Small and Medium Enterprises Investment Vehicles in Nigeria: The Challenges and Prospect

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Authors’ contributions

This work was carried out in collaboration between both authors. Author NJ designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Author GPE edited the entire work and made all the corrections. Both authors read and approved the final manuscript.

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ABSTRACT

This study stands to find out the various investment vehicles in the Small and Medium enterprises (SME) sector in Nigeria. The research also ascertained the challenges confronting investors to invest in the identified investment vehicles in the SME subdivision. The research utilized both interpersonal interview and desk research approach and reviewed related epistles on the phenomenon to provide conceptual evidence. The paper observed that there are numerous investment vehicles in the SME sector that potential and existing investors can benefit from. The viability of the SME subdivision has a great influence on the growth of the overall economy of a nation. The research recommended in line with the evidence from the reviewed papers and the drawn conclusion that, government should provide enabling economic, political and socio-cultural environment to influence investors to invest in the SME sector in Nigeria. Government should reduce the multiple tax options and implement policy that will regulate those imposing unnecessary dues on the SME sector in Nigeria. Government should provide the basic infrastructural needs to enable SME sector to operate effectively in Nigeria. Government should do more to provide security gadgets everywhere in Nigeria to detect the bad gangs, armed robbers, etc. so as to reduce insecurity.

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1. INTRODUCTION

To say that the future economic advancement of any nation including Nigeria lies in the dynamism and expansion of small and medium enterprises (SMEs) is not an overstatement. The report from the International Council for Business 2018, micro, small and medium enterprises accounts for over 90% of all registered business entities in Nigeria [1]. The sector provides for about 84 percent of jobs and contributes about 50 percent of gross domestic product to the nation’s economy [2]. The MSEs are acknowledged globally as a powerful element for socio-economic transformation of any nation; as the sector is positioned strategically to create over 80 percent of employment, increase per capita income, raw material supply, expand export inflow and capacity exploitation through the key industrial sectors; such as manufacturing, building and construction, mining and quarrying, solid minerals, agriculture, etc. and consequently has great link with the overall business activities in the nation [3].

SMEs do not have a generally acceptable definition. The operational definition differs indifferent nations, different industrial sector and among different financial institution. To define a small or a medium scale enterprise, different criteria could be used; the employee number, value of assets, volume of sales, financial potency, number of branches, the relative size and others [4,5,6,7,8,9].

The introduction of National policy on Micro, Small and Medium scale enterprises 2013 in Nigeria to an extent has resolved the issue of what can be described as a micro, small and medium businesses, as the body always look at the set criteria for the period to come up with what constitute a micro, small and medium enterprise [4]. The definition was made based on size, employment strength and assets which excludes land and buildings. Micro enterprises are defined as business whose total assets in working capital, capital, plant and equipment are less than 5 million naira and engaging less than 10 full-time staff. Small enterprises are defined as one whose total assets in equipment, working capital, capital and plant are from 5 million naira to 50 million naira and employing from 10 to 49 full-time workers. While medium enterprise is the category whose total assets in plant, working capital, capital and equipment are between 50 million naira and 100 million naira and engaging between 50 and 199 full-time staff.

The report from the National Policy on Micro, Small and Medium enterprises 2013 indicated on its findings that developing countries with well functioning higher number of micro, small and medium entities do employ more and have desirable level of economic growth compare to their counterparts [4]. Pembi [10] stated that, SMEs are the key drivers and virtually to all economies globally due to their role in employment creation, income generation, resource utilization, poverty reduction, competitivenss of the economy and utilization of technology. This sector is not only a catalyst for growth, productivity, job creation, elevation of poverty and competitiveness of the economy but also a backbone of breeding and creating the floor for domestic entrepreneurial potentials, technological innovativeness, managerial competencies and technical skills for the growth and development of a vibrant and positive economy [11]. SMEs play a centre task in the growth and development process of a nation and are seen to be the elements of economic expansion and development and a vital factor in boasting entrepreneurship progress and partnership; liable for the provision of goods, services, credits, repairs of second handed products, enlistment and employment of domestic savings and motivating entrepreneurial spirit [4].

The Nigerian government has initiated several policies due to the felt importance in the SMEs sector, all to ensure that the sector perform optimally and contribute to economic growth. Some of these policies led to the establishment of specialized institutions to assist the sector. Most of these policies and programs were formulated and implemented based on recommendations to promote SMEs and to prevent SMEs failure since it was believed that lack of fund and managerial skills were the core determinants of SMEs failure [12,13,14,15].

Despite theories and government policies and programs in assisting SMEs in Nigeria, resulting to frequent changes and modifications of programs, in all these, the brand objective which is attaining a desirable level of SMEs performance is yet to be attained [16].
Studies have affirmed the low performance of SMEs in Nigeria [17]. This has made the SMEs not to contribute the expected quota in the sector for the advancement of the Nigerian economy, and this trend could not allow the SMEs to contribute desired level for the development of the nation [18]. The input from the SMEs sector in Nigeria has been gross under performance and this has limited its contribution to the progress of the nation [2].

