A REVIEW OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) AND CROSS BORDER TRADE (CBT) IN THE NORTH EAST REGION

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ABSTRACT

This study focused on Small and Medium Enterprises (SMEs), and Cross Border Trade (CBT) in the northeast sub-region of Nigeria. The need for the study is informed by the deteriorating economic condition of the people of this region especially with the global economic meltdown. The objective of the paper is to highlight the importance as well as the relevance of both SMEs and CBT to the economic growth of the northeast sub-region. The methodology adopted involves a review of the existing government policies on SMEs and CBT. Our findings revealed that both the SMEs and CBT are confronted with daunting challenges. This among others includes, lack of adequate infrastructure, insecurity to lives and property, and inadequacy of management skills has been identified. To solve these constraints, it is recommended that government should accelerate the establishment of free trade zones as well as border markets, extend the 33MW transmission line to all parts of the region, provide employment to the youths in the area, enhance the capacity of law enforcement agencies and accord extra attention to road networks rehabilitation.

INTRODUCTION

The contribution of Small Medium Enterprises (SMEs) as well as Cross Border Trade (CBT) to the socio-economic development of the Northeast sub-region has been noticed prior to Nigeria’s independence. The economic background of the people in this region makes SMEs imperative, while CBT was necessitated by the need to find and expand market for goods and services. It is envisaged by stakeholders that SMEs have the capacity to empower the economy through employment generation, economic empowerment, poverty reduction and economic growth as enshrined in the blue print of the National Economic Empowerment and Development Strategy (NEEDS), and currently, the draft copy of vision 20,2020. Studies by Okummadewa (1996); Oladeji and Abiola (2000); and NPC (2007) reported Nigeria’s poverty incidence as deteriorating, affecting mainly people in the rural areas. In particular, Ahmed (2008) reported the northeast region to have the highest poverty incidence of 68% compared to its southeast counterpart with 34% in 2004. The topic of discussion in this paper centres on the SMEs and cross-border trade in the Northeast Sub-region. The main objective is to highlight the importance, as well as the relevance of both SMEs and cross-border trade to the economic growth of the Northeast region, and to share the experience of members of the network on CBT between Nigeria and her neighbours on the topic. The methodology adopted involves a review of existing government policies on SMEs and CBT, as well as their importance to the economy.

This paper is structured into five sections. While section one covers the introduction, section two deals with the definitional concepts and issues relating to SMEs and CBT in the Northeast region. The

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importance of SMEs and the role of CBT-in economic growth of the Northeast region's economy were highlighted in section three. The fourth section treats the determinants of CBT. Government policy thrust, and examines action to promote SMEs and CBT between Nigeria and her neighbours. Finally section five concludes the paper with some recommendations.

CONCEPTUAL ISSUES

Cross border trade is a branch of international trade in which goods and services move across common borders of two countries. The cross-border trade between Northeast sub-region and her neighbours can be classified into two – the official and unofficial cross border trade (Egg and Ique 1993).

The official CBT is quantified, recorded, has specified routes, and is backed up by laws of the countries concerned, and is incorporated into trade policies, while the unofficial ones are those that are not recorded, and goes through illegal routes.

The trade between the Northeast region of Nigeria and her neighbours is in the form of reciprocal demand but is guided by a policy of preferential treatment. The Northeast region records exports to neighbouring countries of Niger, Chad and Cameroun. Example of such exports include petroleum products, motor spare parts, plastics, shoes, milk etc., while they record imports from the same neighbouring countries, such as cotton (for textile manufacturing industry), hides and skin (for shoes making factories), gum Arabic, and rice. CBT in livestock, however, takes the form of unrecorded trade.

All the goods exported/imported fall under the list of commodity with in the trade agreement between Nigeria and the country concerned, and must be cleared upon satisfying the custom formalities.

About 10 percent of the Nigeria's neighbouring country's foreign trade is with Nigeria (Kammanda and Oyep 1995). An estimate of the total official imports and exports between Nigeria and its Neighbours shows that Nigeria has a balance of payment surplus because exports are more than imports. The big deficit in balance of payment for Chad, Niger and Cameroun is attributed mainly to petroleum products (Balami, 1995, and Kammanda and Oyep 1995).

The informal cross-border trade in the northeast region of Nigeria is dominated by smuggling activities, between one country and another sharing common border and is unrecorded. The volume of trade in this informal cross-border traded goods and services is a function of the level of economic activities in a given area. Because the trade does not conform to the rule and regulations of the two countries, it is illegal. In Nigeria's Northeast region, 80% of the operators of the trade in petroleum products and non-petroleum products and foreign exchange are mostly Nigerians, while 20% are from Niger, Chad and Cameroun, These cross-border traders are integrated with other operators in Nigeria and abroad (Kammanda and Oyep, 1995).

The informal cross-border trade in the northeast region of Nigeria is dominated by the Hausas, Fulanis, Shuwa Arabs, and Kanuris in the Northeast region of Nigeria. It is a male dominated activity. Muslims are the dominant operators. Educationally, only few of the operators have formal primary and secondary education, a large number of them have Quranic education.

