

Small and Medium Enterprises (SMEs) and the Economic Growth of Nigeria

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Abstract

The study was undertaken to examine the contributions of Small and Medium Enterprises (SMEs) to the economic growth and development of Nigeria, to determine the impact of funding on the growth of Small and Medium Enterprises and to highlight the strategies adopted by the Government towards the promotion of SMEs. Endogenous Growth Theory propounded by Paul Romer and Robert Lucas Jnr in the 1990s was adopted to guide the Study. At the end of the Study, it was revealed, amongst others, that the Government has not adequately given financial support towards the promotion of Small and Medium Enterprises, that Small and Medium Enterprises have the capacity to boost economic growth and development but hampered by inadequate government support. Hence, it was recommended, amongst others, that government should ensure adequate funding of SMEs. Also, government should grant tax holidays to SMEs within their first two years of operation to enable them survive and withstand competition and ensure capacity building through vocational training of the SMEs operators.

Keywords: Small and Medium Enterprises, Economic growth, Development, Government.

Introduction

In recent times, the world economy has developed tremendously and this development can be attributed to the activities of Small and Medium Enterprises (SME) especially in the developing countries of the world. The roles played by SMEs in communal and economic development cannot be underestimated. Admittedly, the SMEs sector is the highest employer of labour and contributes immensely to the gross domestic products of any meaningful economy. Small and Medium Enterprises have been in existence all over the world since the era of trade by barter. In every society, thousands of Small and Medium scale enterprises abound, which started off as cottage enterprises. They consisted of wood carving, weaving, basket making, wine tapping, black smiting etc. All these ventures were carried out in addition to farming. In some cases, these early enterprises were operated by the head of the family and assisted by other family members. Therefore, these traditional businesses later transformed into modern small

and medium scale enterprises as society advanced. Onuoha, cited in Ama and Okafor (2008), thus affirmed that these traditional businesses are now known as small and medium enterprises, operating on modern types of businesses like carpentry, shoe making, hair dressing, palm oil processing, fruit juice production, cassava processing, rice milling, soap production, amongst others.

By their nature, small scale enterprises emphasize the acquisition of practical and applied skills as well as business education in order to exert a positive impact on the economy. The various economic activities of small scale enterprises have constituted a potent instrument for nation building and economic growth in Nigeria and other parts of the world.

Small and Medium Enterprises in Nigeria are perceived as the hub of all economic activities and serve as the key source of economic growth and development. To this end, a study carried out by the Federal Office of Statistics shows that 97 percent of all businesses in Nigeria employ up to 100 employees every year, implying that 97 percent of all the businesses in Nigeria fall under the category of small and medium enterprises. The sector provides an average of 50 percent of Nigeria's employment and 50 percent of its industrial output. Indeed, there appears to be a consensus that development of SMES in Nigeria is a step towards building a vibrant and diversified economy (Mahmoud, 2000).

The dynamic contributions of small and medium scale enterprises as the engine of economic growth in Nigeria and other developed countries cannot be overemphasized. That is perhaps why Cook and Nixon (2001), observed that the development of small and medium scale enterprises should be seen as attempts towards the achievement of a wider economic and socio-economic objectives, including poverty alleviation. Kuteyi (2018) concurred in this regard when he noted that small and medium scale enterprises drive their country's development as they create employment and contribute to the Gross Domestic Product (GDP). In the same vein, Murital (2012) also affirmed the increasing likelihood for Small and Medium Scale Enterprises to utilize labour intensive technologies in their operations. By so doing, there is reduction of unemployment particularly in developing countries and thus the creation of immediate impact on employment generation.

Small and Medium Enterprises are expected to facilitate the growth and development of human and capital resources towards general economic growth and development particularly in the rural sector. In view of the expected contributions from SMEs, the Nigerian government in collaboration with the different states of Federation had, in the past devised policies and incentives for the development and promotion of Small and Medium Enterprises. Such efforts, according to Adebusuyi (2007) could be classified broadly into three categories namely: incentives (fiscal and export), tariff regimes and financial support and Technical Assistance Programmes. The fiscal incentives include tax relief for SMEs during the first six years of operation, granting of pioneer status for a period of five years, with a possible extension of two years for enterprise located in economically disadvantaged areas, provision of relief for investment in infrastructure and capital allowances and minimal local raw materials utilization income of 20 percent. Exports incentives include the introduction of import duty drawback, export credit and insurance schemes etc.

