

PLACE OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE GROWTH AND DEVELOPMENT OF THE NIGERIAN ECONOMY

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Abstract

The purpose of this paper is to ascertain the place of Small and Medium Enterprises "SME" in the growth and development of the Nigerian economy. The paper projected a detailed clarification of the concept SME and went ahead to discuss the role these SMEs has played in the economy of developed and developing states with emphasis on Nigeria. Adopting economic entrepreneurship theory as its framework of analysis, the study utilized descriptive method in analysing data sourced through the secondary method of data generation. The study found out that SMEs plays a key role in the growth and development of the Nigerian economy. Also, possible hindrances to the proper functionality of SMEs in Nigeria such as harsh economic conditions, unfavourable government policies, corruption, etc were enumerated; and the panacea such as elimination of multiple taxation, access to credit facilities, adequate capacity building briefly annotated.

Keywords: SME, Entrepreneurship, Economic Development, Nigeria

Introduction

Nigeria as a state since independence in 1960 has experimented numerous economic policies and programmes in her bid to achieve significant economic growth and development. The vast majority of these policies originates from the centre rather than locally and are government dominated. The resultant effect of this stratospheric government domination left much to be longed for, leading to heavy divestment in the 1990's by the government; leading to the economic policy of commercialization and privatization.

This shift in emphasis therefore procreated a challenge of producing resourceful, competent and dynamic entrepreneurs to take up the baton of revitalizing the economy from government. Incidentally, these entrepreneurs have to fulfil this demanding task by establishing businesses that could mainly be regarded as small and/or medium scale in nature. This task aforementioned is arduous for some obvious reasons. First, the shrinking state of the economy in the country has made it tough for people to save significantly and

consequently, little or no capital accumulation for investment. Furthermore, the Nigerian private sector is undeveloped making skilled cum seasoned entrepreneur and small business administrators scarce.

The importance of these enterprises in the growth and development of various economies has been acknowledged by scholars (Ming-Wen, 2010; Afolabi, 2013). SMEs have aptly been referred to as “the engine of growth” and “catalysts for socio-economic transformation of any country” (Anthony and Arthur, 2008). They represent a veritable avenue for the attainment of national macroeconomic objectives such as employment generation, increased growth and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology (Adebiyi, 2004). SME’s improve regional and sectoral economic balance through industrial dispersal across sectors and in various locations; and generally promote effective resource utilization, considered critical to engineering economic development and growth (Odedokun, 1998 and Mukole, 2010).

There is a consensus among academia, industrialist, economic planners and policy makers, that the development and encouragement of local entrepreneurs as well as the institution of SMEs is the only panacea to the economic woes of the state. The conclusion is consequent on decades of placing government as the main provider of virtually everything that makes living worthwhile, infrastructures and basic amenities, good roads and services, public utilities, etc.

Conceptual Clarifications, Review of Literature and Theoretical Framework

Small and medium business constitute the very foundation upon which the large businesses were built, however, small and medium enterprises have been identified differently by various individuals and organization such that an enterprise that is considered small and medium in one place is seen differently in another. Even within a country, the definition changes overtime. Some common indicators employed in the various definitions include total assets, size of labour employed, values of annual turnover and capital investment (Baenol, 1994) cited in Olajide (2010).

Small Scale Enterprises according to the Nigerian Institute of Management, can be described as enterprises employing between one to thirty-five (1-35) people. They utilize local raw resources and materials, and, by-products or intermediate products from larger farms. Some others, define small and medium scale enterprise as those businesses employing less than one hundred (100) people. The understandings, figures and definitions for medium scale enterprise, are also mixed and changing.

While certain organizations define small and medium scale enterprises or businesses in relation to value of assets, others conceptualize it in terms of turnover and amount of staff employed. The National Council of Industries defines small scale enterprises as follows: (a) Cottage industry costs excluding land not more than one million naira (b) Small Scale: costs excluding land but including working capital not more than 10 million naira.

(c) Medium: total costs excluding land but including working capital above 40 million naira. According to the National Council on Industry (2009) in Olajide (2010), states that SMEs are enterprises with a capital base of 1.5 million naira, which must not exceed 200 million naira, that has a staff strength of not less than 10 and not more than 300. On his part, Adesuyi (2013) conceives Small and Medium scale business as any business undertaking which hires between five and one hundred workers with an annual inflow and out flow of about four hundred thousand naira (N400,000). Similarly, Esseini (2011) defines SMEs as business venture with an investment of between N100,000 and N200,000 that does not include cost of land.