2. METHODOLOGY

This employed interpersonal interview and desk research approach where a specific search protocol was employed in identifying good and related research articles to be employed in the study. Looking for relevant articles constitute searching for recent articles on SMEs.

3. EMPIRICAL REVIEW

In the bit to improve investment and make returns in the SMEs sector, quite a number of researches have examined the sector. Gentle and Onuoha [19] examined the private enterprise operations and expansion of SMEs in Bayelsa state by focusing on innovativeness, risk taking, pro-activeness and SMEs growth with quasi-experimental research design since it was to ascertain the causal effect and also with the application of Pearson correlation technique. It was noted that, innovativeness, pro-activeness and risk taking have great effect on SMEs growth. Agri et al. [20] investigated innovation in technology and sustainable private enterprise expansion in Nigeria by assessing innovation, entrepreneurship, employment and telecommunications with the application multiple regression analysis. The results show that, innovation and entrepreneurship do increase employment and expand returns in Nigeria.

Adegoriola et al. [21] investigated the influence of infrastructural challenges on e-commerce, SMEs in Nigeria from 1990 to 2014 with the aid of maximum likelihood method in measuring financial cost, security concern, business size, information technology capability, managerial support, market readiness, government support and employment generation. The study revealed that, all the variables considered in the study are impactful on SMEs performance in Nigeria. Olayinka et al. [22] carried out their study in Lagos Nigeria by ascertaining the adoption of e-commerce by small business enterprises with the help of multiple case studies on sales and marketing, financial management processes and customer services. The result indicated that, SMEs in Nigeria are benefiting greatly from e-business deployment.

Effiong and Edet [6] investigated the success of small and medium enterprises in Nigeria and interested to know if environmental factors matters. Multiple regression models were utilized for measuring the link between infrastructure, institutional matters, marketing and SMEs success. The external environmental factors of infrastructure and institutions have positive influence on SMEs success but marketing had a negative but insignificant effect on SMEs success.

Orji et al. [23] assessed financing SMEs in Nigeria with the use of descriptive and explanatory design technique and the output indicated a positive significant association among finance and business expansion. Okafor et al. [24] analytically reviewed initial capital, non-bank credit facilities, and credit facilities from banks and SMEs performance in Nigeria. The study concluded that, initial capital and non-bank credits are significant and responsive towards the enhancement of SMEs performance while bank credit is insignificant. Afolabi [25] studied the development effect of SMEs financing in Nigeria from 1980 to 2010 with the application of OLS to know the relationship between SMEs output and deposit money bank credit. It was indicated that SMEs output and deposit money bank credits are significantly related. Ubesie et al. [26] also carried out a similar study to examine bank credit and SMEs output in Nigeria from 1986 to 2015 with ex-post facto research design. The results show that, bank credits and SMEs performance are significantly related.

Existing studies in Nigeria concentrated on measuring financial factors; which include initial capital, bank credit facilities, non-bank credit facilities, excessive bank charges, too much legal documentation fees, collateral securities and managerial skills [27,23,24,26,25]. And few studies concentrated on factors that limit SMEs in investing in e-commerce technology for business process [28,22,29].

However, to the best of my understanding, no study has investigated investment vehicles and how these investment vehicles can contribute to investors and the nation’s economy. Thus, this study stands to investigate investment vehicles in the SMEs sector and these investment vehicles contributions to investors and economic growth.
4. SME INVESTMENT VEHICLES

Investment vehicles are enormous to investors in the SMEs sector. There is no business or economic sector that SMEs do not operate. Economic or business sectors such as manufacturing, agriculture, education, mining & quarrying, accommodation and food services, arts, entertainment and recreation, wholesale & retail trade, administrative and sport activities, legal services, water supply, sewerage, waste management and remediation act, information and communication, transportation and storage, financial services, repair of tangible assets, medical services, etc.

Small and medium enterprises investors can invest into any of the following; social media services, bakery, tailoring, mobile food vending, cool room services, training and education services, pharmacy, fishing, poultry, crop farming, taxi services, supermarkets, musical services, motor mechanic, fuel and gas filling stations, construction, printing & publishing, chemical production & sales, hotels and guest house services, paint production & sales, Painting, promotional services, carpentry, interior decoration, clearing and cleaning services, car washing or detailing services, photography & video-graph, hair dressing saloon/beauty salon, make-ups, child care services or day care centre/crèche/child development centre, courier services, sports viewing/video game/ sports betting centre, recharge card printing/sales, security gadgets sales, computer gadgets sales, ethanol production/sales, pet breeding, scrap metal sales, pastry making, bulk SME services, real estate investment, uniform making, cooking gas sales, freelance writing, blogging, used car sales, frozen food sales, food processing, rental services, mobile phone sales/repairs, facility management services, modeling and event ushering, solar energy installation and equipment repair, night clubs/bars, ice block production, pest control, fruit juice production/sales, brick laying/building/ building lock production, monogamming and branding services, jewelry making, art gallery, fiber boat building, driving training school services, consultancy services, editorial services, book sales, occasion planner, computer training, herbal farm stands, survey services, direct sales representative services, call centre representative services, laundry services, boat tours, clothing boutique, clown services for kids parties, career counseling, research/resource centre, banquet facility, beer brewery, solar installation, corporate insurance broker, excavation services, dredging services, gold mining, residence for the elderly, shipping/forward services, cosmetics sales, credit services, electrical installation, fence installation, truck/food truck services, trailer services, tipper services, science laboratory/ medical laboratory services, etc.