Over the years, the government emphasised the development of small and medium

businesses as a means of encouraging self-employment, poverty reduction and accelerated economic growth. For this reason, small scale businesses seem to have contributed over 50% of the employment opportunities in Nigeria and over 40% of the Gross Domestic product (GDP). Nevertheless, unemployment, poverty and slow economic growth have continued to exist in the country. It has been noted that Small and Medium scales business have high failure rates as up to 95% of small and medium scale enterprises fail within the first five years of operations (Asaolu, 2012).

On his part, Adelaja (2013) argued that access to institutional finance has always constituted a constraint for the development of SMES in Nigeria. He recalled that in the past, a number of schemes had been put in place to provide special credit facilities for SMEs but that this achieved very limited impact. To that effect, Sacerdoti (2005) also observed that even banks with retained liquidity ratio in excess of what is required by law have shown reluctance in extending loans to SMEs especially on long term basis as they are considered highly vulnerable with high credit risk.

However, it is an obvious fact that small and medium scale enterprises owners do not have sufficient funds to carry out their businesses due to the low saving culture of people in this part of the world. The reason can be easily noticed basically by the low level of income they earn.

In a bid to protect SMEs from dumping, the government adopted the use of high tariff rates to discourage importation of some of the industrial goods that could be produced domestically and in some cases, complete ban on a variety of industrial and agricultural products. To provide funds to small and medium scale enterprises by way of commercial loans, the Bank of Industry (BOI) and the Nigeria Agricultural Co-operative and Rural Development Bank (NACRAB) were established. Also established were Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and other national economic agencies to provide sundry support schemes for SMEs.

In Nigeria, it appears that despite the enormous potentials of the small enterprises sector and its immense contribution to sustainable economic development, its performance still falls below expectations (Arinaitwe, 2006). This is because the Small and Medium scale business sector in the country has been bedeviled with several constraints militating against its performance and leading to increase in the rate of failure of small enterprises.

Against the backdrop of the interest and belief in the SMEs as a catalyst towards the industrialization and economic growth of Nigeria in general, the study focuses on the promotion of Small and Medium Enterprises and their contributions to the economic growth of Nigeria.

Theoretical Framework

Endogenous Growth Theory

This paper is anchored on "Endogenous growth theory" propounded in the late 1980s and early 1990s by Paul Romar and Robert Lucas Jnr. The basis of this theory is that investment in human capital; innovation and knowledge are significant contributors to the economic growth of any nation. This theory further upholds that the long run growth rate of an economy depends on the policy measures of the government, for example,

subsidies for skills acquisition, education, research and development as well as increase in incentives for innovation.

Therefore, the theory is considered relevant to the study because small and medium enterprises originated from the entrepreneurial skills acquisition, innovation and knowledge of the operators. In view of their contributions to economic growth, government should ensure that favourable policy measures that will guarantee the success of human capital development, such as skills acquisition, innovation and access to finance for the business are instituted.

Characteristics of Small and Medium Enterprises

By their nature, small and medium enterprises, are those businesses that are generally limited in the size of capital formation, the number of operators, style of management as well as the scope of operation. The reason for this can be attributed to the fact that such business enterprises exist as new companies or that such businesses are in a developing country like Nigeria. In reality, the nature of the small and medium scale business is due to the fact that the enterprises are usually established and financed with the modest income of the owners Nwafor (2005). Thus, SMEs are very easy to establish. Again, Small and Medium Enterprises are usually managed by the owners. These owners cum managers may not have acquired requisite professional training, capable of attracting relevant managerial skills. This means that there is no separation between ownership and management of the business. Although most of the large businesses started on a small scale, paucity of funds has always been a challenge.

Another feature of SMEs is the obvious difficulty encountered by the owner(s) to raise adequate funds for takeoff or expansion of the business. This is because SMEs cannot sell shares to the public and due to other constraints such as inability to raise loans from banks without collateral accounts for the limited capital.

The small and medium scale owners are well known by all employees and the owner(s) know all the employees. This control relationship, if properly harnessed can enhance the productivity of the enterprise, hence business viability can be assured. Some SMEs operators in Nigeria are either uneducated or possess low-level education. This consequently amounts to low level of business management abilities and skills. The resultant effects of this include lack or poor accounting keeping, lack of market information or research etc.

