

NATURE AND RELEVANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE ECONOMIC DEVELOPMENT OF NIGERIA

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ABSTRACT

This study examined the nature and relevance of small and medium-scale enterprises (SMEs) in the development process. It posits that there is no universally accepted definition of small and medium scale enterprises, rather definitions varies from one country to another depending on the level of development, even overtime among institutions or industries. Development strategies in the past, in most developing economies had favoured large-scale industries which had not yielded the much desired net returns to their economies hence the need for a change to incorporate small and medium scale organisations. The contributions of small and medium scale enterprises (SMEs) to the development process are such that any country can only ignore to its own wishes. Emphasis must therefore be turned not only on large-scale enterprises but also on SMEs. If developing countries such as Nigeria are aiming at rapidly achieving self-sustaining growth and by extension self-reliant in terms of development.

Keyword: *small and medium scale enterprises, economic development*

INTRODUCTION

The quest for economic development to ensure overall development in individual well-being of citizens has been the pre-occupation of every nation. The process involves a number of approaches. One of these is the adoption of an industrialisation strategy at a point in time relevant to the prevailing needs of development. Developing countries are under much pressure in this regard because of their general peculiar features. Among these features includes:

- (a) The concentration of a high proportion of the population in agriculture, often ranging between 40 and 90 percent in some countries.
- (b) The prevalence of disguised unemployment in agriculture and high levels of unemployment outside agriculture.
- (c) Low level of savings and capital formation.
- (d) High level of technological dependence on the advanced countries.
- (e) Inadequate provision of such infrastructures as good roads, pipe borne water, electricity and telecommunication.
- (f) General poverty of various dimensions, poor credit marketing, general low output per head and low per capita income with an associated high uneven distribution of income.

In fact, many developing countries have attached high priority to the industrial sector in their development plans possibly as a result of their attraction to many development theories that have tended to see industrialisation as the gateway to modernisation. Nigeria, like many other developing countries, had on gaining political independence, adopted import substitution as her industrialisation strategy. This should not be surprising because even as of today, most of the rich advanced countries are rich because they are industrialised. Industrialisation portends a lot of advantages in modern economies. Incidentally, the past policies and strategies failed to generate self-sustaining growth largely because of their preference for the establishment of large-scale firms to the detriment of small and medium scale enterprises. Resources (human and material) lied largely idle in the face of mounting problems. Since the 1970s, therefore, developing countries have been compelled in the face of these problems to look for alternative approaches to development. One of these approaches has been the re-direction of efforts and encouragement of small and medium-scale enterprises (SMEs).

The Nature of Small and Medium-Scale Enterprises (SMEs)

Small and Medium-Scale Enterprises (SMEs) has been both relative and dynamic, varying from country to country even over time and among industries. It depends to a large extent on a country's level of development. According to Oshagbemi (2009), identifiable criteria often adopted on an arbitrary mix of definitions include number of employees, relative size, initial capital outlay, sales value, financial strength, independent ownership and type of industry.

In an attempt to define it, of course, to suit particular circumstances, individuals, institutions and government have adopted several classifications. Prior to 1992, in Nigeria, both the Federal Government and its agencies had adopted varying definitions at the same time or at different time periods due possibly to their variations in development focus or strategy. For example, in 1989 Industrial Policy of Nigeria defines these enterprises as follows:

- a Small-scale are those whose total investment was between N100,000 and N2 million excluding land but including working capital.
- b Medium-scale are those with total investment between N2 million and N5 million, excluding land but including working capital.

At the same time, the decree establishing the National Economic and Reconstruction Fund (NERFUND) in 1989 defines SMEs as those whose fixed assets excluding land and including cost of investment project, do not exceed N10 million.

Other agencies with varying definitions were the Central Bank of Nigeria (CBN), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Industrial Development Bank. The situation changed in 1992 when the National Council on Industry unified the definitions in the light of prevailing circumstances into:

- a Small-scale enterprises as comprising those with fixed assets above N1

million but not exceeding N10 million including working capital but excluding cost of land.

