Enterprise Baseline Survey 2012
Summary Report

by the
Pro-Poor Growth and Promotion of Employment (SEDIN) Programme

in collaboration with
Small & Medium Enterprises Development Agency of Nigeria (SMEDAN)

Abuja, Nigeria, January 2013

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Small & Medium Enterprises Development Agency of Nigeria

Table of Contents

Abbreviations & Acronyms 3
Foreword 5

1. Performance and Perspectives of the MSME Sector in Nigeria 9

2. Scope and Design of the EBS2012 10

3. Implementation of the EBS2012 12

4. Findings: Enterprise Characteristics, Performance and Business Constraints 13

- **a. Characteristics of Sampled Enterprises/Businesses, Their Performance by Type, Size, Industry and Location** 13
  - **i. General Characteristics** 13
  - **ii. Business Performance** 17
  - **iii. Human Resources** 21
  - **iv. Technology** 23
  - **v. Trade Orientation: Inputs and Markets** 24
  - **vi. Business Management** 26
  - **vii. Finance** 27
  - **viii. Physical Infrastructure** 32
  - **IX. Regulatory and Administrative Business Environment** 34
  - **X. Security** 37
- **b. Ranking the Issues: Perceived Enterprise-*Internal* versus External Problems** 38

5. Conclusions: The Need for Reform and Action 41

- **a. Private Sector Development: investment, innovation & enhanced competitiveness of enterprises** 41
- **b. Enhancing the Business & Investment Environment and Reducing Transaction Cost** .. 41
- **c. Human Resource Development** 42
- **d. MSME Development Strategy and Action Plan** 42

Abbreviations & Acronyms

BDC	Business Development Committee
BEE	Business Enabling Environment
BOI	Bank of Industry
BMO	Business Membership Organization
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
EBS	Enterprise Baseline Survey 2012
EBS-TC	EBS Technical Committee
ECOWAS	Economic Commission of West African States
EIU	Economic Intelligence Unit
EoPSD	'Employment-oriented Private Sector Development' Programme
FADAMA	World Bank Grant for Cooperative Groups
FCT	Federal Capital Territory Abuja
FDI	Foreign Direct Investment
FIRS	Federal Inland Revenue Service
FMTI	Federal Ministry of Trade and Investment
FSS2020	Financial Systems Strategy 2020
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation
GTZ	German Technical Cooperation Agency
HRD	Human Resource Development
ICT	Information & Communication Technology
ISIC	International Standard Industrial Classification of all Economic Activities/UN
LGA	Local Government Area
MAN	Manufacturers' Association of Nigeria
MJC	Michael Jacobs Consulting Ltd.
MSME's	Micro, Small and Medium-sized Enterprises
N	Naira
NAPEP	National Poverty Eradication Programme
NASME	Nigerian Association of Small and Medium Enterprises
NASSI	Nigerian Association of Small-Scale Industrialists
NACCIMA	National Association of Chambers of Commerce, Industry, Mines and Agriculture
NBS	National Bureau of Statistics
NPC	National Planning Commission
NTB	Non-Tariff Barriers
NV2020	Nigeria Vision 20:2020
OECD	Organization of Economic Cooperation and Development
PHCN	Power Holding Company of Nigeria
PPD	Public-Private Dialogue
PPP	Purchasing Power Parity
R&D	Research and Development
SA	Special Advisor
SEDIN	'Pro-Poor Growth & Employment Promotion in Nigeria' Programme
SME	Small and Medium-sized Enterprises
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SPSS	Statistical Package for Social Sciences
UNCTAD	United Nations Conference on Trade and Development

UNIDO	United Nations Industrial Development Organization
VC	Value Chain
WTO	World Trade Organization

Foreword

The *Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)* was established in 2003. Its mission is to facilitate the development of a structured and efficient Micro, Small, and Medium Enterprises (MSMEs) sector, thereby creating a foundation for sustainable and broad-based economic development in Nigeria. The Agency is the apex and coordinating institution for promoting the start-up, development and growth of the MSME sub-sector of the Nigerian economy.

As such, SMEDAN is charged with contributing to the attainment of the *Nigeria Vision 20:2020* (NV2020) objectives, the implementation of the government's *Transformation Agenda,* and the pursuit of the *Cluster Development Approach* of the Federal Ministry of Trade and Investment. Within this framework, the Agency provides a range of services to MSMEs that aim to alleviate poverty, expand gainful employment, create wealth and promote sustainable economic growth and development.

The *National Policy on Micro, Small and Medium Enterprises* issued in 2007 serves as a guide for effective MSME promotion. After five years of implementation, this policy is now being reviewed, and the resulting draft revised policy has been presented to and discussed with stakeholders in all parts of the country.

MSMEs are globally acknowledged as 'the oil required to lubricate the engine of socio-economic transformation' of any nation. The MSME sector in Nigeria provides up to 80% of jobs and related incomes, increases value-addition to raw materials, and provides export earnings. The sector spreads across almost all economic sectors and thus has strong linkages with the entire range of economic activities in the country.

The absence of a reliable and detailed MSME database has prevented SMEDAN and other principal stakeholders from translating the general policy framework into effective and sustainable intervention strategies to overcome the critical business development constraints that MSMEs face in Nigeria. The exposure of the Nigerian economy, in general, and the MSME sector, in particular, to a constantly changing world market environment offers many opportunities but also increases competitive pressures.

Therefore, the Agency recognizes the importance of credible and reliable data for planning and policy formulation. As a first step toward that end, SMEDAN and the *National Bureau of Statistics (NBS)* undertook a survey in November 2011 in the 36 States of the Federation and the Federal Capital Territory. That survey provided some key parameters of the MSME sector, such as the estimated number of MSMEs in Nigeria, their contribution to GDP and employment, etc.

The *'Pro-Poor Growth and Promotion of Employment in Nigeria' (SEDIN) Programme* was launched in 2011, financed by the *German Government* and executed by the *German Agency for International Cooperation (GIZ)*. With its focus on sustainable economic development, the programme was an ideal development partner for the promotion of MSME development. To this end, *SMEDAN* and *SEDIN* signed a *Memorandum of Understanding* on 8 March 2012.

One of the first initiatives taken under this new partnership has been to jointly conduct an *Enterprise Baseline Survey (EBS2012),* to establish baselines for SEDIN indicators that will allow measurement of programme objectives through future follow-up surveys, and that will help measure and track progress at enterprise level.

The EBS was conducted in March 2012, covering *micro, small, medium* and *large* enterprises in five selected states in Nigeria: *Niger, Plateau, Kwara, Oyo* and *Ogun*. It was designed to complement and deepen the data generated by the 2011 national survey. It also provides a detailed and statistically sound picture of the MSME landscape and business environment in the five selected states, including industrial structures, assets, performance, and business constraints, detailed by industry and size category, for both formal (registered) enterprises and informal sector businesses. This in-depth perspective will help strengthen the ongoing MSME policy review and contribute to targeted strategy design.

Together, the NBS/SMEDAN *National MSME Survey* and the GIZ/SEDIN *Enterprise Baseline Survey 2012* provide a long-awaited analytical basis for strategies and instruments that will dynamise MSMEs in Nigeria. The EBS2012 will assist SMEDAN in developing a Strategic Action Plan for the emergence of competitive and vibrant MSMEs that will stimulate Nigeria's social and economic development.

Most important of all is the *implementation* of the emerging MSME strategy and action plans, in which public and private sector organizations as well as development partners will have to work closely and harmoniously together.

Abuja, 10 December 2012

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1. Background and Introduction

General

Nigeria is the second largest economy in Africa, with a population of 167 million, and large oil and gas reserves and production output. Its GDP grew at a rate of 7.8% in 2010 and is forecast to grow at an average rate of 6.7% over the years 2011-15. The government's *Nigeria Vision 20:2020* (NV2020) strategy aims for Nigeria to become one of the world's 20 largest economies by the end of this decade. This implies an ambitious two-digit annual growth target for the coming years.[1]

Yet the macroeconomic data make clear that the performance of the Nigerian economy lags well behind desired growth targets. The shortfall is particularly acute in the manufacturing sector, which achieved only 1.4% growth in 2012 instead of the targeted annual 15%. The ambitious NV2020 targets appear unrealistic in the face of this widening gap.

These goals contrast, however, with the persistence of poverty, which in fact appears to be worsening. According to the National Bureau of Statistics (NBS), the proportion of Nigerians living in absolute poverty increased from 54.7% in 2004 to 60.9% in 2010; this figure is likely to have risen further, to an estimated 62% in 2011.[2] The First National Implementation Plan for the NV2020 is themed *'Accelerating Development, Competitiveness and Wealth Creation for all'*, and aims to pursue growth in a socially and regionally balanced manner. The challenge is to speed up private sector- led growth of the non-oil & gas economy including the MSME section.

SEDIN

In April 2011 GIZ and the Nigerian government launched the *Pro-Poor Growth and Promotion of Employment* programme, known as SEDIN. The programme aims to continue to improve the regulatory and institutional framework and access to financial services for MSMEs in Nigeria, and to support Nigeria's integration into ECOWAS. The programme supports reforms at the Local Government Area (LGA), State and Federal levels, and focuses geographically on three states: *Niger, Plateau* and *Ogun*.

Objective and Target Groups

The overarching objective of the SEDIN programme is to *increase employment and income generated by MSMEs.* To this end, it aims to support key actors in the public, private, and financial sector in planning and implementing reforms to improve the business and environment climate, enhance competitiveness, add value to domestic resources, and expand access to financial services for MSMEs in Nigeria.

SEDIN's target groups are the owners and employees of MSMEs, as well as members of other economically active low-income households. Measures that SEDIN supports at the

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[1] National Planning Commission (Nigeria) (2009), 'Nigeria – Vision 20:2020, Economic Transformation Blueprint.' Policy document, December.

[2] National Bureau of Statistics (NBS), Nigeria Poverty Profile 2010 Report, 13 February 2011.

federal level are intended to have an impact on the entire country. Measures at state and local levels target the three focus states and selected LGAs within these states.

Programme Outline and Approach

The SEDIN programme objective is being pursued via three components:

Component 1 – Financial sector reform: Support for the implementation of FSS2020, the review of microfinance policy, the regulation and certification of microfinance banks, and the introduction of micro-insurance and value-chain finance.

Component 2 – Business Enabling Environment Reforms: Support to improve the business environment for MSMEs on three levels (federal, state, local), e.g. reforms in land and company registration, reform of the taxation system for MSMEs, and promotion of selected value chains.

Component 3 – Support to Nigeria regarding regional economic integration in the West African sub-region (ECOWAS): Promotion of the implementation of ECOWAS protocols, e.g. in the fields of trade facilitation and tax harmonization, as well as improving financial sector regulation/supervision in West Africa.

The purpose of this Enterprise Baseline Survey (EBS) is to establish and quantify key indicators that are essential to the programme as a whole as well as to its component objectives. Baseline data on MSME characteristics, performance and constraints will make it possible to monitor the impact of reforms and the effect of other factors through subsequent enterprise surveys. In addition, the EBS offers the inherent value of a detailed and rigorous picture of the business environment in the selected states.

2. Performance and Perspectives of the MSME Sector in Nigeria

Micro, Small and Medium Enterprises (MSMEs) represent the overwhelming majority of the number of businesses and enterprises in Nigeria, and account for nearly half of its national economic output. Yet despite various past and recent surveys, data on MSMEs remain scanty, unspecific and patchy. As a result, the empirical base for policy and strategy formulation at federal and state level has been weak.

Currently available data on come primarily from SMEDAN's national policy documents (2007, updated in 2012) and from a 2010 survey of MSMEs by SMEDAN and the National Bureau of Statistics (NBS), whose findings were published in a study report in April 2012.

These data provide a broad view of the MSME sector in Nigeria:

- Nigeria has an estimated 17,609,270 MSMEs. Together these amounted to 99.8% of all businesses and enterprises in the country in 2010.
- A vast majority of MSMEs are micro-businesses or micro-enterprises (17.26m businesses, or 99.87% of MSMEs), followed by small (21,264; 0.12%) and medium enterprises (1,654; 0.01%).
- MSMEs operate across the whole range of economic activities and sectors in Nigeria.
- MSMEs accounted for over 25% of total employment in Nigeria in 2007.
- MSMEs contributed 46.5% of Nigeria's GDP in 2010.

According to the 2012 NBS/SMEDAN report, common problems of MSMEs in Nigeria include: low market access, poor access to credit, poor information flow, discriminating legislation, poor access to land, weak operating capacities in terms of technology, skills, knowledge, and attitudes, as well as lack of infrastructure.

The national NBS/SMEDAN survey supplies vital data, but their use is limited, due to the small samples by state, LGAs and industry, and the limited business parameters they cover. Moreover, to monitor the impact of both the MSME policy and the SEDIN programme implementation, there is a need for a reference point (or *baseline*) against which the results of the next SEDIN Enterprise Survey, planned for 2014, can be compared.

SEDIN's Enterprise Baseline Survey 2012 exercise is intended to provide this reference point, as well as supplement the existing data base on MSMEs with reliable and disaggregated data from the five surveyed states (*Niger, Plateau, Kwara, Oyo* and *Ogun*), for the benefit of all partner organisations that have a mandate or interest in MSME development.

3. Scope and Design of the EBS2012

The EBS aims to complement and add value to the existing data set and understanding of the MSME environment in two important ways:

- First, by capturing size-, location- and industry-specific business performance, investment plans and perspectives in five states
- Second, by focusing on the analysis of *business constraints* as a basis for improved targeting and effectiveness of MSME support measures.

The target sample size was 10,000 *registered enterprises* and *informal businesses*.

In Niger and Plateau States (our partner states at the time the survey was conducted) the sample includes enterprises and businesses located in the following types of LGAs, in order to cover all typical enterprise or business settings:

- the state capital (covering more than one LGA)
- one adjacent or semi-urban LGA
- one or two rural LGAs with VC promotion or other SEDIN activities
- one LGA without direct SEDIN activities (to serve as a control group).

In Kwara, Oyo and Ogun States, where the survey overlapped with SEDIN's selection process for a third intervention state, we sampled enterprises in:

- the State Capital (in some cases covering more than one LGA)
- one adjacent or semi-urban LGA
- one rural LGA.

Within each LGA, the sample size was based on available registry data or estimates, with an aim of sampling 3% of the formally registered enterprise population in that LGA. In addition, the survey interviewed a selection of *large* and *medium-sized* enterprises important for the state economy, to ensure an appropriate coverage of their operations, their linkages, development perspectives and constraints. In total, 4,066 enterprises and 5,620 informal sector businesses were surveyed, resulting in a total EBS sample of 9,686.

Sampling Methodology: The sampling aimed to produce a true representative set of data for the total enterprise and business population in the sample states.

- In places where lists of registered enterprises were available and reliable, the registry data were analysed according to sector classifications, so as to assess the relative importance of each subsector in that location. This then guided the enumerators' approach, when enumerating enterprises in the field.
- In places where reliable lists of registered enterprises were not available, and also for the selection of informal businesses, the following approach was used to form the survey sample:
  - Several persons (at least three) were asked independently in which industries or sub-sectors formal and informal enterprises operate in the LGA in question.

- They were then asked which of these (sub) sectors are represented in the greatest numbers. This produced a rough assessment of the relative importance of sub-sectors, estimated by percentage.
- After receiving at least three such lists, supervisors checked if the resource persons indicated the same tendency. (For instance, if all mentioned that construction enterprises and wholesale were much more represented than any other sector.)
- This process resulted in a list of different sub-sectors operating in the LGA, and their relative importance by number of enterprises, for each LGA.

- The relative importance of subsectors was then used to determine the number of interviews required in each subsector so as to produce a representative sample for each LGA.
- Supervisors ensured a representative sample by aggregating the information they got from the field and tracking whether the collected questionnaires reflected the sector priority list. If they did not, they steered the selection of enterprises to be interviewed as needed.
- The process of sampling in the field was also made representative by adopting the "systematic random" approach. This was applied by selecting each fourth business along a selected street by zigzagging and considering also the opposite sides of the street.

The EBS2012 used two types of questionnaires: one for *formal enterprises* (featuring 62 questions), and one for *informal businesses* (with 39 questions). Both questionnaires included the same basic enterprise identification data covered in the NBS/SMEDAN and World Bank ICA surveys, so as to allow for aggregation as well as comparison of data and findings. However the EBS questionnaires also covered additional characteristics, performance data, and constraints, specifically selected to help focus MSME promotion efforts on *actual or perceived business obstacles*. Because many enterprises and businesses either did not have or were reluctant to share reliable data on profits or tax payments, the focus was on obtaining qualitative or approximation data as well as a combination of perceptions and hard facts.