The Third National Development Plan (1975-1980) defines a small business as a manufacturing or service organization whose employee is not more than ten (10). The individual unit of Obafemi Awolowo (1987) defines it as "one whose total assets or capital is less than N50,000 and employee fewer than 50 full time workers". The Federal Ministry of Industry, Trade and Investment, defined small scale as "enterprises having capital (investment in land, building, machinery and equipment and working capital) up to N60,000.00 and employing not more than 50 persons" as far back as 1979. The Central Bank's monetary and credit guidelines regards small-scale industries as establishment whose annual turnover is less than N6 million and capital not exceeding N10 million. The Committee for Economic Development of the USA, states that a Small Business will have at least two of the under listed characteristics: (a) Managers are also owners (b) Owners supplied capital (c) Area of operation only local (d) Small size within the industry.

Despite the differences, all these definitions share common ideas that SMEs are generally low in terms of number of persons employed and in the amount of investment and annual business turn over. The main criteria used throughout the world to describe SMEs include: (a) Number of employees (b) Sales value (c) Financial strength (d) Relative size (e) Initial capital outlay (f) Comparity with its past standards (g) Independent ownership (h) Type of industry

Empirical studies on the impact of SMEs on economic growth abound in developed countries. Carree, Van Stel, Thurik and Wannekers (2002) found a non-linear relationship between economic development and entrepreneurship. In addition, Beck, Demirguc-kunt, and Maksimovic (2005) estimated the standard growth regression including the relative size of the SME sector in terms of employment and found a positive but not robust impact of this sector on economic growth for a cross-section of countries. Using similar approach, Audretsch and Keilbach (2005) and Mueller (2007), revealed a positive impact of measures of entrepreneurship on economic growth in the context of developed countries.

Andre, Carree and Thurik (2004) investigated the contribution of total entrepreneurship activity in GDP growth for a sample of 36 countries and test whether this contribution depends on the level of economic development measured as GDP per capita. Their result shows that entrepreneurial activity by nascent entrepreneurs and owners/managers of young businesses affects economic growth, but that this effect

depends upon the level of per capita income. In another cross country study, Ming-Wen (2010), used a dataset covering thirty-seven countries developed and developing countries to examine the contribution to economic growth from the SME sector. He found that small businesses are beneficial to economic prosperity. He also reveals that, in pursuance of economic growth, SMEs in the high-income economies will generally exploit entrepreneurship, whilst in the less-developed economies, they will tend to drive the job-creation function.

In Nigeria, studies on the impact of SMEs on economic growth and development have mostly been descriptive in nature. Nevertheless, a study by the Federal Office of Statistics (FOS) in 2001, now National Bureau of Statistics (NBS), shows that in Nigeria, small and medium enterprises make up 97% of the economy. Although smaller in size, they are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies. Okpara and Wynn, (2007) affirmed that SMEs contribute about 20% to 45% full employment and equally contribute about 30% to 50% to rural income which are mostly house-holds. Oyeniran, David and Ajayi, (2014), using Autoregressive Distributed Lag (ARDL) conducted a study on the relationship between SMEs and economic growth spanning 1981 to 2013. They found out investment in SMEs has significant positive impact on economic growth.

Scholars have put forward several theories to explain the essence of entrepreneurship. This work is anchored on the economic entrepreneurship theory. The economic theory of entrepreneurship has deep roots in the classical and neoclassical theories of economics and the Austrian Market Process (AMP) Kwabena (2011, p.1). The basic thrust of this theory is that entrepreneurship and economic growth take place when the economic conditions are favourable. The economic entrepreneurship theory also contends that economic incentives are the main motivators for entrepreneurial activities. Economic incentives include taxation policy, industrial policy, sources of finance and marketing opportunities, access to information about market conditions, technology, etc. The economic entrepreneurship theory is germane for the study as it explores the socio-economic factors that enhance entrepreneurial behaviour and development.

Small and Medium Scale Enterprises and the Growth and Development of the Nigerian Economy

There are so many write-ups and discussions about SMEs globally. This has also been the subject in many presentations either locally and internationally. Global bodies such as World Bank, International Finance Corporation (IFC), United Nations Industrial Development Organization (UNIDO) etc. are extremely interested in making SMEs a sector to be reckoned with, especially in developing countries by paying so much attention to the sector than before. In Nigeria, so much significance has been attached to SMEs than any other development plan of the country.