- b Medium-scale enterprises as those having fixed asset of over N10 million but not exceeding N40 million excluding land but including working capital. In 1996, these definitions above were revised as follows:
- c Small-scale enterprises as comprising those enterprises with total cost inclusive of working capital but excluding cost of land of above N1 million but not exceeding N40 million and having manpower strength labour size of 11 and 35 workers.
- d Medium-scale enterprises as those having manpower strength of between 36 and 100 workers and total cost inclusive of working capital but excluding cost of land, of above N40 million.

Apart from the definitions above, though peculiar to Nigeria, SMEs are by name identifiable by all of the following:

- i They exist mainly in the form of sole proprietorship and partnership though some could be registered as limited liability companies.
- ii There is often no separation of ownership from control, resulting in a fusion of both ownership and management into one person or few individuals. Management structure is therefore simple, making it easy for decision making.
- iii Relationship between employer and employee is largely informal.
- iv They are prevalent in many lines of economic activity, manufacturing, transportation, communication, etc.
- v Majority of them are labour intensive, requiring more human capital per unit of production.
- vi They are based on relatively simple and linear technologies, though many modern ones are increasingly employing high levels of technology (if not state-of-the-art technologies). Such SMEs are often called light industries.
- vii They have limited access to financial capital (suffer from inadequacy of collaterals), a major factor that constraints their expansion, aggressive marketing and competition for skilled labour in various managerial capacities and quick adoption to technological changes.
- viii They make greater use of local resources hence their outputs have low import content either in capital or raw materials input.
- ix They enjoy wide dispersal throughout the country providing a variety of goods and services.

Economic Development

The term 'economic development' is one that cannot be understood in isolation of another term 'economic growth'. By economic growth economists mean the increases over time in a country's real output per capita. This is conveniently measured by the Gross National Product (GNP) though other measures could be used. In this way, economic growth is measured by increases in a country's per capital GNP.

For a long time, the nation was strongly held that economic growth and

economic development were exactly the same. Economic growth generally accepted as the only index of development. However, general dissatisfaction with the results during the first generation of development in the 1950s and 1960s led to a refocusing of strategy in the developing countries in order to meet the second generation problems of development. The growth of the GNP was no longer regarded as the main index of development. Though no single criterion could be easily substituted, making it difficult to give one precise meaning to 'economic development', it became much easier to say what the term is not.

The use of the GNP has many deficiencies when related to welfare, distribution of income, and in fact, what sections of the population are favoured by the fruits of growth and comparison of GNP per capita among countries due to varying exchange rates of national currencies among others. These deficiencies, especially, the issues of distribution of incomes and the section of the population favoured by the fruits of growth, might have promoted the economic growth/economic development debate.

While Kindleberger (2001) is of the view that economic development cannot exist without economic growth, Flaming (2004) strongly holds that economic growth and economic development are distinguishable. Little (2007) posed that economic development or economic progress or real economic growth occurs when there is a rise in the present value of the average weighted consumption per head. In this way, Little (2007) also views economic development as synonymous with economic growth. Toyo (2004) sees the concept of growth without development used by depending theories as meaningless when subjected to vigorous definition.

Definitely, economic development goes far beyond just real per capital GNP or National Income increases and its sustenance over time through continuous increase in per capita productivity. It is concerned with who benefits from the fruits of economic growth - a vast majority of the populace or just a small fraction of it? It is in the light of all these that Myrdal (2009) sees economic development as involving the achievement of the 'ideals of modernisation' which include rise in productivity, social and economic equalisation, improved institutions and attitudes, modern knowledge and well coordinated policy measures that will erase those conditions that perpetuate a state of under-development.