Contributions of Small and Medium Enterprises to the Economic Growth of Nigeria

The contributions of Small and Medium Enterprises to the growth and development of any economy cannot be over emphasized. It is in recognition of this fact that Cook and Nixon (2001) stated that the development of small and medium scale enterprises should be seen as attempts towards the achievement of a wider economic and socio-economic objectives including poverty alleviation. Some of the contributions include:

Creation of Employment Opportunities: Small and Medium Enterprises are known for employment generation globally. This is so because these enterprises are the type of

businesses that can be established with little income. This explains why many Nigerians venture into establishing small and medium scale businesses, largely on account of the high rate of unemployment in the State. Small and Medium Enterprises create ninety 90% percent of new jobs in the nation's private sector, The Guardian (2008). That is to say that in order to solve the critical problems of unemployment in the state, the government should stimulate and encourage the rapid growth of small and medium scale enterprises.

Provides Training Ground to Indigenous Entrepreneurs: Small and Medium Enterprises constitute the foundation of a reliable supply of local entrepreneurs who are poised to contribute their quota to the economic growth. Thus, SMEs provides opportunities to enterprising men and women to participate in the development of their different communities and the nation at large (Oguri and Anyawu. 2006).

Effective Strategy for Stemming Rural-Urban Migration: For the fact that Small and Medium Enterprises can be easily established with little capital of an individual anywhere in the world, rural – urban drift in search of greener pastures can be curtailed. Therefore, the establishment of small and medium enterprises has gone a long way in employment generation to the rural dwellers, and in turn discouraged them, especially the youths, from flooding the urban centres in search of jobs.

Establishment of Appropriate Interface with Large Scale Enterprises: Small and Medium scale Enterprises interface with the various sectors of the economy for accelerated economic growth. It is apparent that SMEs constitute the market for agricultural, extractive and industrial outputs. They also provide readily available sources of raw materials and labour inputs for large scale production. (Onuoha, 2008). Equally, Small and Medium Scale Enterprises serve as training ground for entrepreneurial talents that are capable of growing into larger industries. For instance, the activities of Ekene Dili Chukwu Motors, Innoson Automobile Company, amongst others, started as small and medium scale businesses. This implies that many large business organizations all over the world started as small and medium scale enterprises.

Aid to Industrialisation: According to Akinyode (2004), Small and Medium Enterprises aid industrialisation by ensuring the supply of raw materials, high quality parts and components of equipment required by factories for production. The author added that the establishment and growth of small and medium scale enterprises into large factories accelerate the pace of industrialization. With this, industrial diversification is guaranteed. **Promotion of Competition:** Small and Medium Enterprises encourage healthy competition which is fundamental to the growth of any economy. Therefore, the issue of monopoly is reasonably minimized in the society (Sanusi, 2003). This is obvious in sachet and bottled water production which has defied the menace of monopoly in Nigeria where producers competes with each other, has resulted in generating the desired competitive effects in the national economy.

Utilisation of Local Resources: Small and Medium Enterprises are known for their utilisation of indigenous raw materials. They often concentrate on the utilization of farm produce and other natural resources in their business activities such as food processing, textiles, weaving, wood work, etc.

Provision of Specialized Services: There are so many specialized services that most

large firms would not provide. Such services as dry-cleaning, hair dressing, tailoring, etc. are usually provided by small and medium scale enterprises to their customers in their immediate environment.

Poverty Alleviation: Small and Medium Enterprises contribute in alleviation of poverty among the populace. Cook and Nixon (2001) concluded that the development of small and medium scale enterprises is purely an attempt towards the achievement of a wider economic and socio-economic objectives including poverty alleviation. Since small and medium scale enterprises are those types of businesses that can be easily established with little capital and skill, people with meagre income and those without any skill or capital can easily secure a means of livelihood thereby eradicating poverty. From the foregoing, one can easily understand that small and medium scale enterprises contribute immensely to the economic growth of the country. This is obvious from the various economic activities of SMEs. Therefore, it is believed that if government should map out more strategies towards the promotion of SMEs, more impact in the area of economy growth can be achieved.

