Sustainability of small and medium enterprises development

The case of the National Directorate of Employment in Akure, Nigeria

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ABSTRACT
The article provides beneficiary perceptions on the effectiveness of the National Directorate of Employment policy on selected agro-chemical small and medium enterprises in Akure, Nigeria. This is against the backdrop that small and medium business development play important roles but such roles are even more significant in a developing country’s economic transformation. With poverty and unemployment at unacceptable levels and currently a big challenge to the government of Nigeria, questions must be asked about current initiatives, so that lessons can be harnessed to better position future programmes that generate employment through activities of Small and Medium Enterprises. Thus, this article focuses on the National Directorate of Employment (NDE) programme, with its main objective aimed at catering for unemployed youth across the country. Within the NDE programme, the researchers selected the agro–chemical sector in Akure, Ondo State, with a view of understanding beneficiaries’ insights on SME development and its sustainability in the NDE. The study comprised of mixed methods (qualitative and quantitative approach) using both primary and secondary data. Empirical data was presented, analysed and recommendations drawn for future programmes.

INTRODUCTION
Nigerian economy is currently rated as the biggest in Africa with a nominal Gross Domestic Product (GDP) of $510 billion, per capita income of $2,410. (Deutsche Bank Research Report 2014:2) The country’s economy may look significant and impressive with the above mentioned GDP and per capita income, however the nation is still regarded as a poor country ranking 153rd out of 187 countries (United Nation’s Human Development Index 2014). It is
a fact that, unemployment remains high and the number of people living in poverty has actually increased. Nigeria, as a nation, is endowed with numerous investment potential, business opportunities, abundant, vibrant, dynamic human and natural resources. Utilisation of these resources requires the ability to identify potentially useful and economically viable fields of endeavours as well as good policies to facilitate development.

According to Subair (2013), the unemployment rate in Nigeria is at 22%, while the youth unemployment rate is 38% with about four million people entering the labour market every year after graduation from institutions of higher learning. Youth unemployment puts the country at risk, according to International Labour Organization; unemployment is among the biggest threats to social stability in Nigeria. As Nigeria’s youth unemployment is alarming at 38% while the global rate is at 5.6% (ILO 2012).

With such alarming unemployment figures, government must explore possible options, one of which is the development of small business. This is in line with previous studies that have also established that SMEs stimulate economic growth and generate employment opportunities for the disadvantaged segment of the population including women and the poor (Oluremi and Gbenga 2011:9; Thomas and Mueller 2000:45; Reynolds 1987:54).

The development of small business has been variously referred to as a “source of employment generation” Adejumo, (2000:89). This is because small business activities are capable of making positive impacts on the economy of a nation and the quality of life of the people Adejumo, (2000:112). According to the Global Entrepreneurship Monitor Report (2000:67), about 70% of an area’s economic performance and well-being is dependent upon how entrepreneurial the area’s economy is. Nigeria, as a nation, has an abundance of investment opportunities and natural resources amongst others. Utilisation of these resources requires the ability to identify potentially useful and economically viable fields of endeavours as well as good policies to facilitate development. This article presents a critique of beneficiaries’ insight into entrepreneurship policies specifically as it relates to the National Directorate of Employment small business development and sustainability.

**ROLE OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA**

Research has shown in Nigeria that SMEs account for more than 95% of all productive activities (besides oil and agriculture) with the capacity to employ over 70% of the work force as well as the ability to contribute about 70% to GDP (Ubom 2003:20; Ojo 2003:24:25). These are indicative of the seminal role SMEs can play as a strong agent of economic growth and a fast track out of the present devastating and debilitating scourge of poverty. According to United Nation Conference on Trade and Development(UNCTD 2004), “It is a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improves forward and backward linkages between economically socially and geographically diverse sectors of the economy; provides opportunities for developing and adapting appropriate technological approaches; offers an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development among others”.

