

# The Role of Small and Medium Enterprises in Economic Development: The Nigerian Experience

Kemi Olalekan Oduntan

**Abstract**--This paper undertakes a survey of policies and programmes embarked upon by various governments to promote SMEs in Nigeria since the early 1980s. It discusses conceptual issues of definition, structure and role of SMEs by idealizing its operational working under a market economy. In the process, both success and failures are highlighted. The study ends with a bold suggestion that government should dissipate less energy in the promotion of foreign direct investment (FDI). Rather, policies that promotes and sustains SMEs should be formulated and implemented for economic sustenance and self reliance.

**Keywords**---Economic Development, Entrepreneurship, Government Policies, Small and Medium Scale Enterprises

## I. INTRODUCTION

FROM the 1980s till date, Nigeria has been plagued with multifaceted problems ranging from low capacity utilization, massive graduates unemployment, poverty, insecurity, collapse of infrastructural facilities and poor macroeconomic policy management. No doubt, Nigeria is blessed with abundant human and natural resources which could have been harnessed for its growth and development. However, with enduring corruption, monoculture nature of the economy and the dominant role of the public sector, the country lost open opportunities for growth and sustainable development.

Government initiated numerous programmes and policies for SMEs development but there is a limit to which government alone can promote sustainable economic development. This necessitated the government to adopt economic reform programmes to switch from capital intensive and large scale industrial projects which was based on the philosophy of import substitution strategies to Small and Medium Scale Enterprises which invariably have better prospects for developing domestic economy thereby generating the required goods and services that will propel the economy towards development (Oni and Daniya, 2012). The whole essence of SAP and NEEDS introduced in the 1980s and 2000 respectively was to inculcate genuine entrepreneurial spirit in the mind of people so as to prepare them for wealth creation through small scale enterprises (Fasau, 2006).

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In an attempt to reverse the declining in the nation's economy, the current government policy of private sector led growth for job and wealth creation is aimed at developing Small and Medium Scale Enterprises (SMEs). It is on this premise that Ojo (2009) argued that one of the responses to the challenges of development in developing countries particularly in Nigeria is the encouragement of entrepreneurial development scheme.

Entrepreneurship is fast becoming a household name in Nigeria. This is as a result of the fact that the so-called white collar jobs that people clamour for are no longer there. Even the much touted sectors (banks and manufacturing companies) known to be the longest employers of labour are on the down turn following the consolidation crises and fraudulent practices of the high and mighty in the banking sector. The companies of course are folding up as a result of erratic power supply, insecurity and persistent increase in interest rate which has led to high cost of production and undermines their profit making potentials. This has resulted in massive unemployment which is detrimental to the economic development in the country.

The contribution of SMEs to economic development is such that a country can only ignore to its own peril. In conclusion, emphasis must therefore be focused on SMEs in developing countries such as Nigeria aimed at rapidly achieving self-sustaining growth and by extension, self-reliant development. This paper is divided into four major sections. Section two briefly review conceptual issues of discourse and addresses the roles of small and medium enterprises in economic development in Nigeria with all its attendant problems. The third section review past initiatives aimed at promoting SMEs in Nigeria, while the fourth section concludes.

## II. CONCEPTUAL ISSUES AND REVIEW OF RELATED LITERATURE

There is no unified definition of SME as the definition(s) rather depends on the nature of industry/industrial capacity, level of development of the country and this varies overtime. The difference amongst industries could be ascribed to different capital requirements of each business. However, the basic definitional parameters remain the same. They include number of employees, asset base, turnover and financial strength among others. In most developed market economies such as the United States of America (USA), U. K. and Canada the definition criterion adopted a mixture of annual turnover and employment levels.

The European States traditionally have their own definition of what constitutes SMEs. For instance, the traditional

definition in Germany limits Small and Medium Scale Enterprises to two hundred and fifty (250) employees while in Belgium it is limited to one hundred (100) employees. Recently, the European Union (EU) has standardized the concept by categorizing enterprises with less than ten (10) employees as 'micro' and those with fewer than fifty (50) employees as 'small' while those with fewer than two hundred and fifty (250) employees as 'medium'. In the USA, any business with fewer than one hundred (100) employees is classified as 'small' while medium scale business refers to a business with fewer than five hundred (500) employees.