The operators in this form of trade do not keep official records of their transactions and hardly pay any taxes, which make it different from the official market where transactions are recorded.

The literature on cross-border trade/international trade is vast. The trade theories include theories of Adam Smith's absolute advantage, David Ricardo's comparative cost advantage, the Heckscher-Ohlin factor endowment theory; and others like vent- for-surplus approach to trade and availability theory of trade. For detailed exposition on these see Allen 1968, Olisadabe 1996, Kammanda and Oyep, 1995, Egg and Ique 1995, Balami, 2008.
SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)

In the literature a number of organisations and agencies have defined SME in different ways: CBN (2001), Federal Ministry of Commerce and Industry (1990), Olashore (2002), Third National Development Plan (1975), and Adeyemi (1989) etc.

The CBN defined a small business as an establishment whose annual turnover does not exceed N500,000.00 (CBN Credit Guideline, 2000). The Small Scale Industries Division of the Federal Ministry of Trade and Commerce defines small business as one with capital investment (including land, building machinery, equipment and working capital) not exceeding N250,000,000 and employing not more than fifty persons. The one time Managing Director, First Bank of Nigeria, Mr. Olashore sees small and medium businesses as those enterprises enjoying credit facilities below N1 million under Agricultural Credit Guarantee Scheme. The Third National Development Plan 1975, defines an SME as a manufacturing establishment employing less than ten people, or where investment in machinery and equipment does not exceed N600,000.00. In Adeyemi’s view SMEs in the health sector refer to institutions with both in and outpatient facilities, and where bed number does not exceed 20, a staff strength not exceeding 30, and whose total asset base does not exceed N500,000.00. According to Micro/Cottage Industry, an industry with capital employed of not more than N1.5 Million including working capital, but excluding the cost of land; or the number of persons to be employed, is not more than 10. A small-scale industry is an industry with capital employed of over N1.5 million but not more than N50 Million including working capital but excluding cost of land, or the number employed from 11-100. All the above definitions point to the fact that SMEs are involved in operations at small scale.

THE RELEVANCE OF SMEs TO CROSS-BORDER TRADE

The linkage between SMEs and cross border trade is that cross border trade create market for SMEs, because the goods and services produced are being marketed across the borders mostly by the small businesses. The supplies of goods and services traded across the borders in the Northeast sub-region include the following: Petroleum products like PMS, AGO, and DPK products, Agricultural and agro allied products like millet, rice, beans, cotton, fish, gum Arabic, potatoes, sweet pepper, desert melon, ground nuts; and Manufactured commodities like cooking oil, Flour, animal feeds, confectionaries, plastics, detergent and soap; and minerals such as chalk, detergent, salt, matches, fertilizer, glass, sand paper, jewelry, and fillers.

THE IMPORTANCE OF SMEs AND CROSS-BORDER TRADE TO THE ECONOMY OF THE NORTHEAST REGION

SMEs the world over, are regarded as engine of growth and development because of their nature and effectiveness in the promotion of industrial development of economies of the world countries like Japan, China, and others like Malaysia have benefited immensely from this type of trade. According to Balami (2000), the significance of SMEs and cross-border trade to the Northeast sub-region include the following; Okonkwo (2001), Ugwu (2001) Adigun (1988) and Jamodu (2001):

i) SMEs and cross-border trade help provide goods and services indispensable for economic development.

ii) Cross-border trade acts as means for the dissemination of ideas, technological knowledge, managerial talents, and entrepreneurship.

iii) They promote free competition and discourage monopoly.

iv) Cross-border trade acts as a vehicle for international movement of capital and goods from the franc-zone to Nigeria, and vice-versa, regardless of whether the capital is produced in the sub-region.
v) SMEs and Cross-border trade provide employment to the actors involved in the trade through and through their relatively smaller generate employment to larger number of people than the large scale enterprises.

vi) It promotes cooperation and friendship between the actors in both counties.

vii) It helps create a basket of goods and services which can be drawn by the countries, thereby filling gaps in supply of commodities.

viii) SMEs promote effective domestic resources utilisation through the creative use of local raw materials, output expansion, and enhanced value added to domestic industrial output.

ix) The SMEs facilitate the production of intermediate goods for large scale industries which facilitates backward and forward linkages necessary for economic self reliance and sustenance.

x) The SMEs help to moderate rural-urban drift and its attendant vices.

xi) They promote even development of regions and a reduction in income disparities among people.

xii) They also help improve government revenue through various forms of taxes.

xiii) The SMEs encourage the transformation of indigenous technology, facilitate dispersal of industries and enhance regional economic development, particularly in the border areas, where large scale industries are almost non existent.

THE DETERMINANTS OF CROSS-BORDER TRADE AND SME IN THE NORTH EAST REGION

i. The unequal endowment in resources between Nigeria and its Neighbours.

ii. The existence of complementariness.

iii. Historic trade network.

iv. Sociological and anthropological ties between Nigeria and its Neighbours which theoretically provide alternative for comparative advantage.

v. Climate.

vi. Changes in National policies.

vii. Changes in world price for primary products;

viii. The relationship between the Naira and CFA franc.

ix. Ease in mode and means of transport.

x. An exchange mode based on cash-carry basis (Egg and Igue 1995).

