>
</table>

**Source: Survey Returns**

6. **SUGESTIONS FOR THE SURVIVAL OF MSMEs IN THE FACE OF ECONOMIC DOWNTURN**

There is need to focus on policies that will support MSMEs activities as they have been confirmed as agents of economic development. Improving the performance and sustainability of local entrepreneurs and micro, small and medium enterprises (MSMEs) which represent the backbone of global economic activity can help to achieve economic growth. In this vein, the activities of government institutions focused on MSMEs in Nigeria such as the Small and Medium Enterprises Development Agency of Nigeria, as well as those in the organised private sector such as the Lagos Chambers of Commerce and Industry (LCCI), National Association of Small and Medium Enterprises (NASME), National Association of Small Scale Industries (NASSI), etc. should be encouraged, particularly now that the Nigerian economy is facing a downturn and unemployment rate and poverty index in Nigeria are on the rise. In view of the fact that few women are found in the MSME sector, the above named organisations should encourage more women to be involved in the MSME sector to take advantage of their huge share in Nigerian population and boost the nation’s output and economic well-being.
There is an urgent need to enlighten existing and prospective MSMEs on their role in the economy, on the need to keep good records, as well as other exposures that will enhance their access to and effective use of credit facilities and take advantage of emerging opportunities. Emphasis now is on financing based on value chain and cash flow. It is recommended that SMEDAN should take up this responsibility in collaboration with the CBN and various MSME organisations in the country. Workshops and seminars should be organised for them regularly.

Furthermore, the Action Plan and Institutional Framework for the Implementation of the National Policy on MSMEs in Nigeria should be implemented fully to achieve the laudable goals of the Federal Government in the MSME sector.

Every effort should be made to improve access to credit by MSMEs so that they can play their effective roles of employment generation and wealth creation and move the nation out of poverty. In specific terms, it is recommended that the deposit money banks in Nigeria should increase the proportion of their credit portfolio to the agriculture and manufacturing sectors as these two sectors are dominated by MSMEs. In addition, they should equip their staff with requisite training for effective and efficient MSMEs financing.

All the funding institutions, schemes and funds directed at the MSMEs in Nigeria, such as the Bank of Industry, the Bank of Agriculture, the Agricultural Credit Guarantee Scheme Fund, the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), etc., should be sustained, in order to improve the access of MSMEs to credit as it has been demonstrated that MSMEs access to funding is boosted by specific funds/schemes targeted at them (Evbuomwan, 2014).

The problem of inadequate power supply needs to be urgently tackled as it is really hampering the activities of the MSMEs and impoverishing Nigerians. In addition, the problem of inadequate road network and bad roads as well as improvement in other infrastructures, if addressed, will boost MSMEs activities in Nigeria.

The Central Bank of Nigeria and the Ministry of Finance and other government agencies in charge of Nigeria’s economic management process should intensify efforts to provide conducive macroeconomic environment for MSME operations. The exchange rate, interest rate and inflation rate should be adequately managed to encourage investment in the real sector.
Provision of industrial estates fitted with modern equipment and leased out to MSMEs at subsidised rates in order to substantially increase MSMEs output should be vigorously pursued by the Federal and State Governments now that the oil sector is failing the nation.

MSMEs should appreciate the importance of self discipline in their various dealings. They should be adaptive to business environment which under the current economic dispensation calls for sincerity of purpose. They should be innovative and come up with good quality products for sustainability.

Finally, the time has come for MSMEs to realise that sole proprietorships or over-dominant shareholding is fading out. The capital investment outlay required for many businesses, especially manufacturing concerns, demands joint ownership. The Second-tier Securities Market (SSM) which the government established for the SMEs is being under-utilised with its capabilities and advantages not fully appreciated. Entrepreneurs stand a good chance of moulding their businesses into giant public companies through the SSM from where they can gain a listing on the Nigerian Stock Exchange (NSE) after acquiring proven track record on the SSM for a couple of years.

7. REFERENCES