In Nigeria, the Small and Medium Industries Enterprises Investment Scheme (SMI EIS, 2005) defines SME as any enterprises with a maximum asset base of N200 million excluding land and working capital and with a number of staff employed not less than 10 or more than 300. The Centre for Industrial Research and Development (CIRD) of the Obafemi Awolowo University, Ile-Ife according to Obitayo (1991), defined a small-scale enterprise as an enterprise with working capital base not exceeding N250,000 and employing on full time basis, 50 workers or less. The Nigerian Bank for Commerce and Industry (NBCI) defines small-scale business as one with total capital not exceeding N750,000 (excluding cost of land but including working capital). The Federal Ministry of Industry's guidelines to NBCI defined a small scale enterprise as one with a total cost not exceeding N500,000 (exceeding cost of land but including working capital). Having harmonizing these definitions, it can be deduced that SMEs are enterprises that have the capacity to employ at most 500 employees and at least 10 employees and has been proven to be the bedrock of any economy. The brain behind every successful small and medium scale enterprise is entrepreneurship which in the words of Olagunju (2004) is an undertaken where one is involved in the task of creating and managing an enterprise for a purpose. The purpose may be personal, social or developmental.

Despite differences in definition, SMEs possess similar characteristics. First is that they are generally sole proprietorship in nature and in some cases partnership though they could be registered as limited liability companies. Secondly, they are prone to discontinuity or have high rate of business mortality probably due to reasons of low capital, inadequate market information, lack of appropriate technology, close relationship between proprietor's private fund and company's fund (Ogunleye, 2004).

Thirdly, SME operates labour-intensive technology that requires more human capital per unit of production. And finally, they suffer from inadequate collateral securities that hinder them from attracting financial capital or loan facilities for expansion.

### III. THE ROLES OF SMALL AND MEDIUM ENTERPRISES IN ECONOMIC DEVELOPMENT

The role of SMEs in developing countries including Nigeria has been established. Such industries contribute immensely to economic development of a country in the following areas:

#### A. Capacity Building

SMEs provide a platform for training of indigenous entrepreneurs, which drives the wealth creation process at all levels. It has even been established that SMEs is a nursery of entrepreneurship where individual creativity and innovation are the driving force. Therefore, they may be as the university where vast majority of entrepreneur receives training.

#### B. Employment Generation

SMEs have the capacity to generate employment as their mode of operations is more labour intensive. Their labour intensive nature is much higher than that of large enterprises. It has also been observed that more jobs per unit of investment capital and per unit energy consumed are created worldwide by SMEs than large scale enterprises (Venkatarman, 1984). They have therefore helped in solving the problem of unemployment in many countries.

#### C. Promoting Growth

In like manner, SMEs by its nature are such that they are involved in primary and secondary economic activities that depend heavily on locally sourced materials. As such they achieve high value added operations which is a key role in the growth and development of any economy.

#### D. Industrial Dispersal

SMEs could easily be located in rural areas because they can survive on rudimentary industrial infrastructure consequently they serve as major facilitators for industrial dispersal and rural development and thus have the capacity to stem rural-urban conjuration.

#### E. Backward and Forward Linkages

Most SMEs output serves as intermediate or semi-processed goods of large scale firms. By this, they generate mutual industrial linkages between local producers of raw materials and large industrial concerns.

#### F. Technological/Industrial Development

SMEs have short-term gestation period and high potentials for quick yield on investment. They provide promising alternatives for countries that desire the fast option of industrial development. This is possible in most cases because the technology in use is less complex and can be handled and manipulated by the entrepreneurs.

#### G. Technological Acquisition

Small-scale industries provide opportunities for the development of local skills and technology acquisition through adaptation. The "Aba made good syndrome" a concept adopted by the part of Nigeria is a clear manifestation of such technological acquisition and this gives impetus to rapid development in the economy (Odubanjo, 2000).