An *Enterprise Baseline Survey 2012 Technical Committee* (EBS2012-TC) was created at a first meeting on 29 November 2011. Its members were drawn from the following organisations: Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) *(Chair & Secretariat);* National Bureau of Statistics (NBS); National Planning Commission (NPC); Federal Ministry of Trade and Investment (FMTI); Central Bank of Nigeria (CBN); Federal Inland Revenue Service (FIRS); National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA); Manufacturers' Association of Nigeria (MAN); and GIZ/SEDIN.

Technical Working Groups were created for: Survey Design and Questionnaire, Sampling, Data Analysis, Report Editing, and Publication and Dissemination of Results.

4. Implementation of the EBS2012

The SEDIN programme hired national and international consultants: *Michael Jacobs Consulting Ltd.* based in Abuja, Nigeria, and *Mrs. Beate Holthusen* as the international expert.

SEDIN staff and MJC organised stakeholder workshops to present the survey concept, the sample and the intended benefits of the data collected to potential users.

Enumerators were recruited from within the Local Government Areas selected for the survey. They applied in response to advertisements posted in their respective LGAs during the sensitisation period; some were also recommended by the stakeholders in the different states. The enumerators included staff of the relevant ministries and government agencies, unemployed graduates and undergraduates in the LGAs.

During the field work, enumerators were deployed in teams of 8-12 members. All the supervisors in each state reported to a state coordinator. Each enumerator was provided with a branded T-shirt, tag and introductory letters for ease of identification. The enumerators were able to overcome communication barriers and mistrust by respondents since they were from the same locality, could speak the same language and had existing relationships with some of the respondents.

The major challenge encountered in the field was the unwillingness of some interviewees to give information about their business, especially with respect to financial aspects. As a result, some questionnaires had to be discarded due to incomplete data, and could not become part of the sample. Other challenges were the onerous bureaucratic procedures imposed by *large* enterprises before they could respond to the enumerators. In general, *large* enterprises were most uncooperative.

Quality control was done by the *Quality Review & Assurance Team* (QRT) made up of the LGA supervisors and the State coordinators. Secondary quality checks were carried out by officials of SMEDAN and SEDIN. The data collected from the field was further cleaned, coded and entered into the system through the *Statistical Package for Social Sciences (SPSS)*. The SPSS and Microsoft Excel programs were used to analyse the data and to plot the graphs.

The report was produced by the GIZ team, based on inputs and graphs provided by MJC, SMEDAN and NBS. The report went through a meticulous process of reviews and scrutiny before this final draft was released. The editing of the submitted draft was done by SEDIN based on comments provided by members of the EBS-TC, including representatives of SMEDAN, SEDIN/GIZ, NPC and the FMTI. The final editing was done by an external consultant, Mr. Siddhartha Mitter, New York, USA.

5. Findings: Enterprise Characteristics, Performance and Business Constraints

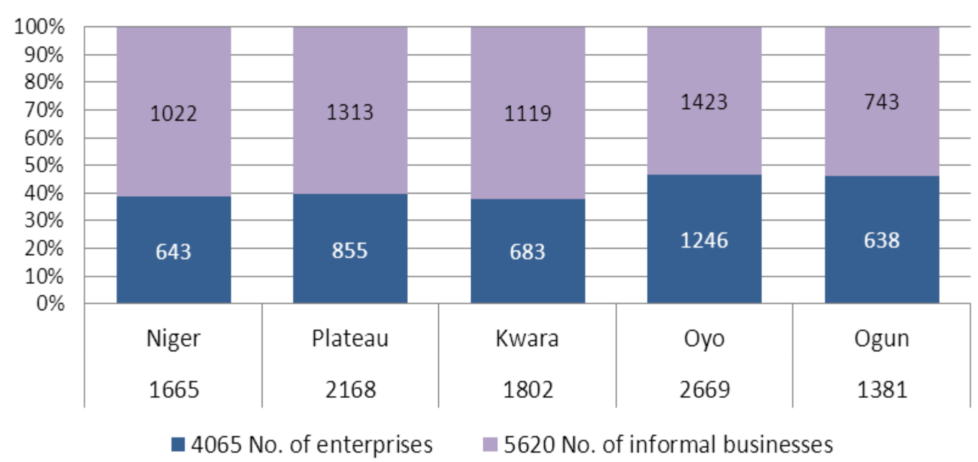
The following discussion of findings from the EBS 2012 survey presents highlights of the data and analysis. A fuller discussion of each topic, along with illustrative graphs, will be found in the full-length version of the report. For ease of cross-reference, the graphs in this summary report are numbered as they appear in the full report.

a. Characteristics of Sampled Enterprises/Businesses, Their Performance by Type, Size, Industry and Location

i. General Characteristics

The EBS surveyed 9,685 business entities in selected Local Government Areas (LGAs) of five States of Nigeria, according to the methodology described in section (3) above. These entities included 4,065 formal enterprises (i.e., ones that have gone through the process of business registration) and 5,620 informal businesses. In this report, the term *enterprise* designates formal sector entities, in contrast to *informal businesses*.

Graph 5.1: Number of sampled enterprises and informal businesses by state



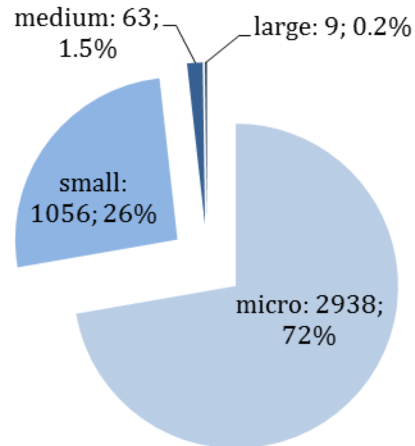
The largest sample of surveyed entities is in *Oyo* state, followed by *Plateau* and *Kwara* states (*Graph 5.1*).

These entities employ a total of 52,954 staff, of whom 37,640 work in formal enterprises and 15,314 in informal businesses. The average staff size of formal enterprises is 9.26, while average staff size for informal businesses is 2.72.

A large majority of the formal enterprises are *micro enterprises* (72.3%); a significant share is *small* (25.6%); a very small share is *medium-sized* (1.5%); and a tiny share

(0.2%) is represented by *large* enterprises (*Graph 5.4*). The overwhelming majority of informal businesses are micro-sized (98%).

Graph 5.4: Number & Shares of Enterprises by Size



Although micro enterprises make up the bulk of the sample, they do not account for the bulk of employment. Among formal enterprises, *small* enterprises account for 50% of employment, followed by *micro* (29%), medium (13%) and large (8%) enterprises.

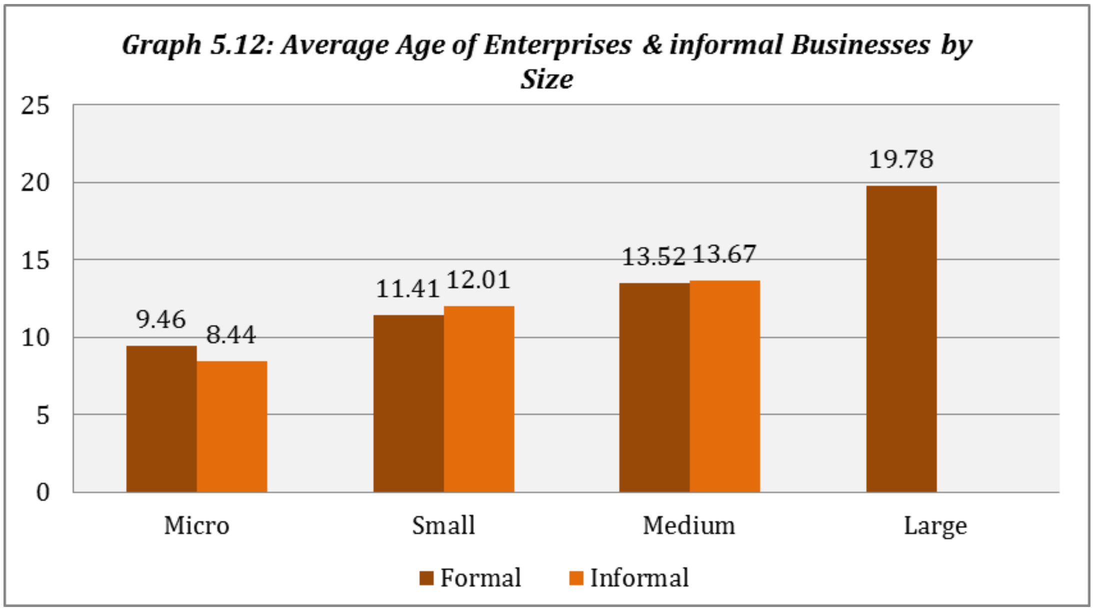
Logically enough, staff numbers grow with enterprise size (indeed, staff levels are the main way by which these size categories are defined). Notably, however, the ratio of temporary to permanent workers declines as enterprise size grows. The average ratio of permanent to temporary staff is 50% in micro enterprises, but only 28% in small and medium enterprises, and 22% in large enterprises. Hence, larger firms not only hire more workers, but such hires are also more likely to be permanent rather than temporary.

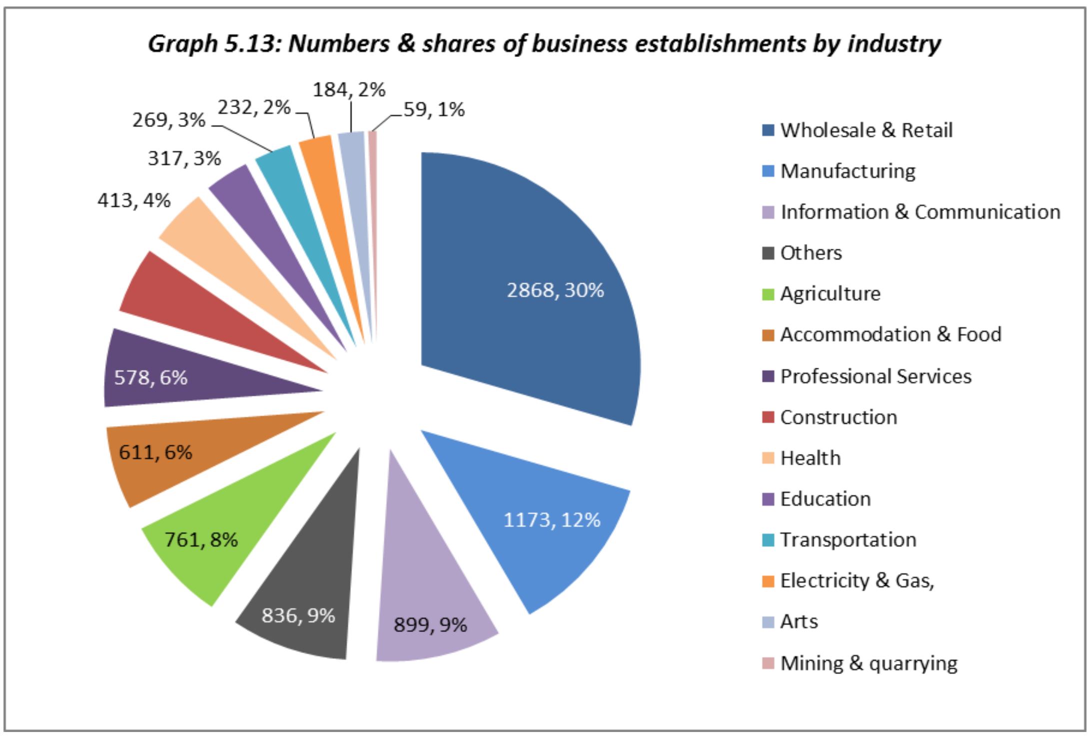
The relationship between size and *turnover* is logical as well. The majority (78.2%) of *micro* enterprises report turnover values of less than 5m Naira. Among large enterprises, 22.2% reported turnover values of more than 500m Naira. Notably, however, quite a few large and medium enterprises reported very low turnover.

Larger enterprises tend to be older ones (*Graph 5.12*). In particular, 100% of *large* enterprises and 55% of *medium* enterprises are older than 10 years, while *micro, small* and *medium-sized* enterprises have significant proportions of more recently founded enterprises. This confirms the intuitive notion that (i) enterprise and business growth takes time and (ii) *micro* and *small* enterprise size categories rather grow in *numbers* than *size*.

The same tendency is true for informal businesses. The average age of an informal business in each size class is very close to that of its formal counterpart.

Overall, the average ages of *micro* and *small* enterprises are actually quite *high*. This suggests that many micro and small enterprises manage to successfully stay in business but do so without great expansion.





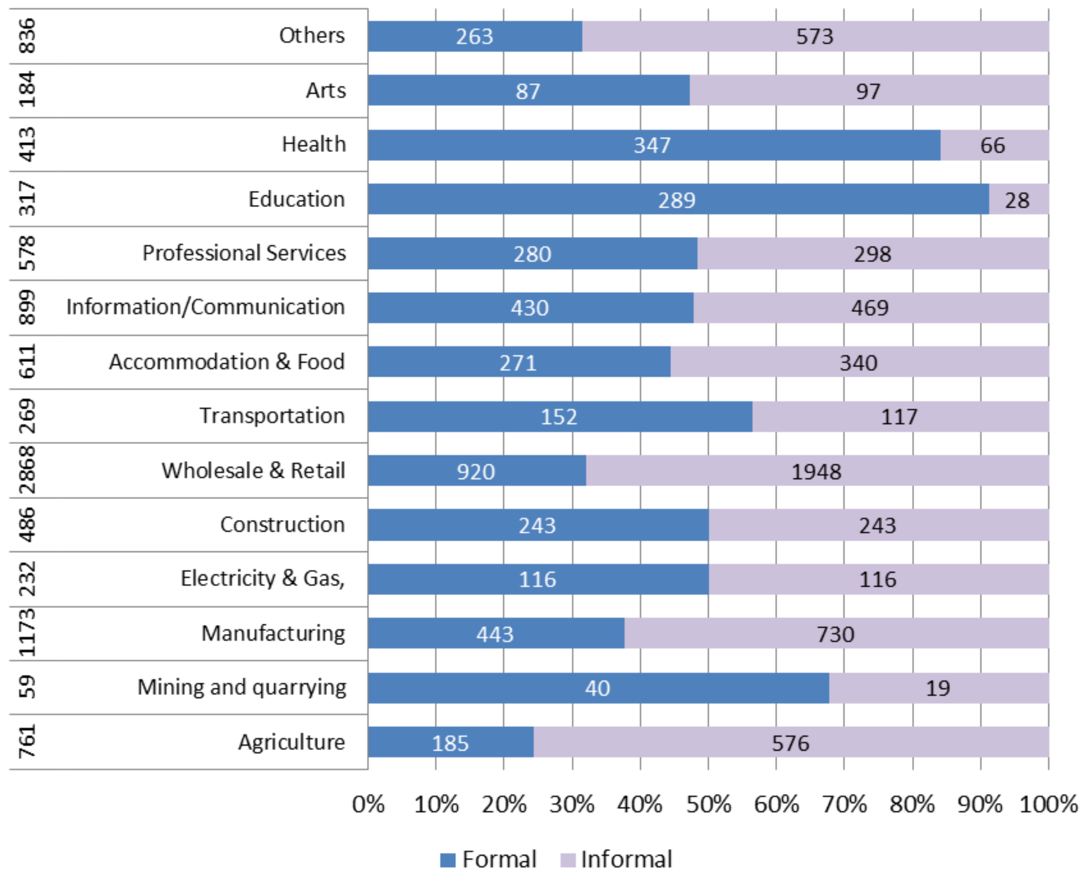
The largest numbers of enterprises are in the *wholesale & retail trade* (30%), *manufacturing* (12%), *information & communication* (9%), *agriculture* (8%) and *accommodation & food* (6%) industries. Notably, the share of enterprises in *wholesale & retail trade* is relatively big compared to that in commodity- and goods-producing sectors like *agriculture* and *manufacturing*.

The distribution of enterprises across industries is generally similar in each of the five States. There are however some small differences. The share of *wholesale &*

retail industry is largest in *Niger* (33.2%) and smallest in *Plateau* (15.8%). The shares of the *information & technology* and *health* industries are largest in *Kwara*. Enterprises dealing in *agriculture* are very few in *Kwara* and *Ogun*. The share of *professional services* is highest in *Oyo* (10%) and lowest in *Niger* (approx. 3%).