According to (Udechukwu 2003:11) small and medium enterprises contribute to improved living standards, bring about substantial local capital formation and achieve high
level of productivity and capability. SMEs are recognised as the principal means of achieving equitable and sustainable industrial diversification and dispersal. It has been fully recognised by government and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of SMEs is an essential element in the growth strategy of most economies and hold particular significance for Nigeria. SMEs also serve as veritable means of mobilisation and utilisation of domestic savings as well as increased efficiency through cost reduction and greater flexibility. They have been very prominent in the manufacturing of bakery products, leather products, furniture, textiles and products required for the construction industry (Olorunshola 2003:43). They also provide veritable means of large-scale employment, as they are usually labour intensive and can provide training grounds for entrepreneurs even as they generally rely more on the use of local materials (Anyanwu 2003:20).

According to the United Nation International Development Organisation, the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of classification. The European Union defines “Small Medium Enterprises in terms of employment, turnover and balance sheet. To be classified as an SME, an enterprise must satisfy the criteria for the number of employees and one of the two financial criteria, that is, either the turnover total or the balance sheet total. In addition, it must be independent” (Subrahmanya 2005).

Table 1 European Union definition of SMEs

<table>
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<tr>
<th>Criteria</th>
<th>Micro Enterprises</th>
<th>Small enterprises</th>
<th>Medium enterprises</th>
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<tr>
<td>Number of employees</td>
<td>&lt;10</td>
<td>&lt;50</td>
<td>&lt;250</td>
</tr>
<tr>
<td>Turnover (million euros)</td>
<td>2</td>
<td>10</td>
<td>50</td>
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<tr>
<td>Balance sheet total(millions euro)</td>
<td>2</td>
<td>10</td>
<td>43</td>
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Chibundu (2006:3) in an interview with the Vanguard Newspaper on Strategies for Nigerian SMEs to grow economy opined that the role of SMEs in the national economy cannot be underestimated. He stated that the impact of SMEs is experienced in the following ways: greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

Nigeria needs to create a friendly and enabling environment for the nurturing and development of SMEs as they could play crucial roles expected of them in economic transformation. The key roles of SMEs include mobilisation of domestic savings for investment, significant contribution to gross domestic product (GDP) and gross national income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification. This can, however, only be realised with the existence of a responsive and vibrant industrial policy
and involving government’s overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilisation of economic resources.

**BACKGROUND OF THE NATIONAL DIRECTORATE OF EMPLOYMENT**

The National Directorate of Employment was established in 1986 under the then military Head of State, General Ibrahim Babangida. The mandate of the National Directorate of Employment is to tackle employment problems from both the short and long term perspectives, by formulating and administering job creation programmes as well as employment related training programs. The National Directorate of Employment was established by Act CAP 250 of the laws of the Federal Government of Nigeria. The Act was published in the *Federal Government (extraordinary) Gazette* No. 61 of 20th October, 1989, which gave the NDE legal backing. The law establishing the NDE presented its mandate as follows:

- to design and implement programmes to combat unemployment;
- to collect and maintain a data bank on employment and vacancies in the country with a view to acting as a clearing house to link job seekers with existing vacancies in collaboration with other government agencies;
- to articulate policies aimed at developing work programmes with labour intensive potential; and
- to implement any other policies as may be laid down from time to time by the board established under Section 3 of its enabling Act.

**NATIONAL DIRECTORATE OF EMPLOYMENT ACTIVITIES**

The quest for socio-economic and industrial development in Akure over the past years have been less than desirable, due to an absence of a strong, vibrant and virile small and medium enterprises sector. Given a population of well over three million people in Ondo State, vast productive and arable land, rich variety of mineral deposits, as well as sufficient human, capital and other resources, Akure should have been a haven for small and medium enterprises with maximum returns.

