

SMALL AND MEDIUM SCALE ENTERPRISES DEVELOPMENT AND POVERTY ALLEVIATION: IMPLICATION FOR POLICY MAKING IN NIGERIA

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Abstract

The paper examines the role of viable small and medium enterprises, generally called SMEs in poverty alleviation related discourses in Nigeria. SMEs have been considered as the engine of economic growth for promoting equitable development. On the other hand, poverty, being an aspect of gross social inequality, is mostly associated with developing countries, most especially the Sub-Saharan African countries. These countries are characterized by low productive capacity, joblessness, low capital, inadequate education, etc. Experiences of developed economies in relation to the roles played by small and medium enterprises, buttress the fact that the relevance of SMEs cannot be ignored. It therefore means that, there is a high correlation between the degree of poverty, unemployment, economic well being of the citizens of a particular country and the degree of vibrancy of its SMEs. The paper looks at the theoretical postulations on the approaches to poverty alleviation. It also examines the roles of government in the development of SMEs. The paper then argues that if Nigeria were to alleviate poverty to the barest minimum, one of the sure ways would be to vigorously pursue the development of SMEs by attending to the identified challenges which militate against their growth and development. Data collected through secondary sources show that poor infrastructure facilities, shortages of skilled manpower, constrained access to funds, poor management practices and inadequate business plan among others are the constraints. Based on the above observations, appropriate recommendations were made for the growth and development of viable SMEs for poverty reduction in Nigeria.

Keywords: *Small and Medium Scale Enterprises, poverty, poverty alleviation, growth, development.*

Introduction

Over the years, Small and Medium Enterprises subsequently called SMEs, take a place of pride in almost every country. Due to the significant roles SMEs play in the development and growth of various economies, they have to a reasonably extent, been referred to as “the engine of growth and catalysts for socio-economic transformation”. Small and Medium Enterprises represent a veritable vehicle for the achievement of national economic objectives of employment generation, development of entrepreneurial capabilities, including indigenous technology and poverty alleviation at low investment cost. Other benefits of successful SMEs are access to infrastructure facilities occasioned by the existence of such SMEs in their environments, stimulation of economic activities (suppliers of different items and distributive trades for items produced or needed by the SMEs), stemming of rural urban migration and enhancement of standard of living of the employees of the SMEs.

In recognition of the numerous roles of SMEs, various policies and programmes have been put in place by governments to encourage the development of SMEs. Among these are the provision of specialized financial institutions like Bank of industry (BoI) and other funding schemes for the SMEs, favourable tariff structure, selective exemption and preferential treatment in excise duties.

However, despite the policies and programmes, incentives and supports aimed at developing and sustaining the SMEs, they have continued to perform below expectation in developing economies, especially Nigeria. Consequently, poverty continues to thrive. For instance, in Nigeria, over 70 million people, almost half the nation's population, live on less than ₦100 per day, unable to meet their basic human needs. Approximately 38 million people or 10.9 million families live in absolute poverty (Adopt a Small and Medium Project, 2010:1). Various governments, organisations have advanced various reasons why poverty has to be reduced for the well being of the people. This paper argues that this can be feasible if the problems confronting the growth and sustenance of SMEs are removed.

The paper is divided into six sections. The first gives a broad introduction to the focus of the paper and its mission. The second part examines the concept of SMEs. The roles of government in the development of SMEs in Nigeria were discussed in section three. The concept of poverty and its theoretical postulation were discussed in section four. In section five, problems of SMEs and their implications for poverty alleviation were highlighted. The last section contains conclusion and proffered recommendations.

The Concept of Small and Medium Scale Enterprises

In both developed and developing countries, small and medium scale enterprises have been severally defined, (World Bank 2001, Ayyagari *et al*, 2007). According to UNDP/SMEDAN (2006:15), the Australian Bureau of Statistics defines SMEs as those outfits employing fewer than 20 persons. The Australian Tax Office uses a definition of average annual turnover of less than \$ 1 million and net assets of less than \$ 3 million. In China, the classification of SMEs is based mainly on sales, revenue and total asset. Thus, small and medium scale enterprises have sales revenue not less than RMB 50 million. In Canada, SMEs are those with less than 100 employees in manufacturing and less than 50 employees in the service sectors. In Britain, SMEs are seen as those industries with annual turnover of 2million pounds or less with less than 200 paid employees (Ekpeyong and Yong 1992:4). In Japan, they are defined as those manufacturing enterprises with 100 million yen paid up capital and 300 employees. Those in wholesale trade with 300 million paid up capital with 100 employees while those in retail trade have 100 million paid up capital with 50 employees.

In Nigeria, the current classification is based on the number of employees and assets (excluding land and building). Some of the classifications of SMEs by various agencies as noted by Otiti (2007: 236) are;

- i. The Centre for Industrial Research and Development (CIRD) of Obafemi Awolowo University Ile-Ife that defines SMEs as enterprises with working capital base not exceeding ₦250,000 and employment on full time, 50 workers or less.
- ii. The Nigerian Industrial Development Bank (NIDB) now Bank of Industry (BoI) sees SMEs as enterprises that have investment and working capital not exceeding ₦750,000.00 while it defines medium scale enterprises as those operating within the range of ₦750,000.00 to ₦3.0 million.