Differences in industrial composition are much more pronounced at the LGA level, however, reflecting urban versus rural location and other strong influencing factors for each industry. In addition, *urban* LGAs have a higher share of *formal* enterprises, e.g., Abeokuta (62.8%), Jos South (60.3%) and Ibadan (53.5%); by contrast the rural environment is dominated by informal businesses.

Graph 5.17: Formal enterprises & informal businesses by Industry

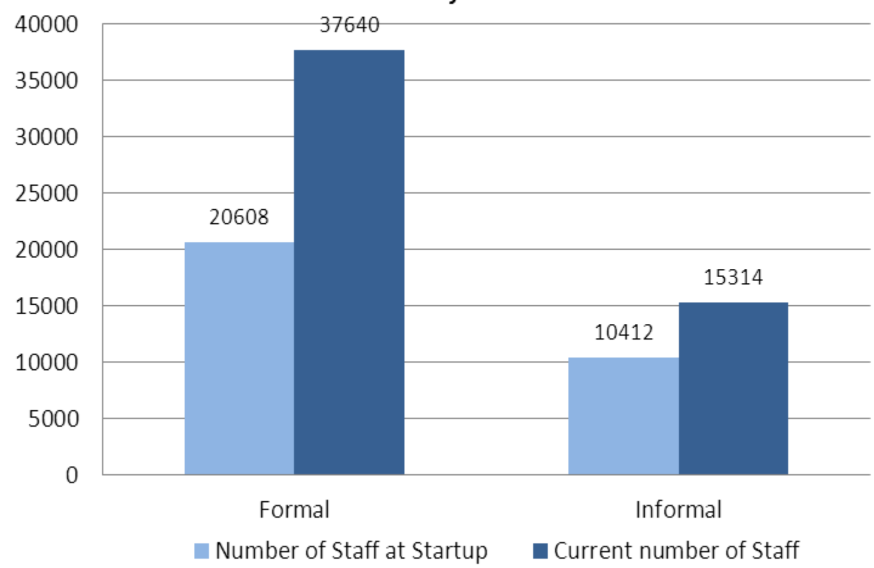


The ratio of formal and informal entities differs considerably by sector (*Graph 5.17*). The share of *formal enterprises* is highest (greater than 60%) in *education, health and mining*. The shares of *informal businesses* is highest (greater than 60%) in *agriculture, trade,* and also, notably, in *manufacturing*. One reason is that *education* and *health* usually require proper registration and accreditation. In contrast, businesses like *wholesale & retailing*, low-level *manufacturing* and *arts* are often carried out at the household level. Thus, they are less bothered about business registration.

ii. Business Performance

One set of measures of business performance concern staff growth, i.e. the ability of enterprises to create jobs. The survey asked respondents to report current staff levels against those at start-up. There was a higher propensity of employment growth among *formal sector* enterprises (from 20,608 to 37,640, i.e. more than 82%) than among *informal sector* businesses (from 10,412 to 15,314, i.e., by 47%) (*Graph 5.29*). This finding reflects in part the fact that formal enterprises tend to be located in urban centres where there are markets and the potential for *economies of scale*.

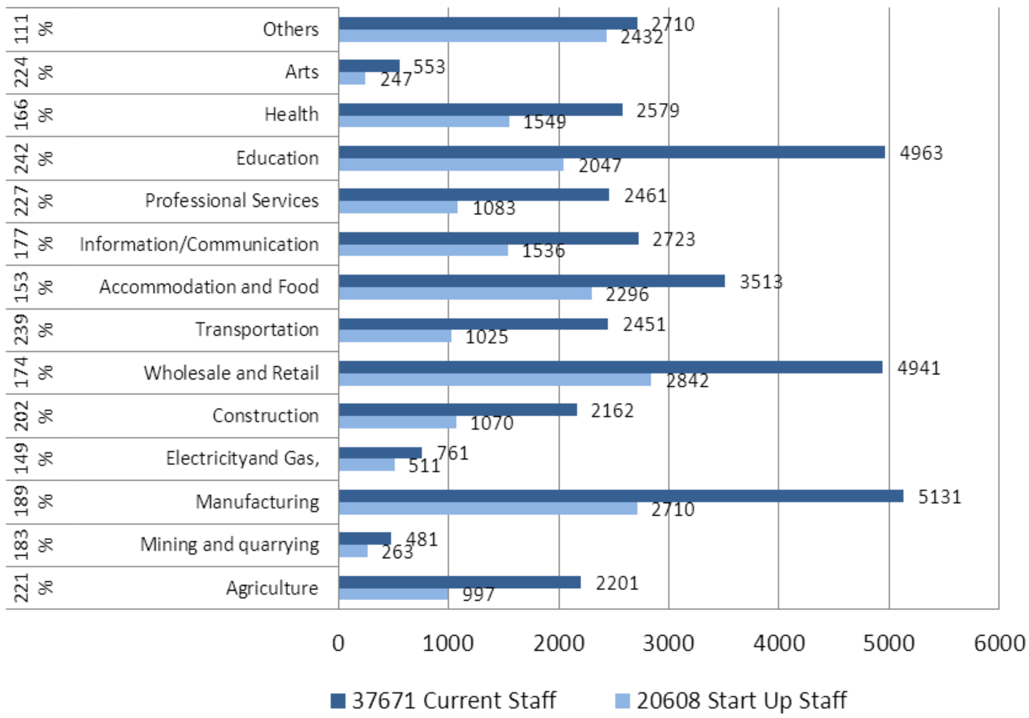
Graph 5.29: Total number of staff at start-up and now for formal and informal sector



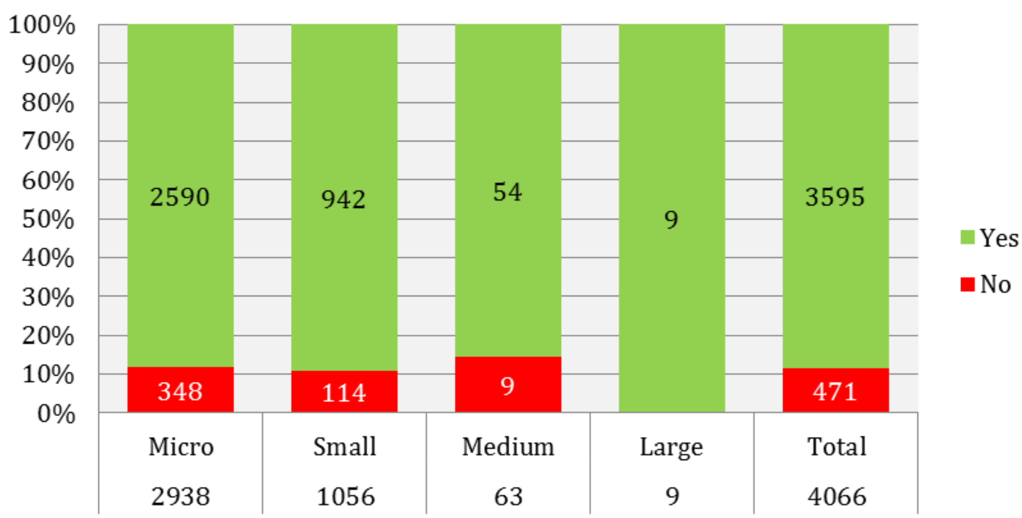
Enterprise size influences job creation: the larger the enterprise, the more dynamic its performance at increasing employment. Larger enterprises also have a lower proportion of their workforce employed as *temporary* workers, indicating the creation of more stable employment. The size effect is true in the informal sector as well: informal micro-businesses added 31% more staff, while *small* and *medium* businesses added 157% and 403% more staff respectively.

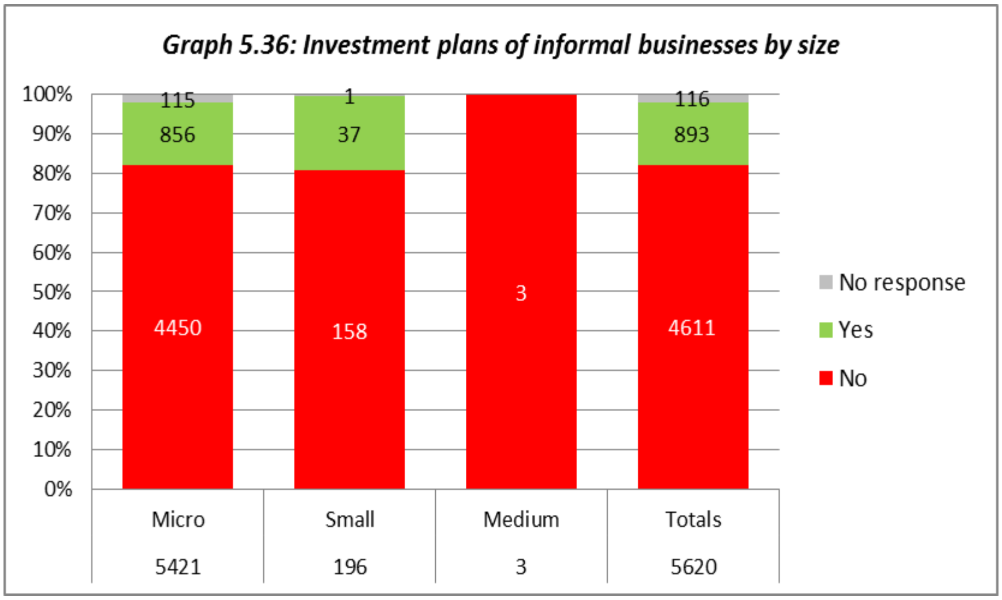
Staffing increments vary significantly by industry (*Graph 5.32*). Employment by enterprises in *education, professional services, transportation, agriculture,* and *construction* has more than doubled since their inception. Other industries have also grown significantly. In certain other manufacturing branches, such as *beverages, plastics, basic metals, furniture,* and *transport equipment*, employment actually doubled. In the informal manufacturing sector, aggregate staffing increased by 153%, with the biggest increases found in the *furniture* and *apparel* industries.

Graph 5.32: Staff increments from start-up by enterprises by industry

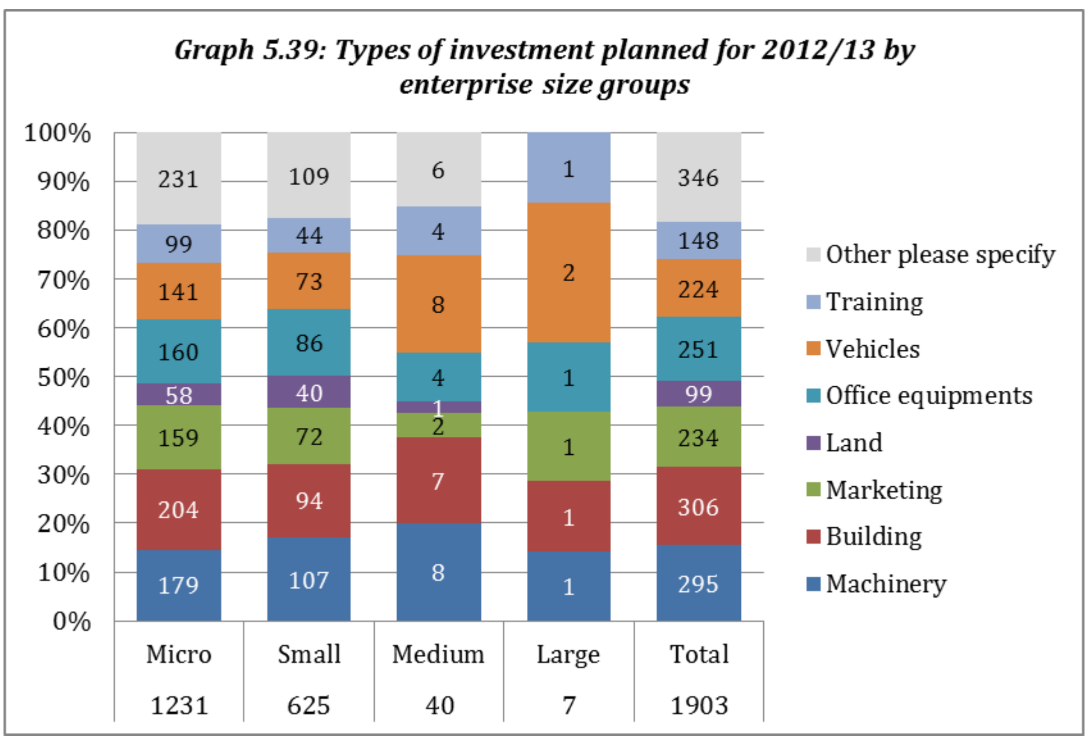


Graph 5.35: Number of Enterprises having investment plans in 2012/13 by size



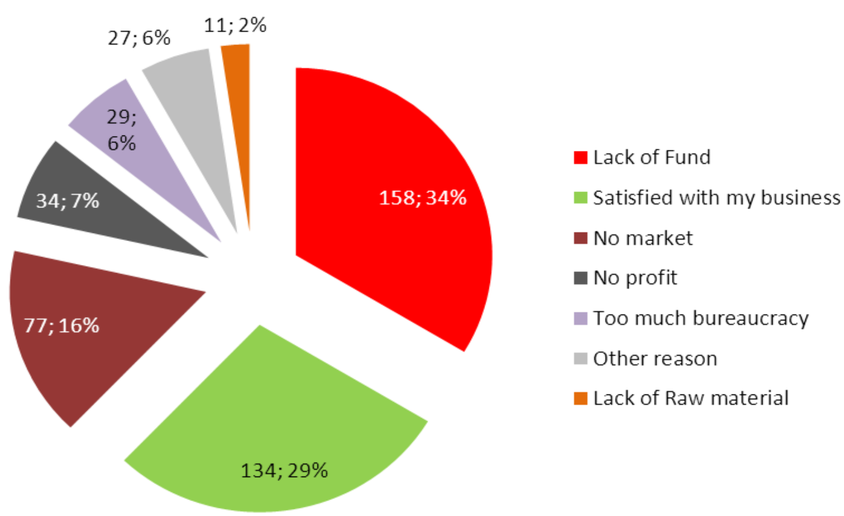


Another indicator of business performance and vitality is the willingness to invest. A large majority of formal enterprises (89%) reported they had investment plans for the 2012/13 period, including all the large enterprises interviewed (*Graph 5.35*). This proportion held quite evenly across all enterprise size categories as well as by state. In contrast, the vast majority of informal businesses have no plans to invest (*Graph 5.36*). Only 15.8% of *micro*-businesses and 18.9% of *small* businesses said they intended to make investments.



The most frequently planned investment type for enterprises of all sizes was in *company buildings*, followed by *marketing* and *office equipment* (*Graph 5.39*). The share of planned investments in *training* is almost the same in all enterprise size groups (less than 10%). It is notable that companies report more frequent plans to invest in *company buildings* than they do in *machinery*, which is often seen as the foundation for industrial development. This pattern of investment priority was broadly similar across industries as well.

Graph 5.42: Reasons for not investing in 2012/13



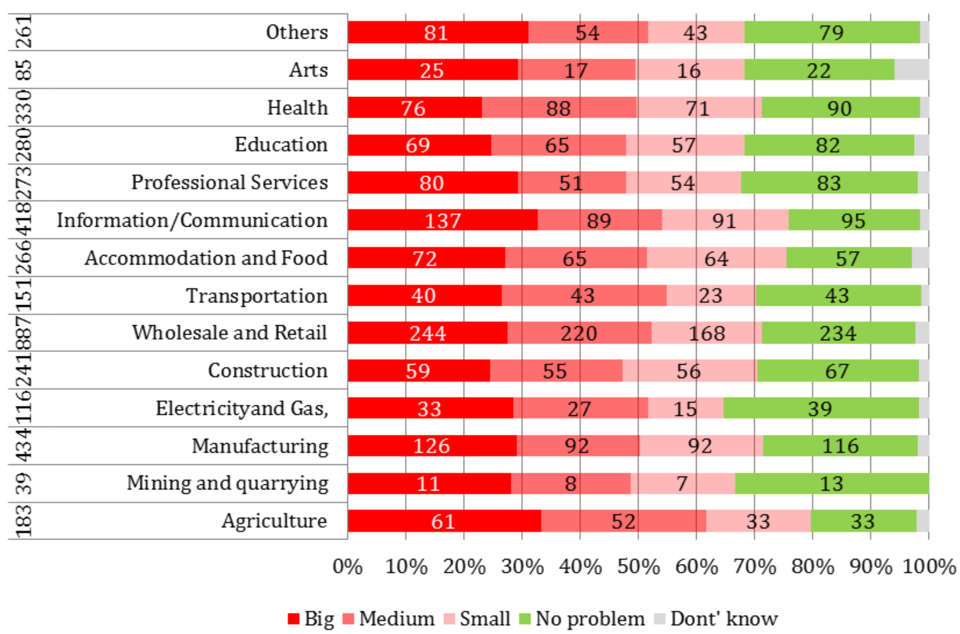
When enterprises did not have plans to invest, they were asked 'why not?'. The most frequent answer – *'lack of funds'* – points to the high cost of capital and limited credit facilities for MSMEs. Other common answers – '*no profit*,' '*no market*,' and '*satisfied with my business*' – point to management problems and the lack of commercial orientation of those enterprises. The high number of *medium* enterprises that they are '*satisfied with my business*' may indicate a lack of appreciation for the need to stay competitive in a changing market environment. In some cases, '*lack of market*' may indicate excess capacity and a need to access or learn about new markets in the region and the world.