According to the Director-General of the National Directorate of Employment, Mallam Abubakar Mohammed’s (*NDE quarterly report, 2014*) NDE have successfully created 2.5 million informal jobs nationwide since its inception, of which 254 000 jobs were created in Ondo State. The total number of jobs created in Akure were 55 700 and 2 500 of these jobs created in Akure were in the agro-chemical related sector. The National Directorate of Employment office in Akure coordinates its activities across the State, which includes disbursement of funds to qualified SME operators and running an awareness campaign. According to the Federal Office of Statistics reports in 2014, the population of Ondo State was 3 441 024 and 14% of the population, 481 743 people were unemployed. The establishment of the Agency is an opportunity to improve self – enterprises to symbolise the idea of self-employment, self-sustainability and self-reliance in preference to wage employment.
The National Directorate of Employment has developed small and medium enterprises in Akure and the nation as a whole. With the high rate of unemployment in Akure, which majorly is caused by lack of employable skills, vocational skills and empowerment, the existence of the agency since 1986 has assisted in employment generation and SMEs development. However, much is required from the agency to achieve its mandate effectively and efficiently because they are working below their set target of 50% benchmark.

**PROCESSES IN AKURE**

The purpose of this research is to provide beneficiary insights on the National Directorate of Employment policy on selected agro-chemicals small medium enterprises in Akure. The research makes use of mixed methods (qualitative and quantitative method which needed to be analysed and interpreted. The researchers deployed purposeful as well as snow ball sampling in identifying relevant participants in this research. The method enabled the researcher to arrive at a reliable conclusion on beneficiary perceptions of the National
Directorate of Employment policy on SMEs development in the agro-chemical sector in Akure, Ondo State.

The following are key processes that were deemed important for small business development by beneficiaries. They further provided empirical data based on their experiences on how they perceived the effectiveness and adequacy of the NDE’s ability to meet their specific needs, to ensure successful small business development.

**Training**

Only 24% of the respondents stated that the training provided by the agency was appropriate. The National Directorate of Employment policy on training, skills acquisition capacity building is currently below the benchmark set. Thus the respondents argued that they were inadequately empowered through the current training provided in Akure. According to the programme records, the National Directorate of Employment programmes offered training to 11,078 people in the year 2012, while in 2013 the figure dropped to 10,031. Thus, many of the respondents stated that there is an urgent need for the agency to expedite action to ensure that they work towards their set target and benchmark of 50% in terms of appropriateness and implementation of the training and capacity building programmes. With the majority of the respondents arguing that the National Directorate of Employment needs to restructure and streamline all their programmes and focus more on youth employment through effective hands on acquisition of skills and training programmes. The respondents argue that the current training programmes are not as practical as it should be, with the bulk of training related activities being on rural employment promotion activities.
Soft loans and equipment

The pie chart above indicates that only 28% of the respondents agreed that they benefitted from soft loans and equipment needed for business empowerment. Again, this is below the target of 50%. A total of 70% of the respondents argued that administrative processes of the NDE could be improved to ensure that the targeted sector (youth) actually benefit. The respondents were of the opinion that the rate of soft loans and equipment distribution was low due to inefficiencies that hamper the administrative processes, corruption and nepotism and poor monitoring and evaluation systems. This suggests that the programme output is less than desirable when compared to the budget allocated to the Agency. Output tracking is critical for reporting purposes, and according to Ile et al. (2012:42), it checks if “policy objectives are being progressively attained while making sure public resources (including time, finance, human resources) are effectively and efficiently utilised”.

The provision of infrastructure and tools by the National Directorate of Employment to empower trainees after the mandatory training programmes indicate that 47% of trainees were empowered with tools to support their businesses in 2011 which decreased to 41% in 2012. This figures indicates that the Agency has not fully empowered participants that attended training sessions. Much needs to be done to improve on its performance. Perhaps this explains the reduced funding from 2011-2013. In the 2011 financial year, budgetary allocation to the National Directorate of Employment Agency was N633,7 million against a difference backdrop of N611,4 million allocations in 2012. The amount budgeted for the National Directorate of Employment in 2013 was N603,2 million, with a major difference of N30,5 million compared to 2011. This is a significant amount and it shows there was a major decrease in the funding of the Agency. This is in line with general programme management, that programmes that do not show acceptable results are likely to have less resources. While respondents note that government intervention is urgently required to support NDE with more funds, it may actually not be a matter of increasing funds but rather of developing appropriate systems to support the distribution of the funds, especially soft loans and equipment.