#### H. Poverty Alleviation

SMEs play a vital role in reducing poverty and inequality among citizenry. This is not unconnected to the affordable and relatively low capital requirement for its establishment. It also engages both skilled and unskilled workforce thereby creating a means of livelihood. This is an important role in any economic development process.

#### IV. PROBLEMS OF SMEs DEVELOPMENT IN NIGERIA

Small and Medium Scale Enterprises (SMEs) are veritable tool of economic development to a developing economy. Unfortunately, this development is limited by some constraints highlight below:

##### A. *Inadequate Access to Finance Capital*

Majority of them have limited access to foreign exchange as well as institutional credits. This has adversely affected SMEs scale of operations and many countries have adopted policies aimed at ameliorating their financial conditions such as liberalization of the financial markets, the establishment of lending institutions and at times the formulation of policy measures that compel financial institutions to allocate a certain percentage of their lending portfolio to SMEs. Because majority of SMEs are predominantly sole proprietorship, banks view them with lots of caution and as such these policies have not been implemented to the letter. Furthermore, the death of the owner results in discontinuity of their operations as there are usually no succession plans in place. This raises the risk of financing such establishments.

##### B. *Inadequate Infrastructural Base*

The availability of infrastructural facilities in most developing countries are grossly inadequate. This includes epileptic power supply, lack of adequate water supply, poor state of road network and unreliable telecommunication facilities among others.

##### C. *Inadequate Information Base*

SMEs are characterized with poor record keeping thus they lack necessary information required for planning and management purposes. This usually affects the realization of the objectives of the sector.

##### D. *Low Entrepreneurial Skills*

The success of SMEs is usually in jeopardy as most entrepreneurs lack the required entrepreneurial skills and management expertise to survive. They lack good exposure to management theories/training/practices. Worst still, they do not keep abreast with modern day techniques.

##### E. *Poor Policy Implementation*

The federal government has formulated good policies in the past but implementation and control has always been the problem. As such SMEs hardly thrives in Nigeria.

#### V. REVIEW OF PAST INITIATIVES AIMED AT PROMOTING SMEs IN NIGERIA

Previous governments have adopted numerous initiatives to promote the development of SMEs in Nigeria. These programmes according to Olumide (2004) include:

**Youth Empowerment Scheme (YES):** The Youth Employment Scheme popularly tagged project YES is a registered non-governmental organization initiated by Hajiya Zainab Kure, the former first lady of Niger State in Nigeria. The scheme was exclusively designed to empower youths economically.

YES is targeted at training youths by way of empowering them economically and socially (Ohize and Adamu, 2009). It consists of three (3) programmes as follows:

- (i) Capacity acquisition programme (CAP)
- (ii) Mandatory attachment programme (MAP) and
- (iii) Credit Delivery Programme (CDP)

The Capacity Acquisition Programme (CAP) is to enable participants acquire skills and vocational capabilities while Mandatory Attachment Programme (MAP) is to assist graduates who have completed their mandatory National Youth Service Corps (NYSC) and who are yet to secure full-time employment to have something doing. The Credit Delivery Programme (CDP) on the other hand is to provide micro-credit empowerment scheme the following objectives.

- (i) National Employment Rate 3%
- (ii) Graduate self-employment rate 50%
- (iii) Non-graduate self-employment rate 60%
- (iv) Skill acquisition rate for school leavers 60%
- (v) Establishment of local resources-based college industries per local government area, five (5) units per year.
- (vi) Annual growth rate replacement of traditional methods of production with improved technology in agricultural sector 15%
- (vii) Annual growth rate of development of relevant technologies 15%.

**National Directorate of Employment (NDE).** The directorate was established on the 24<sup>th</sup> October, 1986 and it commenced full operation in January 1987 with the primary aim of promoting skill acquisition, self employment and labour intensive work scheme. The scheme was targeted at school leavers, apprentice, graduates etc. The programme was to address four (4) major areas as itemized below:

- small scale enterprises programme
- vocational skill development programme
- rural employment promotion programme
- special public work programme.