Challenges of Small and Medium Enterprises

There are various challenges militating against Small and Medium Scale Enterprises in Nigeria. They include:

Financial Constraints: Financial problem has been identified as one of the major constraints affecting the performance of small and medium scale enterprises. According to Ogunjuiba (2004), lack of finance is usually a constraint to SMEs, this assertion is buttressed by empirical evidence that finance contributes to about 40% of the success of small and medium scale enterprises. In any case, the creation of other appropriate support system and enabling environment are indispensable for their success as well. Some lack competitiveness because they lack the much required financial capacity to prosecute their manufacturing concern. Most of these enterprises cannot access credit facilities.

Lack of Infrastructural Facilities: The performances of SMEs have also been hindered by the lack of infrastructural facilities. Inadequate facilities like epileptic power supply, inaccessible road network, inadequate water supply and poor telecommunication services constitutes the challenges facing SMEs in Nigeria. Omotola (2008) contends that the cost of providing infrastructure by SMEs on their own, in the absence of those facilities, is estimated to be about 30-35% of the cost of establishing their manufacturing enterprises. The epileptic power supply has pushed many SME operators into sourcing for alternative sources of power thereby incurring additional financial burden. The implication has led to downsizing and high operational cost. Such enterprises risk being liquidated.

Unfavourable Government Policies: The inability of the government to execute sound fiscal policies has undermined the capacity of small and medium scale enterprises. Ogujuiba (2004), noted that inappropriate time or delay in budget implementation is a constraining factor on trade and investment decisions. In most cases, the passage of annual budget by the legislature is usually delayed due to discrepancies between the executive and legislature. This state of affairs delays the investment decisions of small and medium scales enterprises particularly on tariff and

tax measures in their trade decisions.

Poor Accounting Record: Many small and medium scale enterprises do not keep proper accounting records. This limits such SMEs from access to credit facilities as lending financial institutions always demand for accounting information.

Diversion of Loans to other Purposes: Most of the small and medium scale enterprises which are opportuned to obtain loan from either the government or financial institutions are not financially disciplined. This is because most of them divert those loans, meant to support their businesses to other unproductive areas.

Wrong Location of the Enterprise: One of those factors to be considered in establishing a particular business is a place that will encourage the growth and viability

of the business. The factors to be considered in the location of the business include nearness to source of raw materials, market for the finished products, good transportation system, regular power supply, water, etc. Unfortunately some of the small and medium scale enterprises in Nigeria are located in areas that lacked basic facilities. The fallout of wrong location of SMEs is partly responsible for their poor performance.

Government Strategies Towards the Promotion of Small and Medium Scale Enterprises

The government has initiated various strategies for the promotion of small and medium scale enterprises in Nigeria in view of the fact that SMEs drives national economic growth and development as they create employment and contribute to the increase of the Gross Domestic Product (GDP) Kuteyi, (2018).

Eze (2002) and Akinyoado (2004) opined that in recognition of SMEs as a vehicle for self-reliant economy, the government has deployed its regulatory mechanism to formulate policies aimed at encouraging SMEs as engine for development. The commitment of government towards the promotion of SMEs is exemplified by the collaboration between the Federal Government of Nigeria and other tiers of government.

The various steps which government has taken include; monetary, fiscal and industrial policy measures to promote the development of Small and Medium Scale Enterprises (SMEs). Specifically, the Government has been active in the setting up and funding of industrial estates to reduce overhead costs, establishment of specialised financial institutions such as the Bank of Industry (BOI) and others. Other measures include the establishment of the National Directorate of Employment (NDE), free registration of SMEs with the Corporate Affairs Commission and disbursement of payroll support to SMEs to boost their growth.

Conclusion

Small and Medium Scale Enterprises have contributed enormously to the economic growth and development of Nigeria. However, to benefit optimally from the operation of Small and Medium Enterprises aimed at achieving economic growth and reduce unemployment and poverty among the people, it is imperative for financial incentives, infrastructural facilities, vocational training as well as favourable tax regime to be provided.

Recommendations

1. The Federal Government of Nigeria should establish a separate agency to coordinate the operation of Small and Medium Enterprises operating within its jurisdiction.
2. The Federal Government should establish an industrial estate with appropriate facilities in every state for the business activities of Small and Medium Enterprise operators.
3. The Federal Government should collaborate with the Chambers of Commerce and Industry and other related stakeholders in the states for regular capacity building trainings for operators of SMEs.
4. The Federal Government should make regulations to restrain states and local governments from imposition of multiple levies on registered small and medium enterprises.

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National Security Architecture and Resort to Self-help