A breakdown by industry shows that while *'too much bureaucracy'* is not the primary deterrent for most enterprises, it is so for over 10% of enterprises in several key sectors, which warrants addressing by government and public sector agencies.

As a measure of self-perceived performance, respondents were asked to assess the threat from domestic or foreign competitors. The majority had concerns about domestic competition (Graph 5.45). Close to half the enterprises in all sectors, and more than half in some sectors (*agriculture, transportation, information & communication, wholesale & retail, electricity & gas*, *accommodation & food* and *manufacturing*), see *domestic* competition as a serious problem (i.e. rate it 'big' or 'medium').

By contrast, a majority of firms in all industry segments express no worries about *foreign* competition. Only in *mining and quarrying, construction, agriculture* and *wholesale & retail* do more than 20% of enterprises consider foreign competition to be a serious ('big' or 'medium') problem. This may reflect differences in the products and services offered by Nigerian and foreign enterprises.

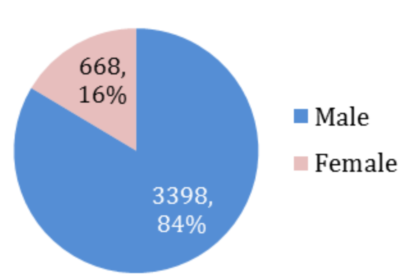
Graph 5.45: Problems with Domestic Competition by Industry



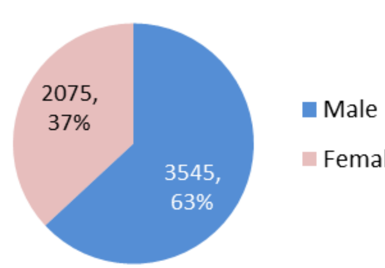
iii. Human Resources

The survey examined several human resource indicators, focusing on respondents themselves (enterprise and business owners/managers) and their gender, age, and education and professional training, as well as on the training of their staff.

Graph 5.47: Gender of Enterprise Owner/Manager in all EBS States

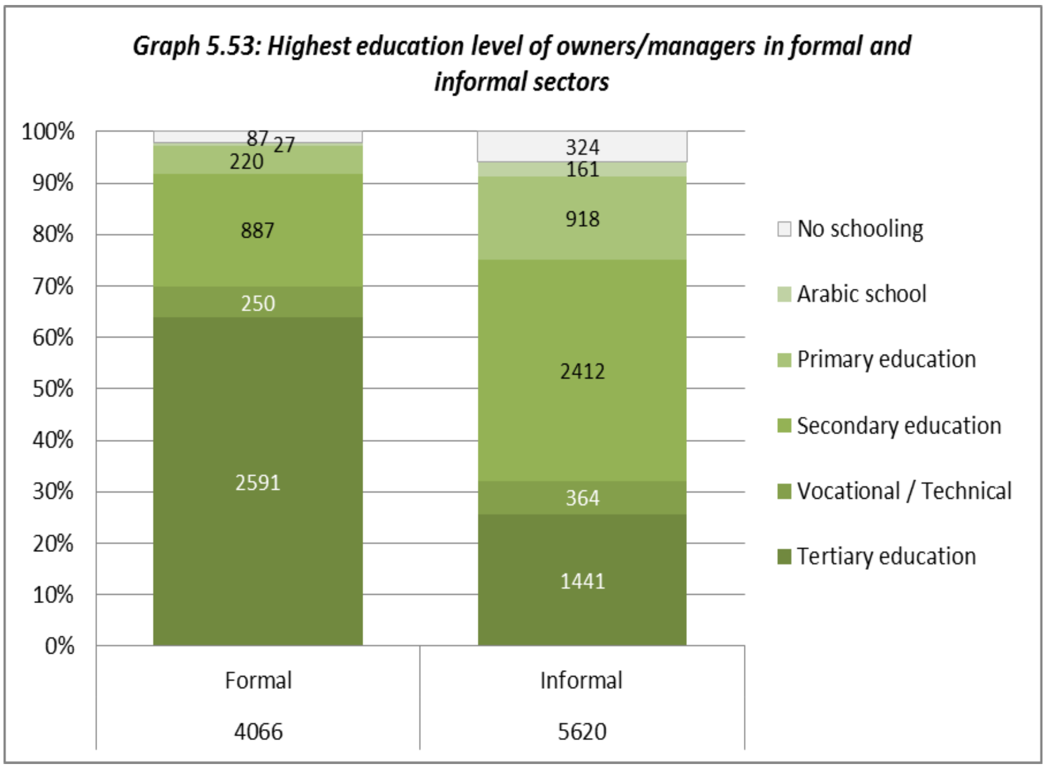


Graph 5.48: Gender of Informal Business Owner/Manager in all EBS States



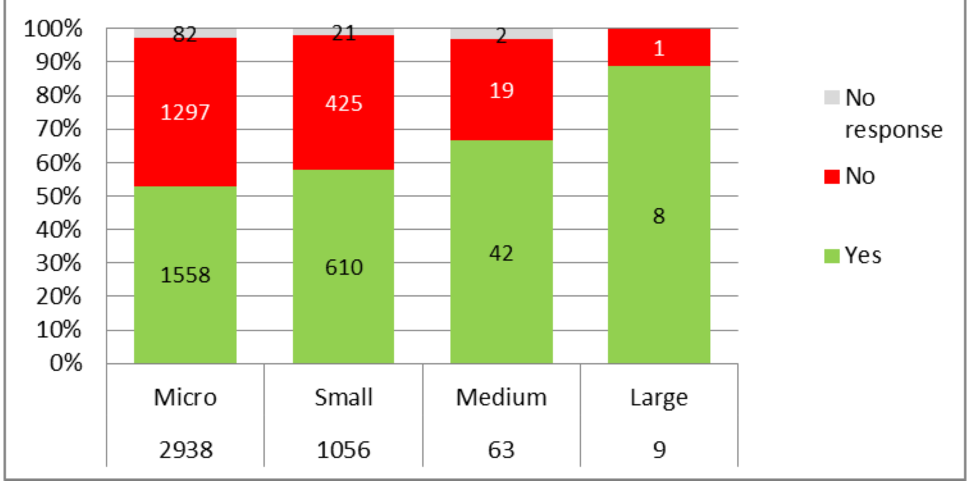
Gender patterns are quite different between formal and informal businesses (*Graphs 5.47* and *5.48*). In the aggregate survey, 28.3% of business entities are owned/run by a woman. However in the formal sector, women run 16.5% of surveyed enterprises, whereas in the informal sector women own 37% of businesses. The highest shares of female-owned or -managed enterprises are found in the services sector, particularly in *education (33%), health (28%) accommodation & food (23%)* and *trade (22%).* Male-managed enterprises show slightly higher turnover values than female-managed enterprises, but the overall variance is very small.

The owner/manager age pattern is also different between the formal and informal sector. The largest number of owners/managers (47%) belong to the 36-50 age range, whereas a 58% of informal business owners are 35 or younger. In addition the proportion of older owners increases with the size of the business.



The educational attainment of owners/managers presents notable differences between formal and informal sectors (*Graph 5.53*). In the formal sector, 64% of owners/managers have a *tertiary* education, and less than 1% have *no schooling*. By contrast in the *informal sector*, only 24% have a *tertiary* education, and 10% have *no schooling*. Perhaps surprisingly, only a small share of owners/managers in both formal and informal sectors have had *vocational/technical education*. Another observed pattern is that the *bigger* the enterprise, the *higher* the education level of the owner is likely to be.

When owner education and staffing performance are related, it appears that owners with *primary* and *Arabic school* qualification have added more staff on than have those with *secondary* education. Another notable finding is that women entrepreneurs are competitive with men in terms of education: the average educational attainment level of women owner/managers is slightly higher than that of men, and women entrepreneurs are slightly more likely to have had *tertiary education*. Conversely, a larger proportion of male owners/managers have had *vocational/technical qualification*.



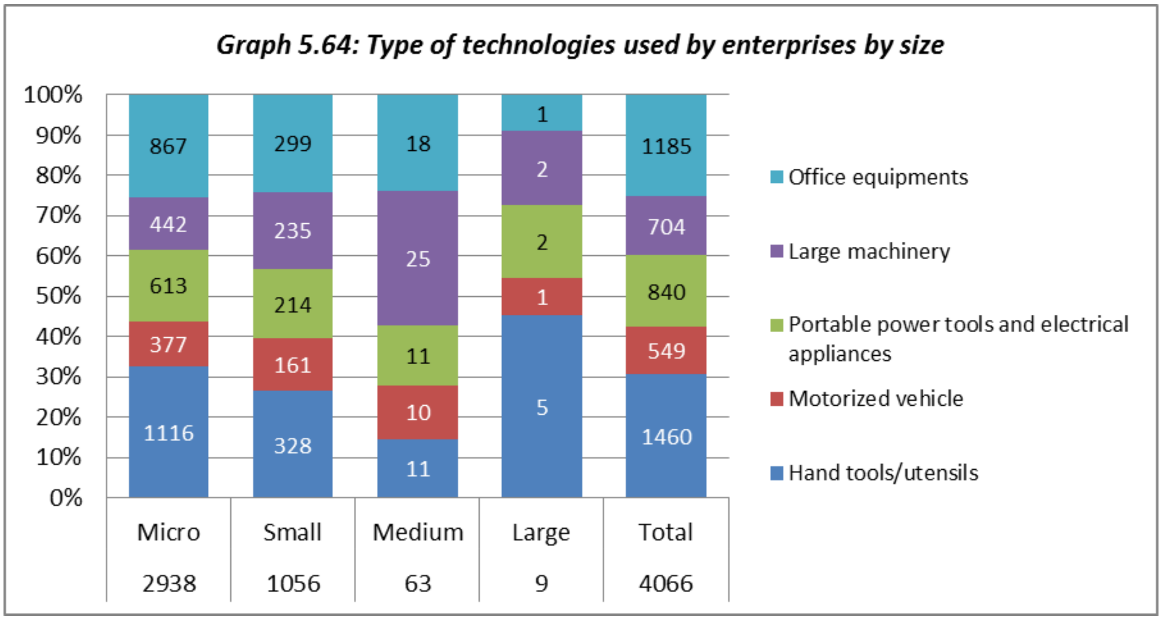
Graph 5.58: Training received by enterprise owner after start-up?

Training is quite prevalent, as even a majority of *micro*-enterprise owners (53%) have had some kind of training since start-up, and the larger the enterprise, the higher this proportion (*Graph 5.58*). The most common training topics are in *business management, occupational health*, *safety* and *entrepreneurship improvement*. Training in *accounting* and *business finance* is the least common, and should be promoted. Indeed there is considerable interest in further training – with the highest interest expressed in large enterprises – and financial management and business plan formulation attract the greatest interest, followed by *information and communication technology* (ICT).

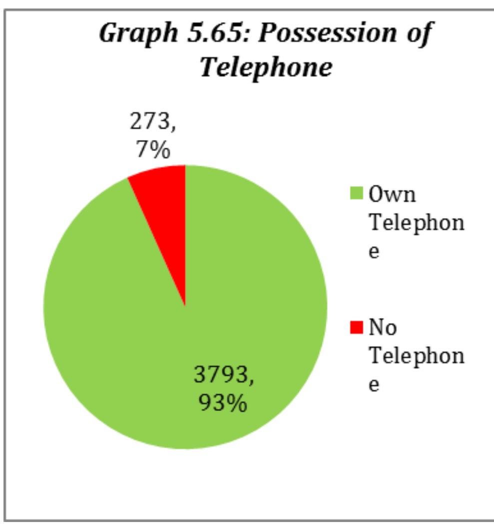
Asked to identify training needs of their staff, respondents focused on *'customer care'* (cited by 50% of respondents), *'efficiency improvement'* (more than 30%), *'record keeping'* and *'computer skills'* (*Graph 5.62*).

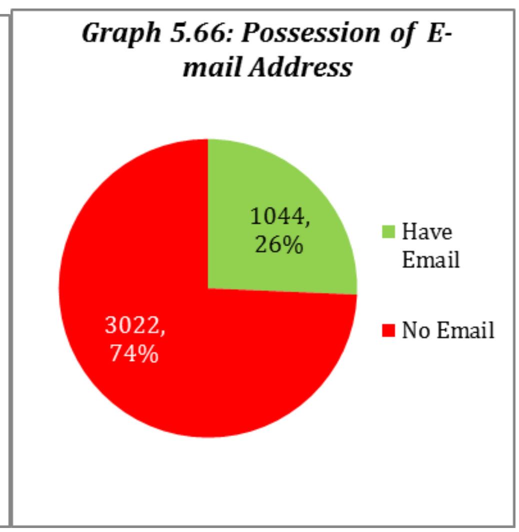
iv. Technology

The survey asked formal enterprises about the primary type of technology used in their operations (*Graph 5.64*). Across all size groups, *hand-operated tools* remain the most commonly used technology (30%). *Large machinery* is used also by all size groups, accounting for 15% of the total sample and 40% of *medium* enterprises. The relatively low technology level shown by the EBS survey helps explain why the Nigerian manufacturing sector, in particular, experiences low productivity. This may also be connected with the low level of innovation in local technology development, as well as the unsuitability or inadaptability of imported technology.



With respect to communications (*Graphs 5.65* and *5.66*), telephone use is the norm (96%). Use of the *Internet* lags far behind: only 26% of enterprises report having an e-mail address. This emphasizes the contrast between the widespread use in Nigeria of mobile phones in particular, and the slow progress of Internet connectivity.

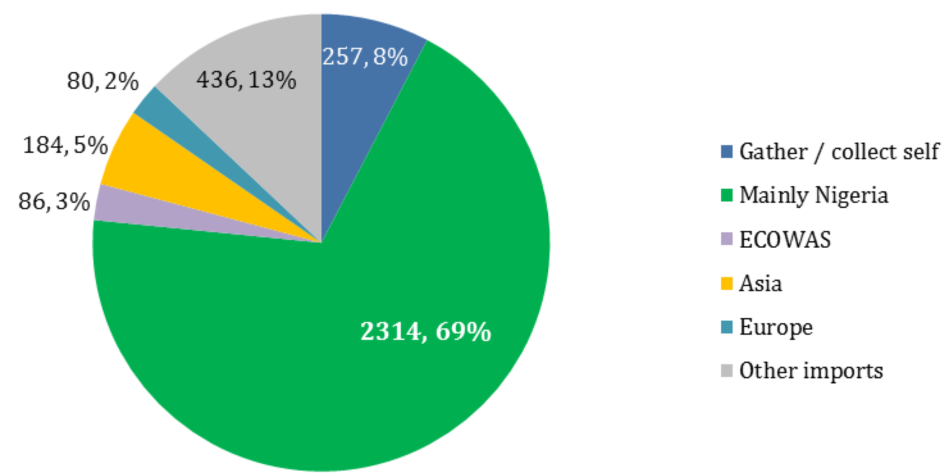




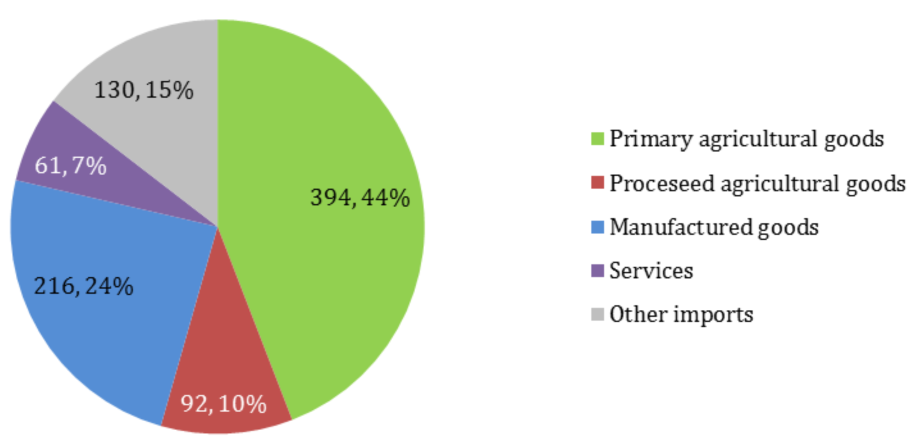
v. Trade Orientation: Inputs and Markets

The survey looked into the exposure of enterprises to trade, whether to source their inputs or to export their goods and services. The vast majority of formal enterprises do not import directly, but rather buy inputs locally (69%) or collect them themselves (8%) (*Graph 5.67*). The fact that more than two-thirds of enterprises buy inputs among themselves suggests vital and generally functioning domestic linkages that could be further harnessed to drive economic growth. Meanwhile, 23% of enterprises import goods directly from abroad, with Asia the primary source region (5%). It is notable that only 3% of enterprises import directly from ECOWAS trade partners.