4.1 Challenges of Small and Medium Scale Investment in Nigeria

Small and medium level enterprises in Nigeria are faced with series of challenges, and these challenges always stand as barriers against desired growth and development of these levels of businesses in Nigeria [30]. Some of these challenges include;

Lack of innovation and technical skills: Whenever innovation and technical skills are lacking, there wouldn’t be any positive outcome. Duru et al. [2] opined that, entrepreneurship and positive returns is all about innovation and technical skills, because increase in returns is always as a result of employee skills and their ability to innovate. Also, innovation and skills are influencing factors for an investor to commit resources.

Political environment: The political environment in Nigeria always creates uncertainty for small and medium enterprise investors. Many investors want to commit their funds in small and medium enterprise investment but due to the discontinuation of government as practice by politician, investors are scared of committing their resources. Government is suppose to be continuous, but in Nigeria, as one going, we are automatically coming into new government, therefore projects that could bring meaningful development can be abandon, seeing some investors as opposition party people and things will just be turning around negatively. Many investors have suffered through this, and therefore making others to be very scared in committing their hard earned resources.

Regulatory and legal framework: there are regulatory and legal framework and requirements that small and medium enterprises have to meet which depends on the sector. Investors in small and medium enterprises in most cases are unaware of these regulatory and legal requirements as they relate to their businesses. In several occasions, funds are already committed, only to be punished by authorities for
not meeting up prescribed requirements. And most of these small and medium enterprise investors do not possess the financial ability to meet such requirements and thus forced to stop operations [6]. And these regulatory issues have scared many investors to commit their funds into SMEs in Nigeria.

**Social infrastructure:** Infrastructure is another influencing factor of small and medium enterprises success. Infrastructure like good road, water supply, electricity, transport and communication network, etc. needed for efficient operation are in short supply or not readily available. To invest into small and medium enterprises requires investors to commit more resources to provide these basic infrastructure and services or to take alternative means, thereby increasing their operating cost.

**Insecurity:** The business environment for SMEs is not safe at all in Nigeria. Bad gangs, armed robbers, host community hostility, etc. And all these can in one way or the other affect investment.

**Religious believe:** Due to our believe systems, there are investment opportunities that are available in the SMEs sector but have to be over looked. For instance, one cannot invest in pig husbandry business in the Northern part dominated by Moslems.

**High level of tax and dues:** Many SMEs are faced out of the system due to high tax, different kind of taxes and dues. Whether you borrow money to invest and you have to start making profit, the Nigerian tax collectors would not want to know. As different tiers of government is coming to collect from you, different other groups including host community youths will also come and collect their dues, making the expenses to be higher than the returns (loss).

**Economy:** The economic environment has been a determinant of SMEs success. The economic environment constraint is more pervasive to SMEs when it is not favorable [31].

5. CONCLUSION

This study stands to find out the various invest vehicles in the SME sector in Nigeria. The study also ascertained the challenges confronting investors to invest in the identified investment vehicles in the SME sector. The study utilized desk research approach and reviewed related epistles on the phenomenon to provide conceptual evidence. The paper observed that there are numerous investment vehicles in the SME sector that potential and existing investors can benefit from.

6. RECOMMENDATIONS

Based on the observations, this study thus suggests that government should provide enabling economic, political and socio-cultural environment to influence investors to invest in the SME sector in Nigeria. Government should reduce the multiple tax options and implement policy that will regulate those imposing unnecessary dues on the SME sector in Nigeria. Government should provide the basic infrastructural needs to enable SME sector to operate effectively in Nigeria. Government should do more to provide security gadgets everywhere in Nigeria to detect the bad gangs, armed robbers, etc. so as to reduce insecurity. Additionally, investors should increase in their interest by investing in SMEs sector to make good returns and promote economic expansion in Nigeria.

7. FUTURE STUDY

This study find out the various invest vehicles in the SME sector in Nigeria with the application of desk research method. Further studies could increase in the scope or employ other SME performance indicators and explore robust econometric tools for analysis. This will aid comparison and increase reliance on the robustness of the findings in this study. Also, further study should be conducted on investment in SME investment vehicles and their effect on investor’s wealth and economic growth in Nigeria.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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