Mentoring

Of the respondents polled, only 28% people were mentored by the National Directorate of Employment Unit. Often this was after persistent attempts on the part of the beneficiaries to obtain appropriate mentorship support. The respondents suggest that the mentorship should be formalised with clear targets to ensure that the results anticipated are actually attained. A well developed and structured mentoring programme provides opportunity for programme improvement through participatory monitoring and evaluation systems, that can gather programme performance information directly from the beneficiaries (Ile 2014:194) Considering this result from the chart above, it is obvious that these small businesses will be unable to operate effectively and ultimately collapse if there are inadequate mentorship systems and if the mentorship is left to chance.

Monitoring progress and evaluation

The results on the chart indicated that only 14% of the respondents agreed that the National Directorate of Employment monitors the activities of the recipients granted loans and
received other support facilities. The majority of the beneficiaries noted that their activities were poorly reported on and not properly monitored and as such not evaluated to determine the progress made. Thus, even if the financial investment is increased, with poor monitoring and evaluation systems, the resources could be used for other unrelated activities.

Non-committal responses

The chart indicates a non-committal response of 5%, representing the respondents who did not respond or presented non-committal responses.

Figure 2 Respondent’s insights on sustainability of SMEs in Akure

![Pie chart showing respondent's insights on sustainability of SMEs in Akure]

The respondent’s opinions about the NDE policy and its implementation towards SMEs development and sustainability are shown in the chart above is discussed below.

Excellent

Considering the chart above, 8% of the respondents claimed that the National Directorate of Employment were able to sustain its policy towards the development of small and medium enterprises in Akure. Amongst these respondents who claimed that it was an excellent policy to sustain SMEs were the most privileged and opportune because they seemed to have the right network of individuals in the Agency, or perhaps in government who were in a position to respond promptly to their help.

Good

The respondents who claimed that the Agency’s programme was able to sustain small medium development in the agro-chemical sector in Akure were 6%. This is shows poor
confidence in the NDE processes and suggests a service delivery failure. It is obvious that policy sustainability range is not acceptable as it is well below 50% of the accepted standard set by NDE. The difference is unacceptable and much needs to be done by the Agency. The National Directorate of Employment should be strategically positioned, in order to deliver effective and efficient services as regards its mandate set aside in the policy of the National Directorate of Employment.

Fair

A total of 29% of the respondent claimed that the Agency’s policy outlook in terms of its sustainability is fair. This response indicated that the Agency could improve in discharging its duties and responsibilities. Some of the areas identified for attention by the respondents include: staff training, appropriate beneficiary training, mentoring, monitoring and evaluation. They note that these activities could be improved and more effective systems developed, if the current standards were to be significantly improved. There is an urgent need to ensure that appropriate steps and measures are put in place to achieve the set goals as well as fulfil the mandate of the Agency in discharging its duties and responsibilities.

Poor

The chart above shows that over half, i.e. 51% of the respondents reported that the implementation of the policy of the Agency towards the development of SMEs sustainability in the agro-chemical sector was less than desirable. This is a large number and suggests that the policy may likely not yield the expected outcome if the issues identified are not corrected. Amongst, the issues raised, the one that seemed to be the most prominent is the issue of corruption and nepotism amongst this group of beneficiaries. There is an urgent need for NDE to act and respond fast to ensure that, more people in the sector did not only benefit from their policy and programmes, but that such support was sustainable through effective monitoring and evaluation mechanisms.

The sustainability of the NDE policy and its programme towards SMEs development deduced from the chart above is not encouraging. It is performing below its target and is not meeting its goals, objectives and mandate. The NDE needs to focus on supporting small and medium enterprises in Akure to move to higher value-added links in the value chain, particularly for labour intensive and low technology based enterprises. Reduce the financial constraints, operation and expansion of viable and sustainable development of SMEs, promoting synergy between financing schemes and developing other complementary enterprise support programmes, provision of improved infrastructures, support and marketing facilities with special emphasis on small business development strategy.