The question then arises, what are the major challenges of the SMEs and CBT in the Northeast region? The major challenges include the following:

i. High cost of doing business due to the following factors- inadequate supply of electricity, high cost of water supply, inadequate security and over stretched transport facilities.

ii. Lack of adequate human capacity and resources.

iii. Lackadaisical attitude of most small business towards identifying with business membership of business organisations such as Nigeria Association of Small Scale Industries (NASSI) and Nigeria Association of Small and Medium Enterprises (NASME).

iv. Difficulties in sourcing investable funds by the SMEs.

v. Challenges of information dissemination.

SOME SMEs IN THE NORTHEAST REGION OF NIGERIA

i. Agro allied sector: Poultry, tannery, shoe factory, flour mills, hides skin, etc.

ii. Solid minerals; Soda" Ash, Glass, Detergents, Fertilizer.

iii. Food and beverages: Biscuits confectioneries, and soft drinks.

iv. Chemical and Energy: generators, petroleum products
v. Tourism/Hospitality: hotels.

vi. Commercial and business establishment in the Northeast:
   (a) Numerous Bureau de Change
   (b) Courier and e-mail service providers
   (c) Development finance institutions
   (d) Commercial banks
   (e) Departmental stores
   (f) Business Centres
   (g) Insurance companies
   (h) Educational institutions
   (i) Numerous hospitality companies (Hotels)
   (j) Numerous tailoring institutions
   (k) Numerous health clinic/hospitals.

GOVERNMENT POLICY THRUST AND ACTION TO PROMOTE SMEs AND CROSS-BORDER TRADE

• The resuscitation of ailing industrial development projects in the Adamawa, Bauchi, Borno, Gombe, Taraba, and Yobe states.
• Development of cottage villages for the establishment of resource-based industries in the local government areas.
• Training of industrial officers to assist entrepreneurs and proprietors of industries.
• To achieve the above objectives, governments of the North east region should direct their efforts at the following:
  • Promotions of rapid industrial development, with emphasis on agro-allied industries, using locally available raw materials.
  • Provision of industrial infrastructure and ensuring a favourable investment climate.
  • Promotion of activities of small and medium industries in the six states of the North east region.
  • Encouragement of inflow of financial institutions, such as development and commercial banks.
  • Commercialization of government industries where possible and privatising such holdings where necessary.
  • Promotion of the export of raw materials, and manufactured goods and effective publicity on the industrial and solid mineral potentials of the states.
  • Development of the industrial sector, with emphasis on the projects that utilize local raw materials. The emphasis is on agro-allied industries, for therein, lies comparative advantage given the states' natural resource endowment.
  • The industrial policy of Nigeria is anchored on government's disengagement from all activities, thus making the private sector prime movers of the economy while the government concentrates on the provision of;
    1. Incentives
    2. Enabling policy
    3. Infrastructure
    4. Facility investment
    5. Assist the private sector to play the role of engine growth.
Government Facilitating Agencies:
- Various Investment Companies such as Adamawa Investment Company, Borno State Investment Company, and Yobe State Investment Company, e.t.c.
- The Nigerian Investment Promotion Commission (NIPC)
- Raw Materials Research Development Council (RMRDC)
- Corporate Affairs Commission (CAC)
- Nigeria Export Promotion Council (NEPC)
- Technology Business Incubation Centre (project) TBI
- Nigeria Shipper's Council
- Dry Port and Circular Freight Station creating free trade zones-in Banki, Gamboru Ngala, and Maiduguri will promote the growth and development of SMEs, as well as raise the level CBT operations.

CONCLUSION
From the foregoing discussion, we have dealt fairly with the importance as well as the determinants, major challenges of SMEs and cross-border trade, and the policy thrust of government in the promotion of the economy through the SMEs and trade. In conclusion, both SME and Cross border trade are two important agents of promoting industrial growth in the North east region. However, there are a number of challenges affecting both the SME and CBT which include lack of adequate infrastructural facilities, insecurity, and inadequate skilled management, e.t.c. The poor attitude of the small business operators to identify with NASSI and NASME, as well as difficulty in sourcing investable funds, are among the daunting challenges facing the SMEs, as well as CBT in the North east region.

Possible ways forward are:

i. Government should accelerate the erection or establishment of free trade zones as well as border markets to encourage the growth of SMEs & CBT in the Sub-region.

ii. The 33MW power transmission station should be extended to all comers of the region to improve power supply. At the same time, government should look into other ways of generating power, especially the New Marte and Manbilla Hydro electricity.

iii. The security situation in the Northeast region should be improved by addressing the problem of unemployment and enhancing the capacity of law enforcement agencies.

iv. Government should hasten the establishment of dry port to facilitate easy movement and driving of goods and services for both inter- and intra-trade.

v. Our road network needs to be improved through massive rehabilitation and construction.

vi. The FGN should expedite actions on the dualisation of the Maiduguri-Kano road.

vii. The Nigeria Shippers’ Council should speed up the processes of establishing the proposed freight station in Maiduguri to reduce the cost of goods and services.
REFERENCES