Akinlabi (2008) states that the major shift started from the economic reform programme in Nigeria since 1986. There has been a major change from investing on capital intensive, large scale industrial project to micro and small scale enterprises; this is because of their enormous capabilities for developing local linkages for the speedy, viable socio-economic growth and development.

Government at various levels in Nigeria (local, state and federal level) have come to embrace the small and medium enterprise; ANSYREP (Anambra State Youth Re-orientation and Empowerment Programme) as a key example. Various policies have been formulated at different levels of government in order to support the growth and development of the SME sector. Some government have assisted by giving soft loans, purchase of equipment, seedlings, giving advisory services and other incentives which can aid their growth and development (Kwabena, 2011).The impact of SMEs is felt in the following ways: greater utilization of local raw materials; employment generation; encouragement of rural development; development of entrepreneurship; mobilization 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 (Essein, 2011).

The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of small and medium enterprises to trigger and sustain process of economic growth. In overall economic growth and development, a critically important role is played by the small and medium enterprises. SMEs make up the largest proportion of business the world over and play enormous role in generating employment, provision of services and goods, improving the standard of living, and contributes immensely to the Gross Domestic Products (GDPs) of many countries (OECD, 2004). Chea (2009) noted that small industries account for about 88% of the small scale industries while 12% is credited to the medium industries in Malaysia. In Singapore alone, SMEs employ half of the working population and, consequently, contributes about a third of the total value-added, forming 92% of their total number of the industrial establishments which include manufacturing, commercial and service sectors.

In line with the foregoing, Panitchpakdi (2006) viewed SMEs as a source of employment, competition, economic dynamism, innovation, which stimulate the entrepreneurial spirit and the diffusion of skills. Because they enjoy a wider geographical presence than big companies, SMEs also contribute to better income distribution. Thus, over the last few decades, the contribution of the SME sector in the development of the largest economies in the world has beamed the searchlight on their uniqueness; and this has succeeded in overruling previously held views that SMEs were only “miniature versions” of larger companies.

Small and Mediumscale Enterprises advocate, firstly; its endurance competition and entrepreneurship and hence have external benefits on economy wide efficient, and productivity growth. At this level, perspectives are directed towards government support

and involvement in exploiting countries social benefits from greater competition and entrepreneurship (Mukole, 2010). Secondly, proponents of SME support frequent claim that SMEs are generally more productive than large firms, financial market and other institutional improvements; direct government financial support to SMEs can boost economic growth and development. Some argue that SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tools, by promoting SMEs, individual countries and the international community at large can make progress towards the main goal of halving poverty level by 2020 i.e to reduce poverty by half and becoming among 20 largest World Economies (Nigeria Vision 20:2020).

Entrepreneurial development is therefore important in the Nigeria economy which is characterized by the following, heavy dependence on oil, low agricultural production, high unemployment, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructural base. These constraints limit the rate of growth of entrepreneurial activities in Nigeria.

In recent time, no other sector has been given so much attention in Nigeria's development as the small and medium industrial sector. There has been a conscious decision to de-emphasize the capital intensive, large scale industrial projects by the three tiers of government in Nigeria and put more emphasis on small scale enterprises. Small and medium scale enterprises have been observed over the years to have immense potentials for socio-economic development of a state (Olajide, 2010). Adeyemi and Aremu (2001) add that SMEs are also a means of poverty reduction at low cost, a means of developing entrepreneurial competencies with indigenous technology. Other benefits of what vibrant SMEs include, development of infrastructural facilities brought about by the existence of such SMEs in their locality; the encouragement of economic activities such as suppliers of various items; distributive trades for items produced and or needed by the SMEs, rural urban migration; enrichment of standard of living of the workers of SMEs and their dependents as well as the SMEs owner. Small scale enterprises are also in a better position to encourage the usage of local raw materials, also facilitate the growth of non-oil exports.

Furthermore, Agbonifor (1998) noted that SMEs is a crucial factor in economic growth and development. He indicated that it is a means by which productive activities are indigenously owned and controlled and it is a means by which productive resources and talents that might not otherwise be put into productive uses. This will at least reduce the unemployment menace which Nufakho (1998) said have reached an alarming proportion.

Brian Levy (1993) explained that the study of entrepreneurship has relevance today, not only because it helps small business or entrepreneurs better fulfill their personal needs, but also because of the economic contribution of the new ventures. Brian therefore sees SMEs as a positive force in economic growth and development. He stresses further by summarizing the importance of SMEs to include ensuring rapid development, increased

utilization of local resources and provision of a training ground for indigenous managers and semi-skilled workers, reduction of the rural-urban drift, development of indigenous technology and raising the living standard of rural dwellers and so on.