NDE CONSTRAINTS IN ENHANCING SMALL AND MEDIUM ENTERPRISES DEVELOPMENT

The National Directorate of Employment is saddled with the responsibility of creating jobs, specifically self-enterprises to ensure self-employment, self-reliance and sustainability of the
SMEs. Over the years, the difference in the supply of and demand for jobs by young school leavers and graduates in Nigeria have increased tremendously. The National Directorate of Employment has to deal with challenges, some from the micro environment and others from the macro environment. The issue that cuts across both micro and macro environments and affects performance is political instability. This has negatively affected the performance of the Agency responsible for policy enunciation, monitoring and implementation, resulting in distortions in the macroeconomic structure and its attendant low productivity. These and other problems constitute drawbacks to the development of SMEs which, to all intents and purposes provide the critical building blocks for sustainable industrialisation and economic growth. (Enugu 2005:31)

From the empirical data collected, the beneficiaries identified the key challenges faced by the NDE as follows:

- **Inconsistency in government policy and governance**
  There appears to be inconsistencies in government policy implementation and these have an impact on the day to day activities of the agency. When a new government comes into power, they adopted their own new policies or at least a different interpretation of the same policy, and jettison past policies and practices. This has an adverse effect since there is no continuity.

- **Inefficiency and ineffectiveness in administrative system**
  The administrative system seems to be ineffective and inefficient. Employees seem to ignore the prescribed procedures and processes. The majority of them are inefficient in discharging their duties and responsibilities. Such inefficiencies provide opportunities for corruption as beneficiaries seek desperate means to access business support. There is a need for adequate training and retraining of staff to meet the challenges of their respective jobs.

- **Poor working environment including infrastructural inadequacies**
  The National Directorate of Employment lacks a conducive working environment as most of the infrastructures are obsolete and the tools and equipment they work with are limited. This hinders the officials in discharging of their duties and responsibilities.

- **Poor human capital development (both staff and beneficiaries)**
  One of the major challenges experienced by the Agency is the poor quality of the personnel. The employees are not equipped adequately and this have implications in discharging their duties and responsibilities. Likewise, it appears that more training is required to ensure that beneficiaries get the most of the facilities at their disposal.

- **Unwieldy scope of the programmes resulting in resources being thinly spread among projects**
  The National Directorate of Employment has various programmes aimed at poverty eradication, employment generation and skills empowerment. These programmes involve extensive resources and require personnel to ensure that they discharge their duties and functions effectively and efficiently. However these programmes demand the bulk of the Agency’s funds, thus affecting their primary programme aimed at employment generation. It requires a clear focus and assurance that there are tangible deliverables instead of having too many programmes and activities with little output.

- **Low morale among personnel of the directorate**
  The personnel are not motivated in discharging their duties and responsibilities and this has a negative effect on their performance. This has led to low productivity
thereby establishing a perception of a dysfunctional and unproductive public sector. Furthermore, there seems to be no effective performance management system in place, thus it affects their productivity.

CONCLUSION

The National Directorate of Employment was established about 27 years ago, however, the NDE's response to this phenomenon of youth unemployment, is unsatisfactory. However, the following recommendations may indeed assist in developing a turn-around strategy that adequately responds to current unemployment pressures in society.

These recommendations are:

- The National Directorate of Employment has many programmes to support SME development. However, the capacity and human resources to adequately provide and run these programmes effectively and efficiently successfully is limited. This requires adequate resourcing in terms of training.
- There is need for adequate publicity and marketing of the various programmes run by the Agency, so that the public in general, especially stakeholders will be aware of the NDEs activities and programmes.
- There is persistent government influence on the activities of the NDE. It should be an independent institution with adequate funding and expertise in order to operate effectively and efficiently. Thus it could achieve the desired results, goals, objectives and mandate.
- Corruption and favouritism are rife. There is perceived corruption from the top level to the middle level in the Agency. Funds allocated to the Agency by government should be monitored and accounted for to the public.
- Insufficient funds remain a big challenge for the NDE to operate and be sustainable. The Agency allocation from government is insufficient, given its mandate. A large proportion of funds allocated to the Agency are meant for administrative and operational cost while the remaining little funds are disbursed to SME operators as loans. The agency should also consider generating additional funds to supplement its budget.

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