Graph 5.67: Sources of Inputs for Enterprises



Graph 5.69: Nature of imports by importing enterprises



Among the 886 enterprises that do import their inputs directly from abroad, most import *primary agricultural products* (44%), followed by *manufactured goods* (24%) and *processed agricultural goods* (10%) (*Graph 5.69*). *Medium* and *large* enterprises tend to focus their imports on *manufactured goods*, while *micro* and *small* enterprises mostly import *agricultural goods*.

In general, the value of imports increases with the size of the enterprise. However even very *small* enterprises can be significant importers, as 25% of *micro*-enterprises in the sub-set report annual imports of 11m Naira or more. This means that they find ways to participate in trade in the sub-region (or beyond) with relatively little capital. It suggests that targeted and tailored trade finance policies have potential to lead to growth and poverty reduction through enterprise development.

Within the EBS sample, only 370 formal enterprises, or 9.1% of the total of formal enterprises surveyed, reported export activity. This proportion varies little by state; it is highest in *Oyo* (12%). The presence of exporting enterprises does vary a great deal by LGA, however. Enterprises in one LGA of a given state may be highly export-oriented while those in a nearby LGA may have minimal or no export-orientation.

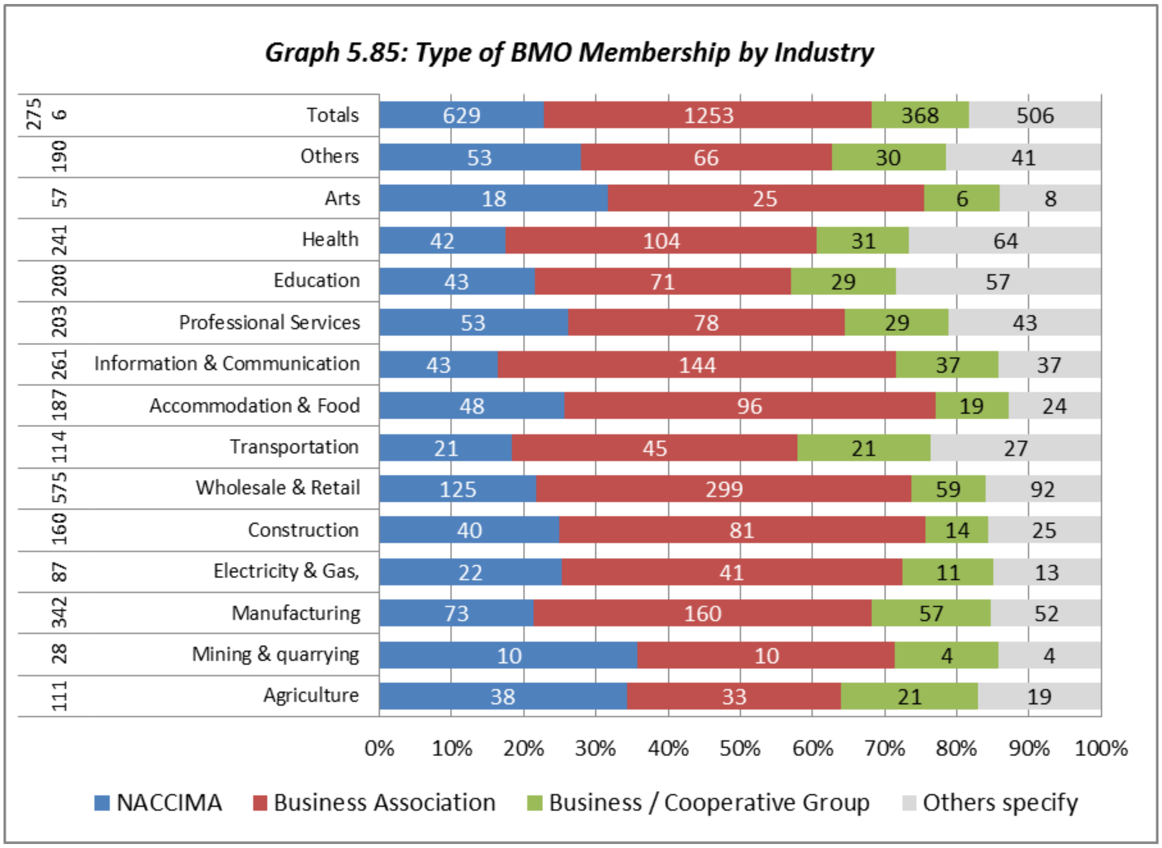
The concentration of exported goods and services types varies by state. *Oyo* has the highest share of *primary agricultural goods* exporters (68%), while *Ogun* has the highest share of *manufactured goods* exporters (75%). The most diverse exporting state in the sample is *Niger*, where the leading export category is *IT services* (30%).

vi. Business Management

The survey examined the use of various business management resources by enterprises and informal businesses. Banking is widespread in both groups. Among formal enterprises, over 90% in every size category have a bank account. In the informal sector, 69% of micro businesses and 73% of small businesses possess a savings account.

Participation in business associations, also known as Business Membership Organisations (BMOs) is fairly widespread, as over half the formal enterprises, both in the aggregate and within each sector, belong to a BMO of some type. The highest BMO participation rates (60% or more) are in *transportation, manufacturing, construction, mining, electricity, accommodation & food* and *arts*.

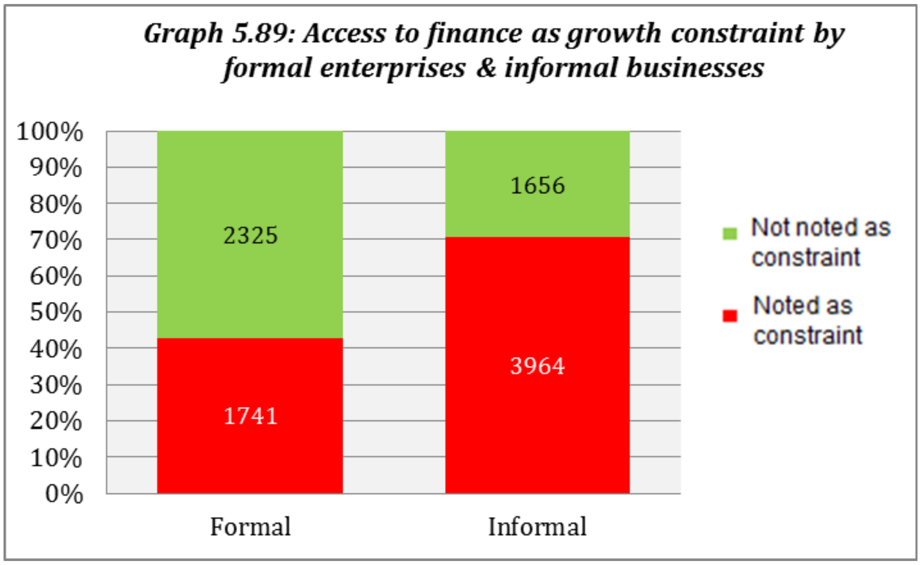
Specific *business associations* are the most favoured in nearly all industry categories (45.5% of all BMO memberships reported). NACCIMA membership is common as well, particularly in *mining & quarrying* (36%) and *agriculture* (34%), where it is the most common form of BMO participation.



When asked the reasons why the joined a BMO, approximately 15% of BMO members in each size group cite rules and regulations that required them to join. But other frequently given reasons are '*marketing purposes,*' '*problem solving,*' and '*experience sharing.*' Differences by enterprise size group are minor.

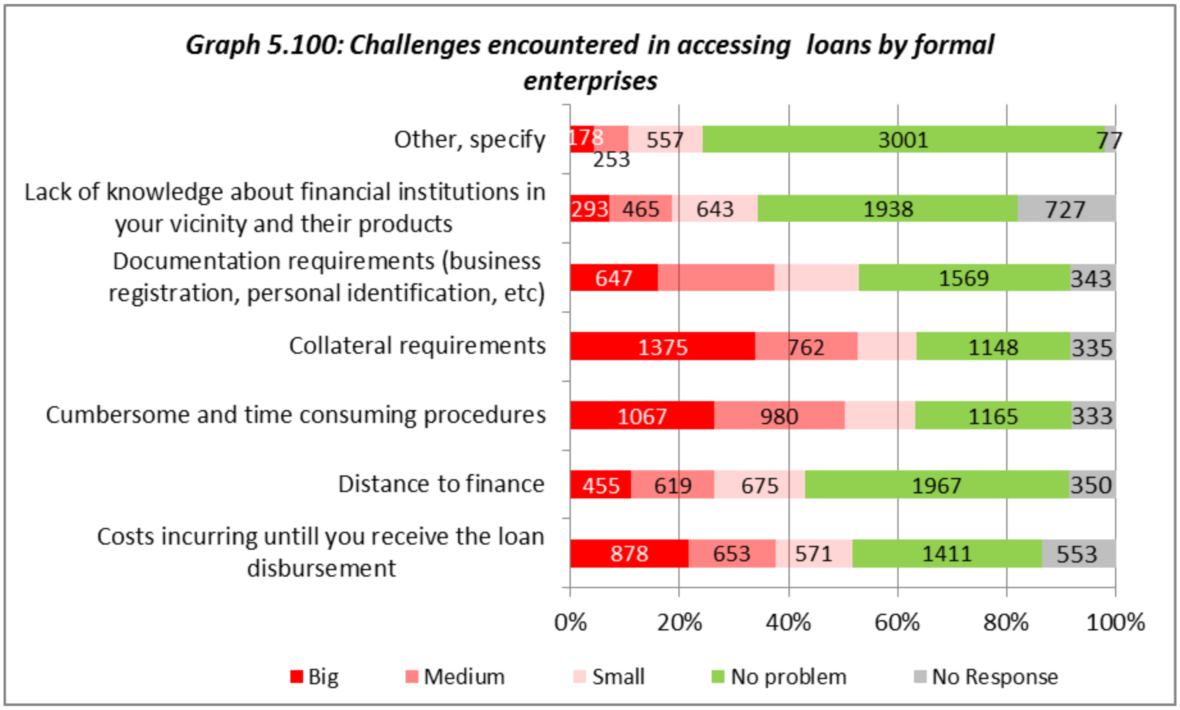
vii. Finance

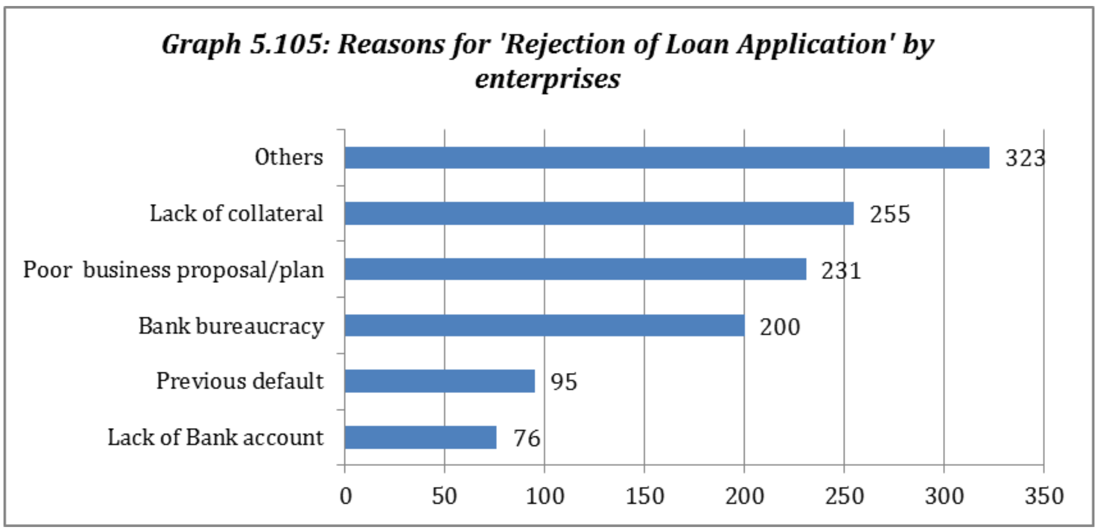
Access to finance is an issue of concern for a large number of MSMEs in Nigeria. In the EBS sample, 42% of formal enterprises and 70% of informal businesses view '*poor access to finance*' as a hindrance to their growth (*Graph 5.89*). For most, this probably means difficulty in obtaining loans. It is a general problem: its prevalence does not seem to differ significantly based on the gender of the owner/manager, at least in the case of formal enterprises. There is only small variation between states.



'Experience with lending' differs considerably between formal enterprises, 29% of which have received a business loan in the past, and informal businesses (16%). This seems to confirm the general understanding that many commercial banks prefer to work with the few medium and large enterprises that exist, rather than with the many micro and small enterprises. Among formal enterprises, the larger the enterprise, the more likely that it has received a loan: only 27% of *micro*-enterprises had received a loan, compared to 34% of *small*, 38% of *medium* and 56% of *large* enterprises. By contrast, more than 80% of *micro* and *small* informal businesses have never received a business loan.

Respondents were also asked what problems they experienced when attempting to get a loan. The hierarchy of challenges is roughly similar for formal (*Graph 5.100*) and informal businesses. In both samples, over half the respondents noted '*collateral requirements,' 'cumbersome and time-consuming procedures,' 'costs incurred until receipt of loan,' and* '*documentation requirements'* as constituting a problem of some significance. The two issues that both formal and informal businesses most frequently ranked as a *big* problem were '*collateral requirements'* and *'cumbersome and time consuming procedures.'*

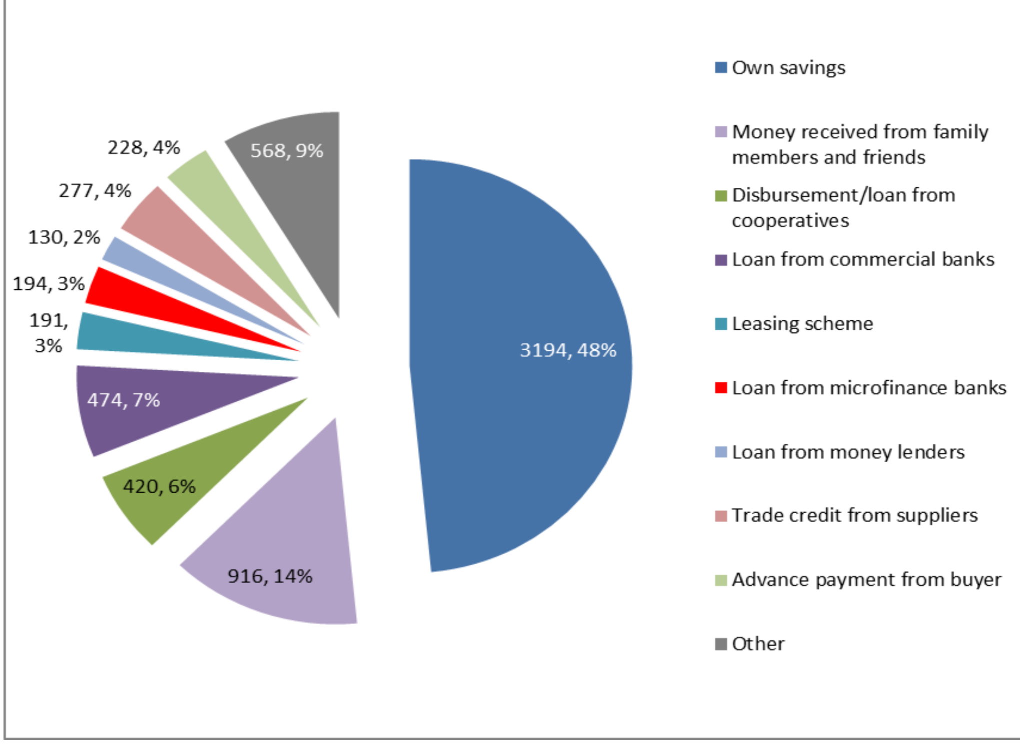




When formal enterprises have had loan applications rejected, the most common reason cited was '*lack of collateral,*' followed by '*poor business plan*' (*Graph 5.105*). Another commonly cited reason is '*bank bureaucracy*,' referring to stringent terms or preconditions that banks impose for applying or receiving a loan.