In truth, SMEs accounts for the economic development in most developed economies of the world today. It has helped in the balance of payment position of countries; it reduces over dependence on inputs relative to their capital investment. The Federal Government of Nigeria has made several attempts via the introduction of various policies at developing SMEs in Nigeria. Notable amongst these policies are; Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Economic Reconstruction Funds (NERFUND), National Poverty Eradication Programme (NAPEP), National Economic and Empowerment Development Strategy (NEEDS), Small and Medium Industry Equities Investment Scheme (SMIEIS), etc.

According to the NIM SMEs forms the bedrock of any nation's industrial take off especially in a typical developing country like Nigeria, especially in the following ways; (a) SMEs provides more employment per unit of capital invested because they are generally more labour intensive (b) SMEs would aid larger industries by manufacturing raw materials input and generally act as catalyst to larger industries thereby generating the desired forward and backward linkages required to build a healthy vibrant industrial base (c) SMEs encourage indigenous entrepreneurship which will help to develop man-power techniques.

The SME sector provides an average of 50% of Nigeria's employment and 50% of its industrial output (Ariyo, 2005). In his own contribution to the definition of the subject matter, Birch (1970) argued that small firms are particularly important in job creation. He reported that over the 1970s, firms with fewer than 100 employees generated eight out of every ten new jobs in America; though this assertion was not accepted by Brown (1990), whose study revealed that large firms were the dominant source of net job creation in the manufacturing sector.

UNCTAD (2001) affirms that countries with a high rate of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long term social stability by alleviating ex-post re-distributional pressure and by reducing economic disparities between urban and rural areas.

All the huge devotion and backing given to SMEs justify the claims that SMEs are a source of employment creation and wealth accumulation. SMEIES (Small and Medium Industries Equity Investment Scheme) came into existence in 2003 in order to realize the objective of revamping the SMEs as instruments of socio-economic growth and a viable means for the development of domestic technology, rapid industrialization, generation of employment for Nigeria's teeming youths and the pivot for sustainable economic development in Nigeria. Despite the huge amounts spent on the development of these policies for SMEs growth, Sagagi (2006) noted that not much changes and improvements

have been achieved. The reason for this as he indicated was attributed to limited financing and support, as well inadequate infrastructure, insecurity and lack of training and vocational facilities.

Hindrances and Prospects of SMEs in Nigeria

Small and medium scale enterprise plays remarkable role in the growth and development of many economies in the globe. But, it has not performed optimally with the Nigerian case; this thus, raises the why question. SMEs in Nigerian has not played its expected vital roles in the growth and development of the economy of the country due to a combination of factors which includes high cost of doing business, infrastructure decay and lack of basic amenities, multiple taxation system, high cost of legal documentation, lack of continuity, inadequate capacity building, corruption, difficulties encountered in obtaining credit facilities, unstable government policies, security, etc.

In line with the foregoing, it is necessary for these hindrances to be stymied in order for SMEs to fulfil its unending process of growth and development to the economy of the state. This can be done through various ways such as provision cum improvement of basic infrastructure such as roads, electricity, health care system etc; elimination of multiple taxation; provision of proper cum adequate capacity building; access to credit facilities, etc.

Summary and Conclusion

This paper concisely examined the place of Small and Medium Enterprises in the growth and development of Nigerian Economy using descriptive method of analysis. The data used were sourced through secondary method of data generation. From this study, it can be inferred that SMEs plays a key role in the growth and development of Nigerian economy. This paper also annotates on possible hindrances to the proper functionality of SMEs in Nigeria which include the unfavourable and very harsh economic conditions resulting from unstable government policies; gross under-capitalization, difficulty in accessing credits from banks, infrastructural decay, astronomically high operating costs, corruption etc. In view of the foregoing, this paper recommends the provision cum improvement of basic infrastructure such as roads, electricity, health care system etc; elimination of multiple taxation; provision of proper cum adequate capacity building; access to credit facilities etc as possible panaceas to aid SMEs.

A major gap in Nigeria's industrial development process in the past years has been the absence of strong SME sub-sector. With over 190 million people vast rich landmass, enormous mineral deposits and natural resources, Nigeria should have been a beehive for SMEs and in turn greatly aid in the growth and development of the economy. As Nigeria is economically undeveloped or developing, the integration of majority of the people living in rural areas into the process of economic development is essential through entrepreneurship in small and medium scale business.

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