But it was disappointed over the lack of widespread benefits even under conditions of rapid economic growth that led to the adoption of an alternative conception of development. Developing countries realised that in spite of adopting several economic development models and hypothesis, they are still confronted with widening income disparities with the benefits of economic growth occurring to a minor segment of their populations while a vast majority wallows in abject poverty.

This new viewpoint, usually referred to as basic (human) needs approach, sees economic development in terms of progress towards reducing the incidences of poverty, unemployment and income inequalities. It notes that it is the amelioration of the poor living conditions and not rising GNP per capita that is clearly the essence of development, Zuvekar (2003). It is not surprising therefore that Harrick and

Kindleberger (2004) see economic development as a study into the causes and cures of mass poverty. However, in the opinion of Seers (2000), a country's development should be looked at from the stand point of what has been happening to poverty, unemployment and inequality. Where all these three have declined from high level, then the country concerned has been experiencing a period of development as opposed to a situation where one or two, or all these three have been growing more, even if per capita income doubled.

Generally, economic development should be viewed as a process of growth reflecting in a high degree of self-reliance and abundant utilisation of natural resources, including changes in the cultural, social, political and institutional arrangements in the character of the people and the attainment of the character of the people and the attainment of better life for a vast majority of the population. Thus, economic development will involve the development of the different sectors of an economy including technology, manifesting itself as a process of increasing the choices available to individuals through better education, training, health nutrition and gainful employment, Onwumere and Ige (2000).

Relevance of small and medium-Scale Enterprises in Economic Development

The roles small and medium scale enterprises (SMEs) can play in the process of economic development are many and varied. Deriving largely from the role of industrialisation in the development process, these are:

- i SMEs act as catalyst for technological development. They serve as essential sources of innovation. This is possible because in most cases, technology in use is less complex which can be handled, manipulated and managed by the entrepreneurs. In this era of globalisation in which the world has been reduced into a global village by breakthroughs in information and communication technology, many SMEs make increasing use of computers and other advanced technical equipment, promotive of the much-needed technological culture which is a strong catalyst for technological development. In this direction, in developing countries, they help to reduce the development gap between them and the advanced countries which is largely a technology gap.
- ii SMEs are a major source of employment for a large majority of people. They have a higher capacity for generating employment as their modes of operation are more labour-intensive. SMEs have been accounting for a higher percentage of industrial employment in Nigeria than large-scale organisations. In 1987, for example, they accounted for about 70 percent and the situation has remained largely the same. It has been observed that more jobs per unit of invested capital and per unit of energy consumed are created worldwide by SME than by large-scale enterprises (Venkataraman, 1999).
- iii They provide a training avenue for the creation of local entrepreneurs in several areas of economic activity. They ensure regular supply of potential local entrepreneurs. They also provide opportunities for talented enterprising

individuals of limited financial means who are eager to engage in activities that will develop the national economy, providing productive outlets for a good number of individuals who have a preference for working in small units.

- iv SMEs are a major source of domestic capital formation through their mobilisation of private savings and channelling of such in productive investment.
- v They aid the process of redistribution of incomes in many countries both in pure financial terms (wages and profits) and in spatial or regional terms.
- vi Many SMEs provide intermediate or semi-processed goods for use by large-scale firms. In this way, they generate a lot of industrial linkages between local producers of raw materials and large industrial concerns.
- vii Most SMEs engaged in manufacturing serve as channels for import substitution and promotion of export.
- viii Sound development of SMEs has positive implications for improving the standards of living of the citizens and generating foreign exchange for further development of the economy.
- ix By serving dispersed local markets, they provide a variety of choice to the customer ensuring regular supply of goods and services and in this regard, enjoy competitive advantage over large firms.
- x They also constitute a critical source of specialisation for most large organisations operating in the economy.
- xi Within the context of rural development, SMEs aid structural transformation in the rural areas. Unlike in the past when it was erroneously thought that rural development involved only the development of agriculture and consequently agricultural occupation, now new avenues are opened. SMEs help in improving rural incomes and general rural living conditions and by expansion the country's per capita income. They also serve as a strategy for checking rural-urban migration which to some extent hinders the optimum exploitation of the country's rural natural resources. They, in their limited ways too, help in reducing the development gap between these areas and the urban centres and in this way help sustain national growth.