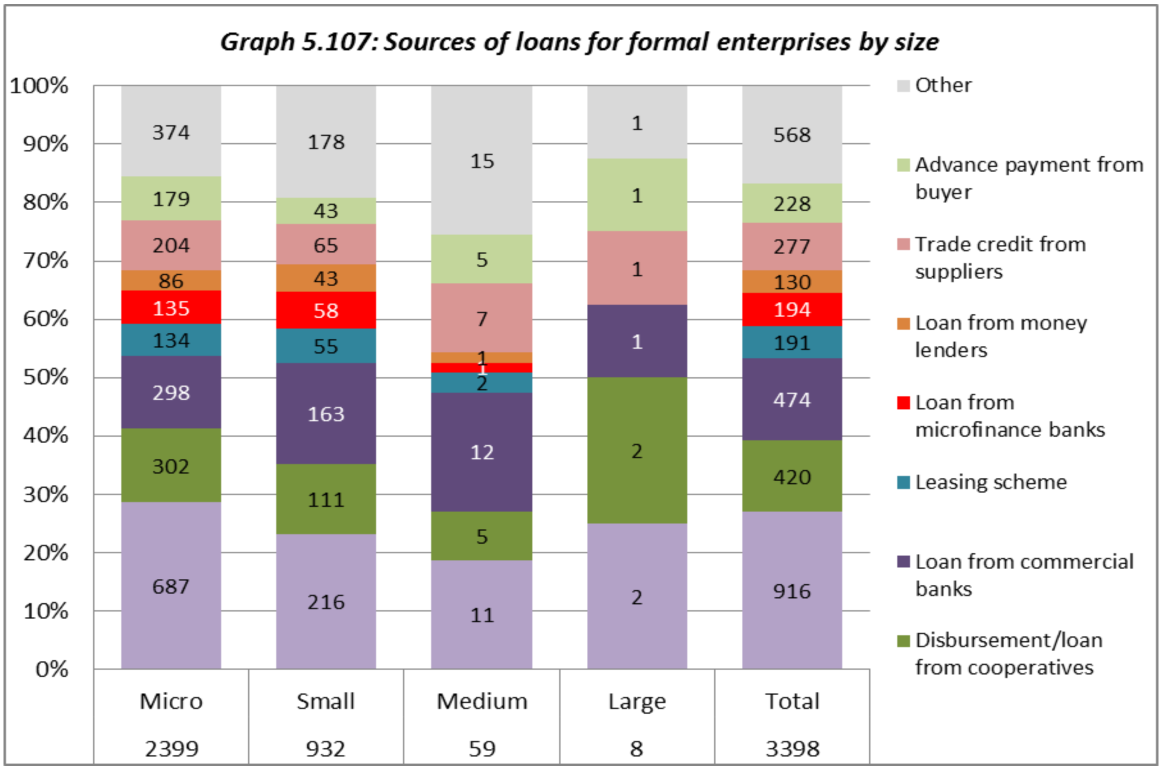
The full spectrum of the financing environment includes many sources: commercial banks, development banks, microfinance banks, cooperatives, supplier credits, advance payments, money lenders, funds from friends and family, and savings. For formal enterprises, savings is the primary source of finance, accounting for 48% of funding events reported (*Graph 5.106*). It is followed at some distance by 'loans from family members and friends' (14%), and then by commercial lending (7%). This indicates the big gap between the demand for business finance, on one hand, and commercial lending and other financial instruments, on the other hand. This presents both challenges and opportunities for the banking and micro-finance sector.

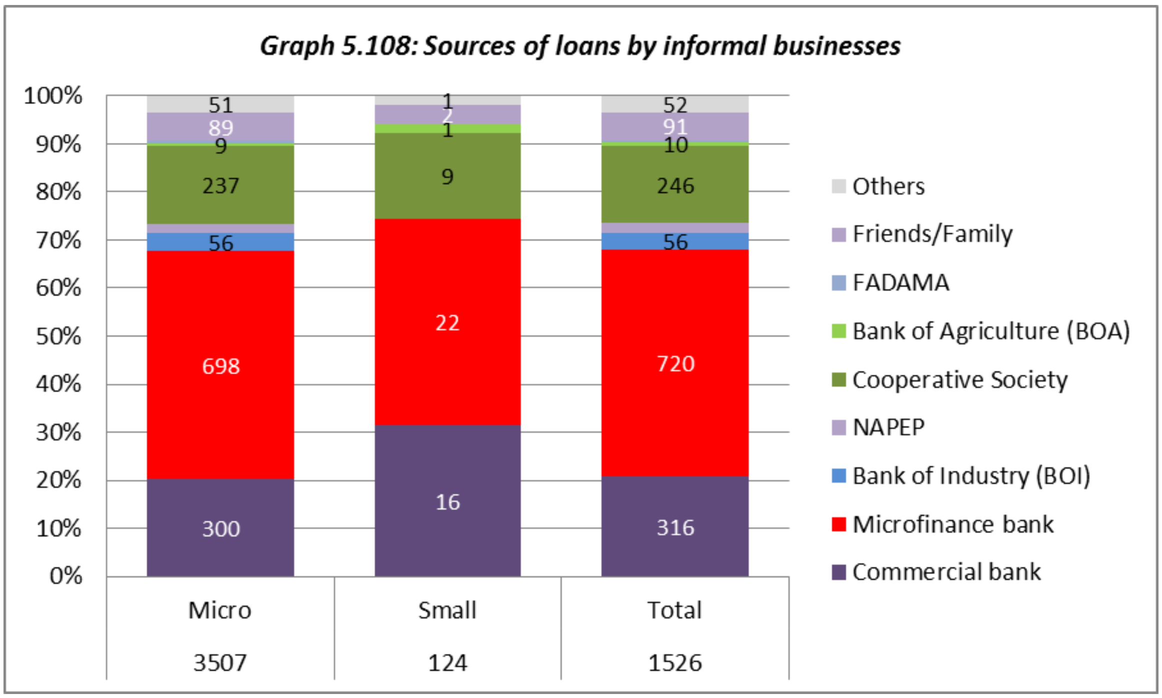
Graph 5.106: Sources of business finance for enterprises

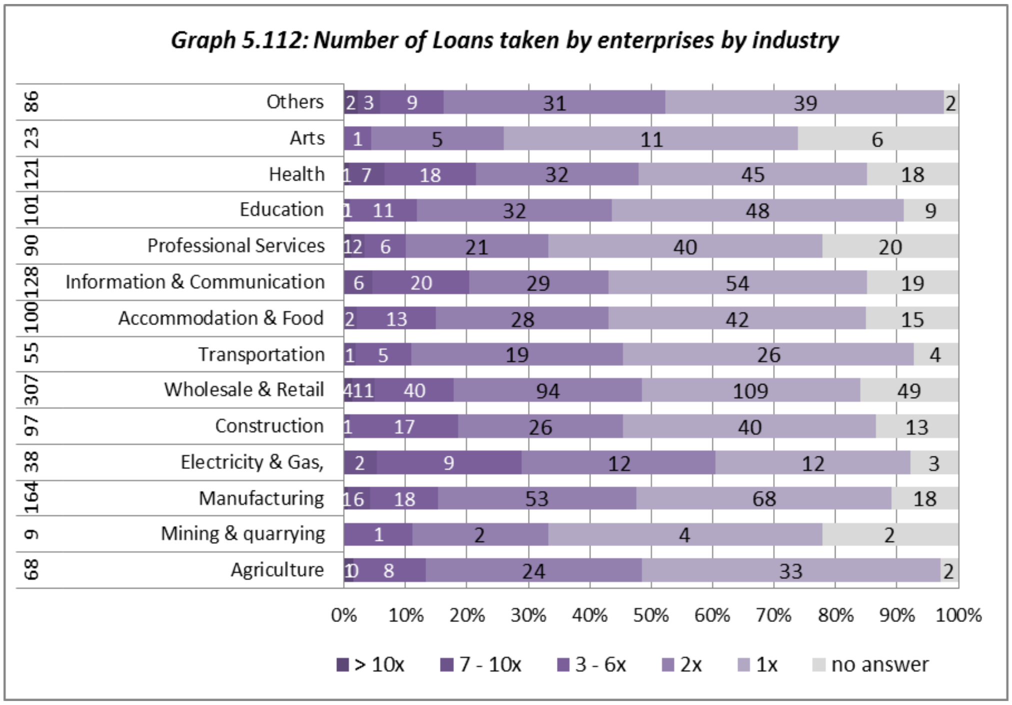


When savings are excluded and enterprises are grouped by size (*Graph 5.107*), a more balanced picture appears. Friends and family members play a principal role in all enterprise size groups, for a total of 27% of all 3,398 lending events. But commercial banks play a significant part as well, accounting for 13% to 20% of loans, depending on size group. Cooperative societies add 12% and microfinance banks a further 6% of loans to enterprises.

A similar analysis for informal sector businesses finds that *microfinance banks* provide a large share of loan financing to *micro* and *small* businesses. While *commercial banks* may be reluctant to deal with the informal sector, they are not completely absent, accounting for 20% of all 1,526 loan transactions.


Graph 5.107: Sources of loans for formal enterprises by size
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
374
179
204
86
135
134
298
302
687
178
43
65
43
58
55
163
111
216
15
5
7
1
1
2
12
5
11
1
1
1
1
2
2
568
228
277
130
194
191
474
420
916
Micro
2399
Small
932
Medium
59
Large
8
Total
3398
Other
Advance payment from buyer
Trade credit from suppliers
Loan from money lenders
Loan from microfinance banks
Leasing scheme
Loan from commercial banks
Disbursement/loan from cooperatives


Graph 5.108: Sources of loans by informal businesses
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
51
89
9
237
56
698
300
1
2
1
9
22
16
52
91
10
246
56
720
316
Micro
3507
Small
124
Total
1526
Others
Friends/Family
FADAMA
Bank of Agriculture (BOA)
Cooperative Society
NAPEP
Bank of Industry (BOI)
Microfinance bank
Commercial bank



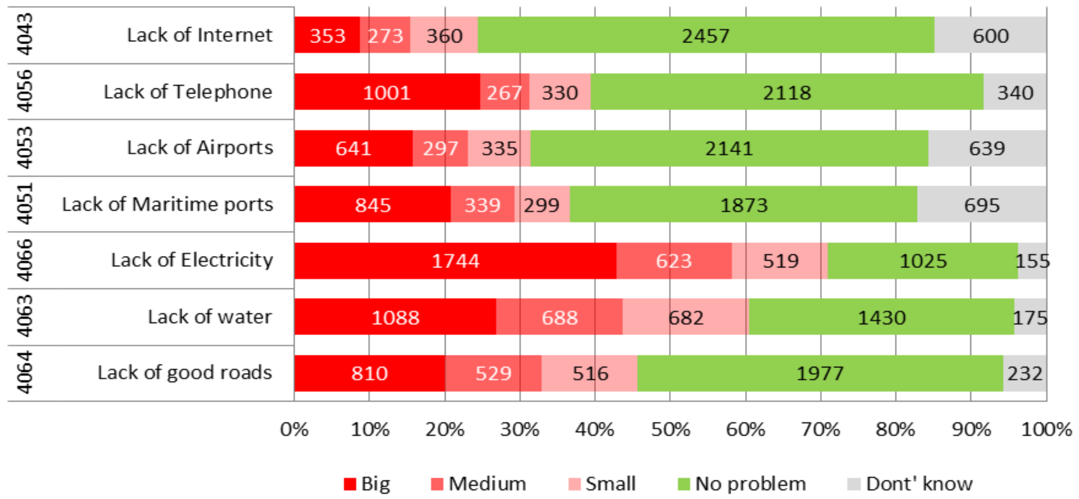
One encouraging finding is that nearly half of formal enterprises that received one loan went on to receive at least one other (*Graph 5.112*). This is a positive sign that financial institutions are performing adequately in addressing the needs of their clients, establishing durable relationships with them. That said, few enterprises take out more than two loans, which is a reminder of the other constraints that would-be borrowers face. Moreover, in the informal sector, a far smaller proportion of businesses received a second loan, let alone additional ones.

The incidence of problems with repaying loans is almost exactly the same (20-21%) for formal enterprises in all size categories, and also for informal micro-businesses (22.5%).

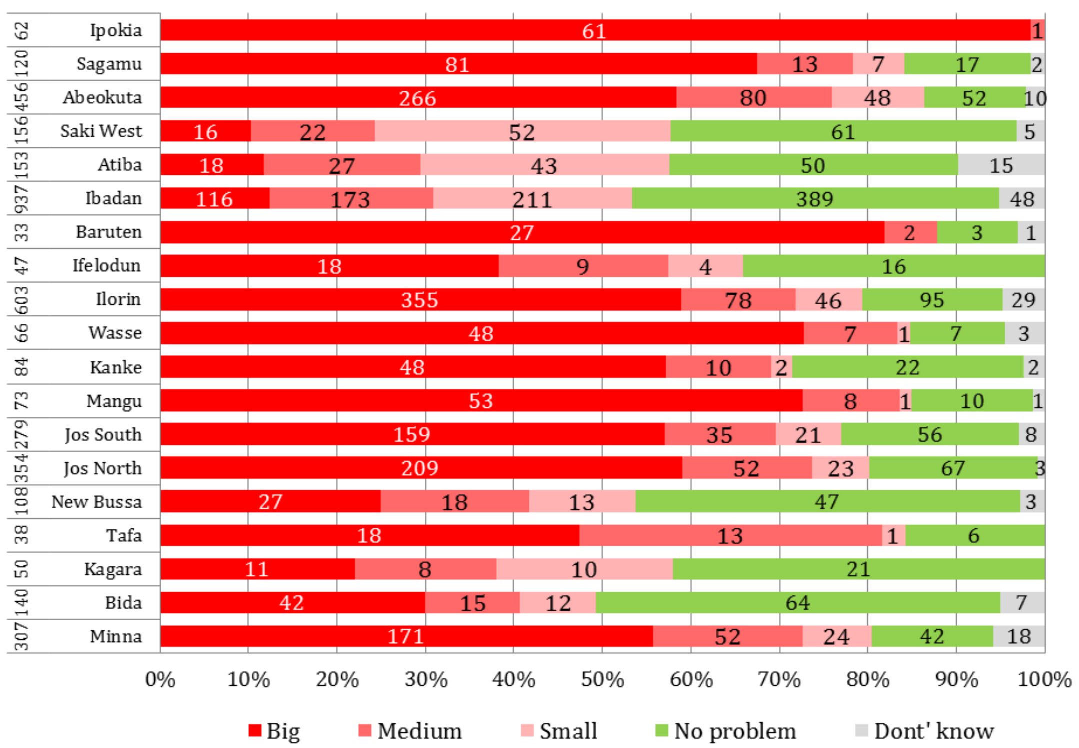
viii. Physical Infrastructure

The physical infrastructure is essential for conducting business in efficient, predictable and timely ways, and its deficiencies introduce major costs to enterprises. Infrastructure problems emerge as a major concern for enterprises in the survey (*Graph 5.116*). The most commonly cited is *'lack of electricity'* (or '*inadequate supply of electricity')*, which 72% of enterprises rank as a hindrance to their growth, and 43% consider a 'big' or severe problem. But other infrastructure areas raise major concerns as well, including poor *water* supply (61%), and *lack of good roads* (46%).

Graph 5.116: Infrastructure problems as a growth constraint on enterprises



Graph 5.121: 'Lack of Electricity' as enterprise-external problem by LGA



Complaints about electric power supply occur at similar rates across the five states in the survey. When looking at individual LGAs, however, significant differences appear (*Graph 5.121*). For instance, in *Ipokia* LGA, 61 out of 62 surveyed enterprises reported power supply to be a big problem. In *Bida* LGA, however, only 49% of enterprises reported power supply as a problem on any level.