Funding of the directive between 1987-1989 rose from N70million to N193.31million. It was reported also to have declined to N176.82 million and to N100million in 1994 and to N132.90 million in 1995.

The NDE operated, among others, two credit schemes with concessionary interest rates, to assist SMEs. The Graduate Job Creation Loan Scheme (GJLS) and the mature people scheme (MPS) projects covered included soap-making, food processing and flour milling.

**The National Poverty Eradication Programme (NAPEP).** The regime of President Olusegun Obasanjo in Nigeria (1999-2007) initiated this programme to eradicate poverty. The first attempt was the Poverty Alleviation Program (PAP) in the year 2000 and it was immediately replaced the following year by National Poverty Eradication Program (NAPEP).

Ike (1996) explained that before the introduction of National Poverty Eradication Programme (NAPEP), a temporary Poverty Alleviation Programme (PAP) in year 2000 was put in place to cushion the effect of terrible economic hardship faced by large number of unemployed people in the country. The

intent was to provide monthly stipends to 200,000 unemployed Nigerians across the country so that they could start small businesses and be self reliant. The programme was structured to benefit three categories of people namely:

- unemployed skilled person
- unemployed unskilled and semi-skilled persons
- unskilled and uneducated persons

The skilled unemployed people were provided with a micro-credit to enable them established any viable venture. The second category were trained for a period of 3-12 months or attached to a relevant core structure and manufacturing companies for a period of 2 years to enable them acquire additional skills after which they will be provided with micro credit to enable them start a businesses of their own. The third and final category were to either acquire formal education through Universal Basic Education (UBE) or be provided with permanent menial jobs in the area of agriculture, road maintenance, tree planting etc.

## VI. CONCLUSION

There is no doubt that small and medium scale enterprises are essential for rapid and sustained economic growth and development. They create employment, enhance capacity building for manpower and skills development, promote growth, reduce poverty, and facilitate industrial development among others. Several efforts has been made by successive governments to promote SMEs amidst the vast availability of human and materials resources. Despite these efforts, SME have not contributed significantly to the development of the Nigerian economy. Findings revealed that the potentials of SMEs have not been fully harnessed due to poor implementation of the seemingly promising policies and inadequate financing of the SME sub-sector.

In spite of government policies aimed at providing financial and technical support for the promotion of SMEs, they have performed less satisfactorily largely because of operational bottlenecks including lack of depth of the financial system, inadequate infrastructural facilities, poor management practices and low entrepreneurial skills to mention but a few. Banks which are suppose to provide adequate credit facilities in compliance to government policies, usually place exorbitant interest rate alongside huge collateral securities that scare away investors. Borrowers are vulnerable to remain perpetually indepted to lenders upon securing the credit facilities. Therefore, it will be absolutely impossible for SMEs to contribute meaningfully to economic development in Nigeria due to absence of a business-friendly environment.

## VII. RECOMMENDATIONS

Based on the exploratory survey of the paper, the following recommendations are suggested for implementation.

1. Government initiated programmes should be restructured, if not redesigned and should be centered on a participatory approach to enhance SME development.
2. Government should encourage philanthropists and nongovernmental organisations (NGOs) to supplement their

effort in providing moral, technical and financial support for the development of Small and Medium Scale Enterprises (SMEs).

3. Government and financial institutions should develop a holistic approach to provide adequate training and organize workshops/seminars for entrepreneurs.
4. National Orientation Agency (NOA) should organize programmes to change the orientation of youth/graduates/citizens from job seeking to skill acquisition and entrepreneurial development.
5. Government should develop and implement policies that will stand the test of time and enable SMEs compete and survive in a commercial setting.
6. Government should endeavour to provide a friendly business environment in terms of adequate infrastructural facilities, good roads, efficient telecommunication system and uninterrupted power supply for the growth and development of SMEs.

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