The inadequate number of SMEs in most rural areas is traceable to general poverty. The dimension of rural poverty differs in part from poverty in the urban areas and these take several dimensions as can be seen in the following perspectives:

- i Poverty in terms of income due to relatively very low returns from agriculture that is the consequences of high man/land ratios when compared with many other occupations.
- ii Poverty in terms of good Medicare which in some cases, have led to high infant mortality.
- iii Poverty in terms of savings that is high proportion of low income spent on food leading to very low savings.

- iv Poverty in terms of educational opportunities that is in many cases, incomes are as low as to support the number of children in school where the opportunities exist.
- v Poverty in terms of drinking water with respect to quantity and quality of water taken (in many places, there is complete absence of pipe borne water and in some, where the facilities are available, they function infrequently).
- vi Poverty in terms of wage employment due to inadequate number of employment generating concerns outside agriculture.

Problems of SMEs in the Development Process

The factors highlighted below have constrained the growth and contribution of SMEs in the development process.

Inadequacy of financial capital: This is the critical problem facing many SMEs which have affected their scale of operation. Majority of them have limited access to foreign exchange as well as institutional credit. Considering the importance of these enterprises, many countries have adopted policies aimed at ameliorating their financial conditions such as liberalisation of the financial markets, the establishment of lending institutions and at times the adoption of policy measures that compel financial institutions to allocate a certain percentage of their lending portfolio to SMEs for instance, banks in Nigeria are now required to contribute 10% of their annual profit before tax for financing SMEs. In spite of all these, many SMEs are still funded through personal savings. Studies recently conducted in Nigeria by the United Nations Development Programme (UNDP) and the Federal Ministry of Industries (FMI) revealed that 1036 out of 1498 SMEs surveyed or 62.2 percent of the SMEs were funded by personal savings. Only 3.6 percent was granted credit by banks. Nigerian banks, for example, still view SMEs with a lot of caution when it comes to lending. This is not surprising, as SMEs lack continuity and many collapse with the death of his ownership. There are no succession plans in place. Again, many shy away from the stock market (the stock exchange which is yet to appreciate and accommodate their long-term financial needs). Working capital has therefore, remained a major constraint to these enterprises.

Inadequate infrastructural base: Availability of infrastructural facilities is grossly inadequate in many countries especially the developing ones. These are mainly in the areas of access roads, electricity, water supply and telecommunication. Private provisioning of these facilities is usually at great cost and reduces the funds available for their activities. These costs have been found to weigh heavily on SMEs than large-scale enterprises.

Low entrepreneurial skill: Organisational success is mainly hinged on entrepreneurial skill or management. Unfortunately, many SMEs lack good exposure to management theories, training and practices which impact negatively on their performance. They do not keep proper accounts or records of their activities, and are not in tune with modern day techniques.

Multiplicity of policies/regulatory measures: Small and medium-scale enterprises especially in Nigeria are confronted with multiple taxes, several charges on loans and on importation coupled with their ever-changing dimensions which pose very serious challenges inimical to their growth.

CONCLUSION

In spite of the highlighted problems, SMEs remain critical to development which no country can ignore. SMEs should be developed alongside other sectors of the economy, as this will enhance their roles in the development process. In order to build an independent economy which will develop in a multifarious and comprehensive way, it is necessary as our practical experience shows, to follow the line of giving preference to the development of heavy industry and developing light industry and agriculture. Simultaneously, it is also important therefore, that appropriate policies and strategies should be initiated in order to create the enabling macro-economic environment attractive to investors. SMEs should be clearly defined while policies should not lead to several problems thereby hindering their capacity to make meaningful contributions to the development of the economy.

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