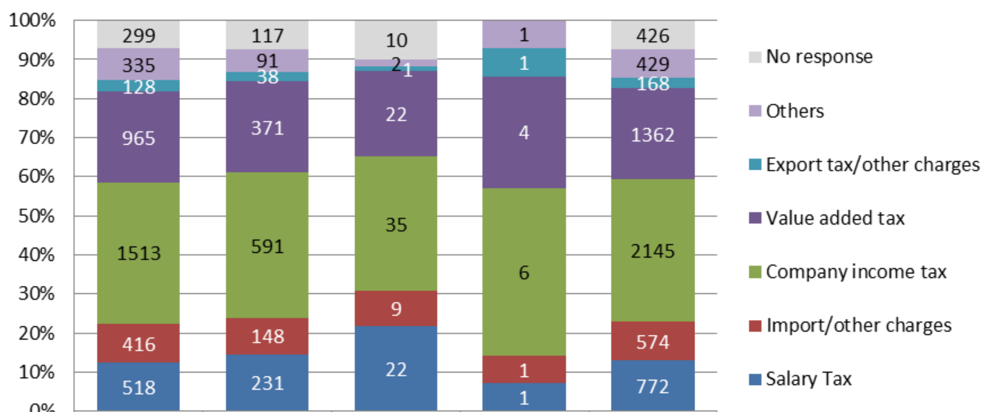
The lack of good roads is felt most acutely in *Ogun* state, and is relatively less severe in *Oyo*. Here again, there is considerable variation by LGA. This is the case for water supply as well, with problems felt the most frequently and acutely in *Baruten, Ipokia* and *Mangu* LGAs, and the fewest problems in *Kagara* LGA.

ix. Regulatory and Administrative Business Environment

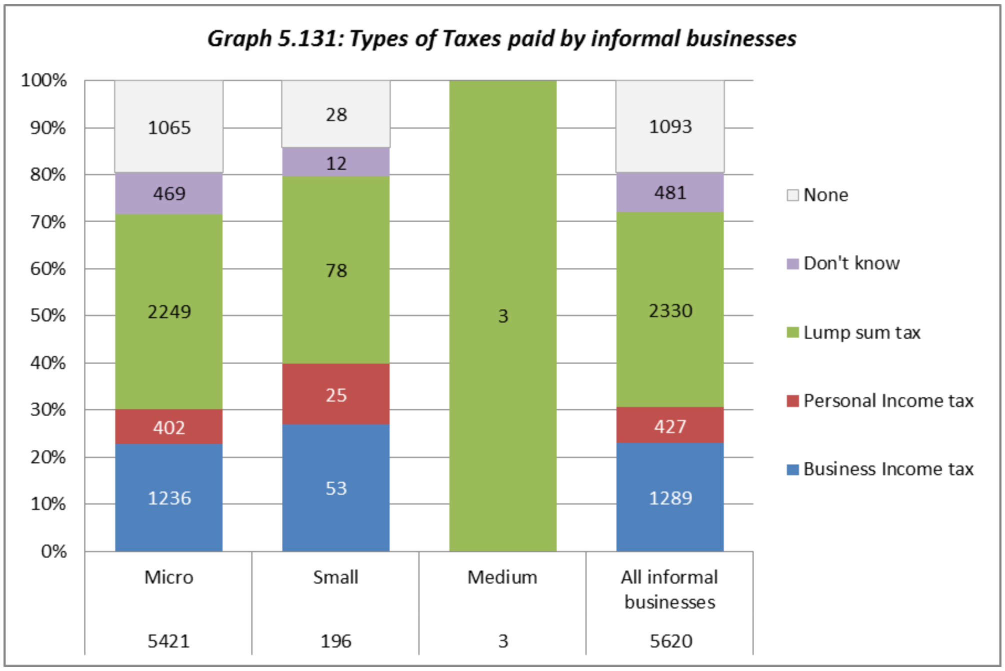
In general, enterprises in the survey are comfortable with the *principle* of taxation; a vast majority (about 90%) agree that paying tax is a civic duty. A smaller proportion, but still a majority, say the *amount* of tax they pay is reasonable. This result holds across industries with only minor variance: there is slightly greater dissatisfaction with tax levels in the *education, arts* and *wholesale & retail* sectors, and the least dissatisfaction in *professional services*.

Respondents were asked to indicate what types of tax they paid (including multiple taxes, when applicable). In all formal enterprise size groups (*Graph 5.130*), the most commonly paid tax is the '*companies income tax.' Value added tax* is also common. Other taxes and levies mentioned were education tax, withholding tax, cattle tax (Jangali), produce tax, signboard levies, development levies, motor park levies, and market levies.

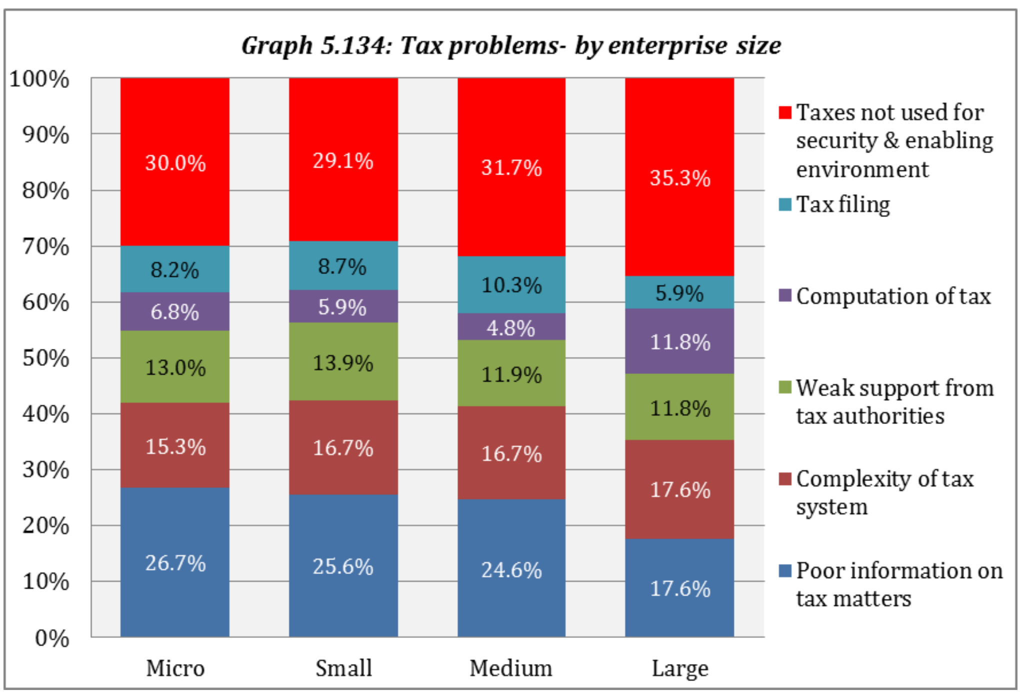
Graph 5.130: Type of Taxes paid by Enterprise Size Groups



Micro	Small	Medium	Large	Totals
4174	1587	101	14	5876
2938	1056	63	9	4066



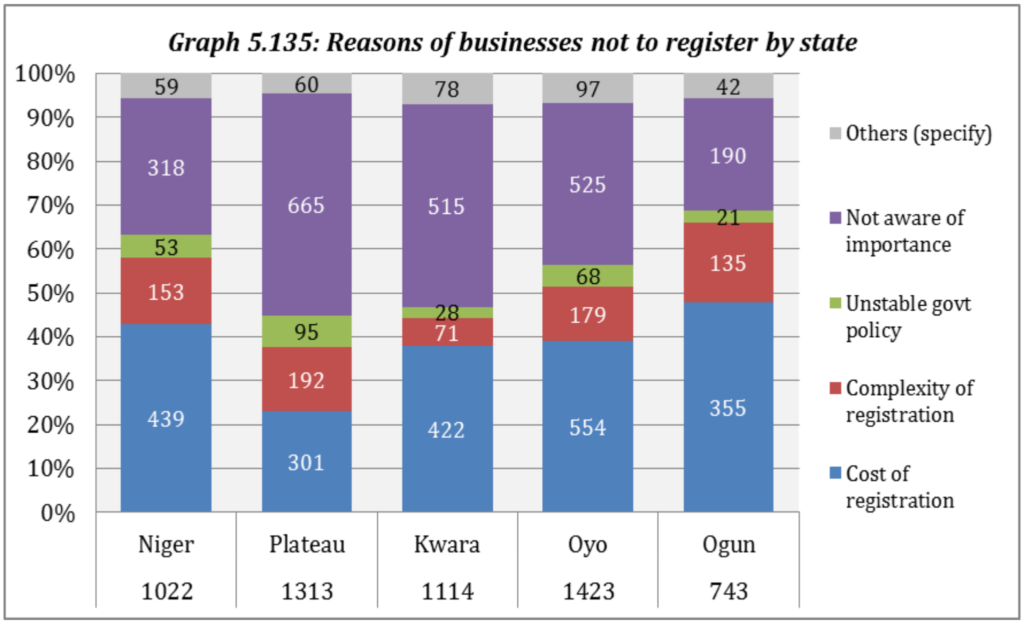
By contrast, a significant portion of informal businesses (*Graph 5.131*) reported not paying any taxes at all (19.4%). For those that do, the most common method is via *lump sum* (43%), i.e., a tax based on income or turnover assessments by the tax official, and not based on accounts. Also known as 'best of judgement,' this method leaves a lot of influence to the official and hence opens opportunities for *corruption*.



It is striking that the main problem that enterprises of all sizes see with the tax system has to do with the *use of tax revenue* (*Graph 5.134*). In other words, while enterprises have specific complaints about tax administration, their bigger concern is that the public sector is not fulfilling its side of the social contract. Addressing this issue is a matter that goes beyond the tax administration, of course. At the same time, the fact that many respondents complain of *poor information on tax matters* is an issue that tax authorities need to address.

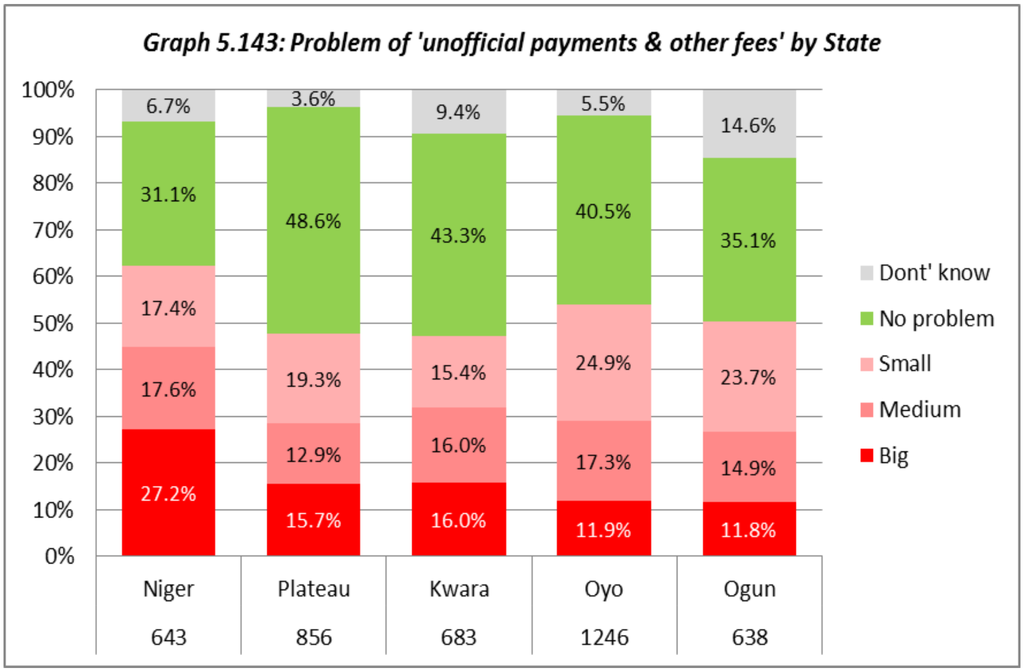
The *business registration process* differentiates formal enterprises (which are registered) from informal businesses (which are not). As indicated by the survey findings, it opens up better access to financing and other services. Yet with the average age of informal businesses nearly the same as that of formal enterprises in each size category, it is clear that many informal businesses simply choose not to register; the survey asked them why (*Graph 5.135*).

The primary reasons cited are *cost* and *complexity* of registering along with a *lack of awareness* of the benefits. Together, these factors account for over 65% of reasons given. The fact that so many are not aware of the benefits of registering also indicates that for many businesses, remaining informal is not viewed as a handicap.



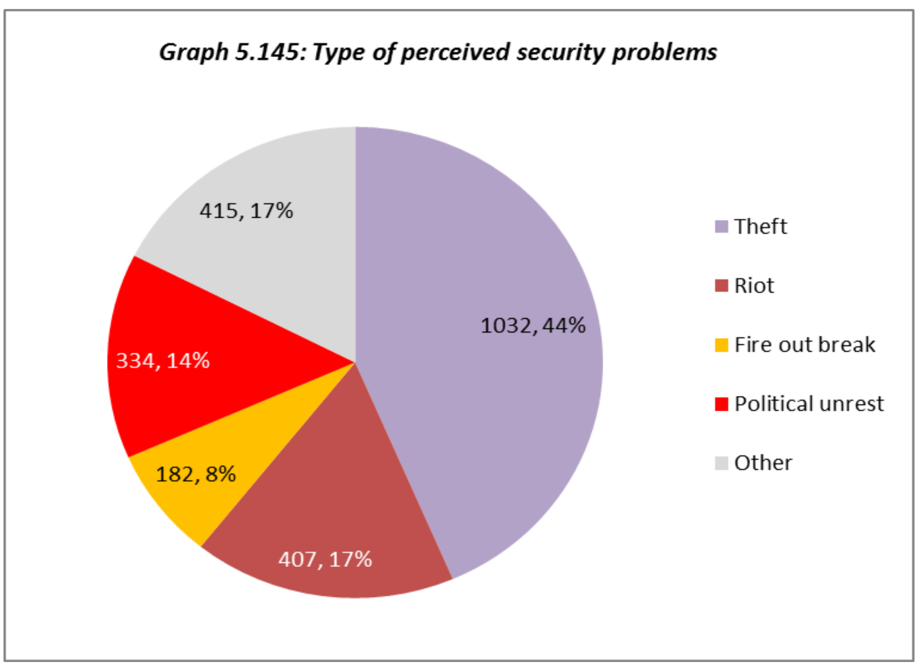
Enterprises that do register have to supply an array of paperwork that appears to differ quite widely. *Large* enterprises require fewer documents, whereas the smaller the business, the more documents needed. As each form comes with a cost, this could be an indication of the high costs of formalizing a business. One surprising observation was that the 'declaration of assets' seems to be infrequently required.

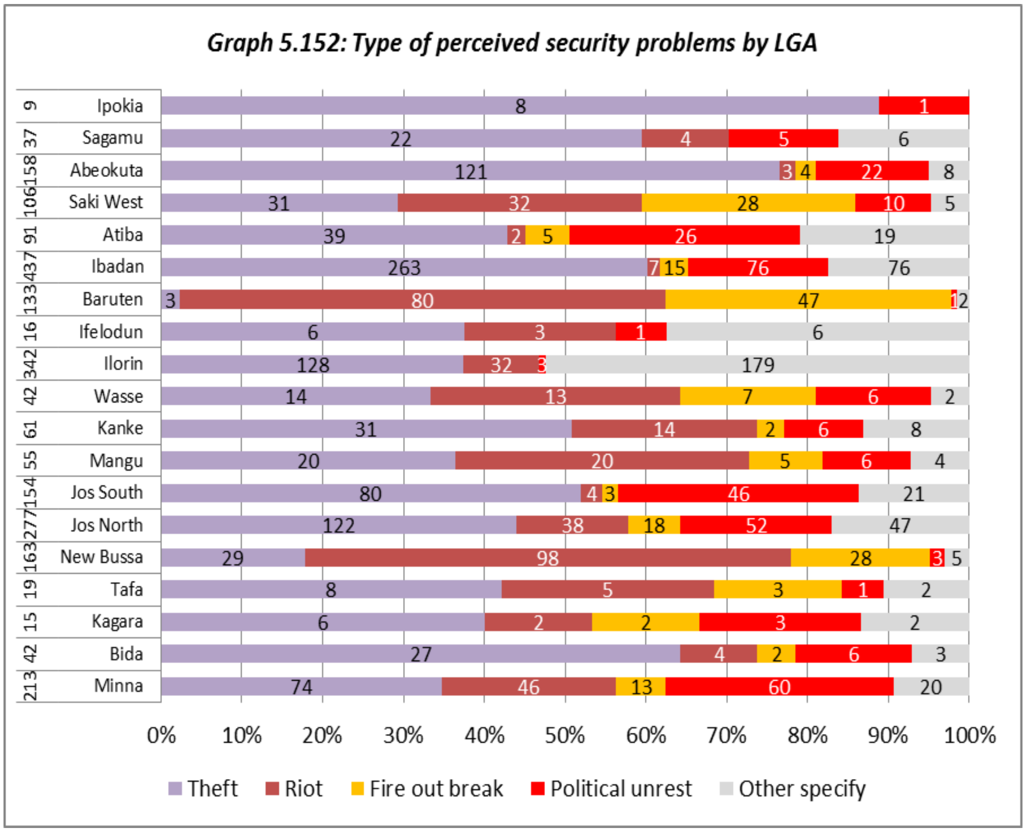
Corruption is a chronic facet of the administrative environment. About half the enterprises surveyed see corruption as a problem, with the most negative perceptions in *Niger* and *Oyo* states (*Graph 5.143*). Corruption is experienced in roughly similar ways across enterprise size categories, but most acutely by medium-sized enterprises, 22.6% of which ranked corruption as a 'big' problem.



x. **Security**

Businesses and enterprises report that they face numerous security risks (*Graph 5.145*). The most common is *theft* (44% of replies), followed by the effects of *riots* or *political unrest.* The exact distribution of security concerns varies a great deal by LGA, however, reflecting political and socio-economic conditions at the local level (*Graph 5.152*).





b. Ranking the Issues: Perceived Enterprise-*Internal* versus External Problems

A benefit of the EBS is that it captures a broad range of constraints that the people who run enterprises and businesses experience as obstacles to their competitive growth.

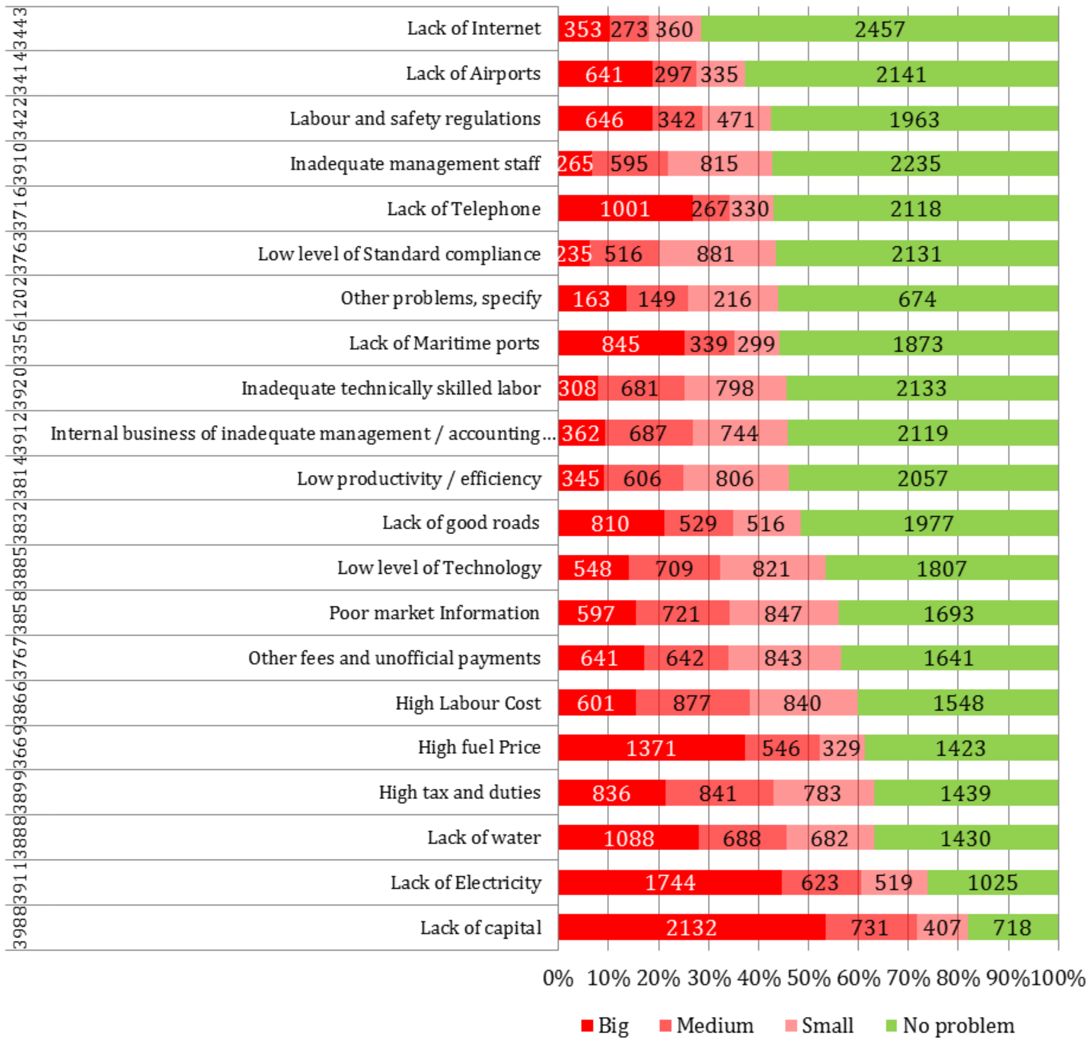
Some of these challenges are *internal* to the enterprise, i.e. ones that it is typically up to the owner or manager to address directly. Others are *external* to the enterprise, i.e. they result directly from the infrastructure, business and regulatory environment. These are constraints that owners and managers cannot address alone, and that require consultation and cooperation with government or public sector agencies. Economic *policies*, the allocation of *public investment* and other resources, and administrative and institutional *reforms* all affect the nature and severity of *enterprise-external* constraints.

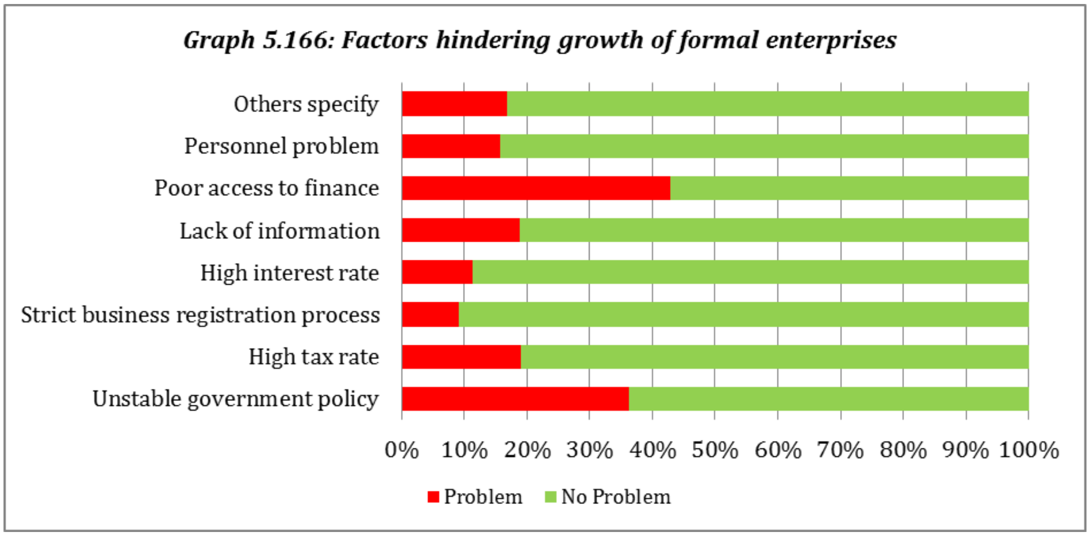
In practice, the distinction between internal and external constraints can be blurry, as some internal challenges, e.g. recruiting skilled labour or raising capital, depend in part on the general business environment if they are to be successfully addressed. As the agency responsible for the promotion of MSME development, SMEDAN has a leading role to play on both fronts, by assisting enterprises and businesses to make sound decisions, while galvanising public-private cooperation and action by other agencies.

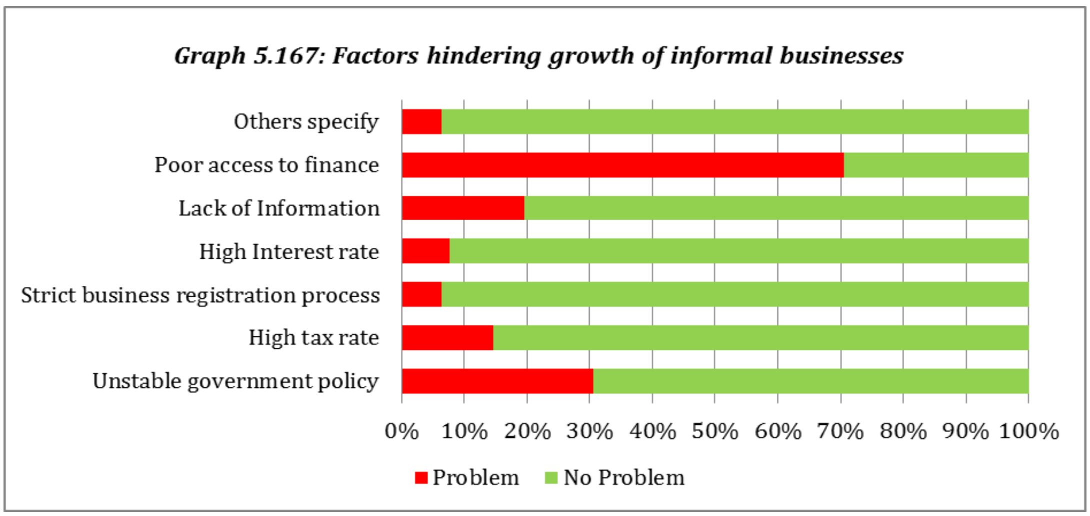
While individual sub-sections of the report address specific internal and external constraints, the survey design allows these to be consolidated, resulting in a *general hierarchy of all perceived constraints* on development for formal enterprises (Graph

5.165). It shows that '*lack of capital*' is the biggest and most severely felt problem, followed closely by *infrastructure* deficiencies (particularly concerning *electricity* and *water*), and then by '*high taxes & duties*,' the '*cost of fuel*,' and the '*cost of labour*.'

Graph 5.165: Perceived Enterprise-internal & -external Constraints







A salient difference between the experience of formal enterprises and informal businesses appears when both groups evaluate the same menu of problems and identify which are obstacles to growth (*Graphs 5.166* and *5.167*). Both groups report *'poor access to finance'* as the primary issue, followed by *'unstable government policy,'* with other factors in roughly the similar degrees. However the severity of the top problem access to finance, while already serious for formal enterprises (43% reporting it as a problem), is much more acute still for informal businesses (71%).

Taken together, it is significant that many of the top issues that EBS respondents see deterring them from developing their business are *enterprise-external*, yet the most urgently felt issue of all, *'lack of capital,'* is largely *enterprise-internal*: it is apparent that there are numerous steps that enterprises and businesses can take to locate, qualify for, and secure financing. This suggests that initiatives that promote business and financial skills development and informed decision-making by economic actors are just as important as those that address the business-external environment proper.

6. Conclusions: The Need for Reform and Action

The EBS survey data provide a panorama of actual and perceived business development constraints for MSMEs in Nigeria. The methodology and sample size make it possible to distinguish these issues and assess their prevalence and severity according to multiple factors. These include formal versus informal sector, enterprise size, industry and location. The portrayal that the EBS offers of the business environment for MSMEs can help focus remedial action by both public and private sector on the most critical issues and design effective interventions, policies and reforms.

a. Private Sector Development: investment, innovation & enhanced competitiveness of enterprises

The central challenge of enterprises and informal businesses is to expand output and *become or stay competitive* on the national and international market. To achieve higher output and contribute to industry and national development, particularly in light of Nigeria's ambitious growth targets, *investment* and *innovation* is mandatory. This includes *product* and *process innovation* and the transition to a *higher level of production* to reap *economies of scale* and reduce unit cost.

It emerges from the EBS survey that skills – particularly management, marketing, financial and technology skills – should be a priority policy focus. The fact that *perceived* and *actual* business constraints differ is due in large part to inadequate management skills of owners/managers of the EBS sample. With greater *professional management* and *marketing skills* as well as *technological competence*, MSMEs will make business decisions on a sounder basis. In addition, bolstering *financial management skills* will help to ensure the design of viable business plans and convincing loan applications, and thereby improve access to investment finance from appropriate sources. Investment in, and *ability to use, ICT tools* is a must in today's globalised world. The integration of own production into *international value chains* and the knowledge of *export market potentials and risks* are also mandatory.

This skills development is *necessary* to ensure that MSMEs undertake sound investments; but it is *not sufficient*. They must be offered a *favourable and reliable business environment (BEE) and an improved investment climate* in which to make their decision.

b. Enhancing the Business & Investment Environment and Reducing Transaction Cost

An improved legal and regulatory framework, physical infrastructure institutional and social infrastructure all contribute to a 'Business Enabling Environment' (BEE). The EBS findings suggest that the priority areas for public poliy should be:

- *'Rule of law,'* dependable and stable macroeconomic environment (prices, exchange rates, taxes, tariffs & fees), streamlined and business-friendly

administrative procedures and regulations as well as competent institutions to deliver public service efficiently.
- Education and training systems (to ensure an adequately skilled labour force), health systems, physical and social security systems, R&D
- Adequate physical infrastructure (communications, energy, logistics etc.) and related institutions to ensure sustainable management and maintenance systems for production processes and trade as well as the society at large.

These challenges require pursuing *public sector reforms* and making appropriate *resource* and *budget allocations*. This task is complex and at times may seem overwhelming. It faces *'resistance to change'* by a multitude of vested interests. It requires political leadership, strategic alliances, public support and long-term persistence.

c. Human Resource Development

Business skills of MSME owners and managers are only one part of the skill requirements. The continued globalization of production and markets as well as the increasing technology content and sophistication of products require *higher skill levels* of the *labour force* as well as of *consumers*. *General, higher and specialized education systems* and institutions are required to keep pace with innovations created elsewhere that influence world markets. *ICT and more efficient logistics* (leading to lower transport costs and transit times) affect all aspects of life, industries and locations and, thereby, determine what is produced where and how. Human resource development is critical to business, economic and social development. Therefore, education policies, standards, the type and quality of institutions matter. As shown in the respective section, *vocational*, *technical* but also managerial skills are inadequate and need urgent attention for the sake of employment and income generation through business development. The quantity and quality of skills development need to be oriented towards the demand of industries and markets.

d. MSME Development Strategy and Action Plan

The *promotion of MSME development* is geared at *dynamic* and *equitable* economic growth. The size-specific business development constraints need attention to foster income and employment creation in this section of the economy. It is essential that any MSME policy initiative be sensitive and responsive to the different obstacles and potentials of *micro, small* and *medium* enterprises as well as informal businesses. The improvement of business framework conditions needs to consider the concerns of *large* enterprises as well, due to their weight in income, employment creation and export value, as well as their leadership role in innovation and human capacity building. The business potential for MSMEs to link up with *large* enterprises in value chains is another reason.

The potential and vitality of some sections of MSMEs are evident from the survey, as is their resilience in the face of a number of capacity shortfalls and external constraints, on one side. However, the danger remains for many MSMEs, on the other side, that they remain stuck at low levels of *productivity* (lack of economies of scale) and *competitiveness*, as *enterprise-internal inefficiencies* compound the *higher transaction costs of a disabling business environment*. The approach must be to strengthen the stronger ones and support those which have a realistic potential for growth and competitiveness through reducing 'transaction costs' and risks.

In this context, the EBS shows that 'access to finance,' 'costs and time requirements of business registration,' and other administrative procedures are a heavy burden for MSMEs in general, and are out of range for many *micro* and *small* enterprises and businesses. Skill and asset constraints as well as problems in accessing business finance add up to an *inimical environment* for MSMEs. This requires targeted remedial action for each size-specific enterprise/business constraint, industry or location that the EBS has identified.

The *focus of action (including adequate resource allocation) on the most critical constraints* enhances the effectiveness and efficiency of policies and action programmes. This orientation of MSME policy implementation, the related action plan formulation and allocation of financial and other resources should be the main approach of a *MSME strategy*. The integration of MSME policy with industrial policy and financial sector reforms is also mandatory. The creation of a *National SME Council* under the leadership of the President is an important step towards a more effective MSME policy integrated with necessary sector and general economic as well as institutional reforms.

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