Furthermore, Kozak (2007) posits that SMEs are companies with metric (usually number of employees or annual turnover) that fall below certain levels. The indicators-number of employees and or rate of turnover tend to define the context within which different countries and economies situate their understanding of small and medium scale enterprises. These indicators for defining SMEs in different countries are certainly not the same. For instance, the employee requirement in Britain is 200 with 2million pounds turnover. The same cannot be said in Japan with 100 million Japanese yen as paid up capital and 300 paid employees. In Nigeria, the paid employees are usually not considered important, but more importantly is the turnover of 500,000 especially for the purpose of commercial and Mortgage bank loans.

Ayozie (2006) came up with general criteria for defining small and medium scale enterprises in different countries. These include number of employees, annual turnover, local operations, sales volumes, financial strength, managers and owners autonomy, relatively small markets compared to their industries and capital, usually supplied by individual or shareholders e.t.c. The European Commission in specifying terms of ownership states that SMEs must be independent with less than 25%, being owned by outside interest (European Commission, 2007). They can depend on business and ownership structure to become a large business outfit and since 80% of the financing of SMEs came from owners, friends and families, businesses can take different forms including private ownership, limited partnership, co-operatives or associations, contract and sub-contracts (Kozak, 2007). Though SMEs have a narrow context within which their operations are carried out but if they are effectively and efficiently managed, they have the capacity and potentials to sprout the economic growth and sustainable development.

The Role of Government in the Development of SMEs

The conscious effort on the part of government to develop SMEs started in 1970-1979 when Nigeria adopted the policy of indigenization through its national development plan programme. That development plan articulated the need for the Nigerian economy to be self-reliant through industrialization, entrepreneurial development, employment generation through increasing export trade. To achieve this, government promulgated different

regulations in order to protect the SMEs. Some of the regulations include the Nigeria Enterprises Promotion No 3 of 1977, Patent Right and Design Act No. 60 of 1979, Custom Duties (dumped and subsidized goods Act No. 9 of 1959, Industrial Promotion Act No. 40 of 1979, Industrial Development Tax Act No. 2 of 1971 among others (Alawe, 2004).

Government also supported SMEs with favourable investment policies, institutional and fiscal policies, protective business law and financial incentives. Also, many micro lending institutions like Nigerian Bank for Commerce and Industry (NBCI), Nigerian Industrial Development Bank (NIDBs) presently Bank of Industry (BoI), National Economic Reconstruction Funds (NERFUND), People's Bank of Nigeria (PBN), Community Bank, National Export and Import Bank, Small and Medium Industries Equity Investment Scheme were established to enhance the capacity and development of SMEs. Government through its policies encouraged liberalization of the banking sector to enhance the banking institutions for effective participation in the growth and capacity building of SMEs (Ogujiuba, et al, 2004).

Government also established Raw Material and Research Development Council (RMRDC). The research reports of this institution are useful to SMEs and business organization in their product choice decisions, product delivery strategies to increase SMEs business effectiveness and efficiency. Other institutions such as Industrial Training Fund (ITF), Administrative Staff College (ASCON), Small and Medium Enterprises Development Agency (SMEDA) and Extension Services (ES) were created mainly for training of entrepreneurs.

Despite the above efforts by the governments, SMEs are still not doing well in the areas of job creation, economic growth and well being and poverty alleviation. For instance, Mindle (2008) contends that about 70 per cent of the SMEs in Nigeria are between operational or on the verge of folding up, while the remaining 30 per cent operate on low level capacity and are vulnerable to folding up in the nearest future. In 2009, a sharp drop of manufacturing to GDP of 4.19 per cent while industrial capacity utilization dropped to 48.8 per cent (National Bureau of Statistics, 2009). This portends danger for the Nigerian economy given the fact that manufacturing industries are critical agents of real growth and sustainable development for any country.

The Concept of Poverty and Its Theoretical Postulations

Poverty

Poverty has been related to income, which remains at the core of the concept today. When people are deprived of income and other resources needed to obtain the conditions of life – the diet, material goods, amenities, standards and services that enable them play the roles, meet obligations and participate in the relationships and customs of their society, they can be said to be in poverty (Okoye, 2011:232). The Overseas Development Administration, ODA (1995:37) states that poverty is often described as a state or condition of living, in which people have little or no money, assets or means of support. A family can be said to live in poverty when it is unable to satisfy its basic needs. The basic needs concept, in its restricted sense is concerned with food, clothing and shelter. Basic needs may also include clean air and water, adequate and balanced diet, emotional and physical security, climatically appropriate clothing and shelter.

Conceptually, three dominant views exist in the literature, on the meaning of poverty (Oyeranti and Olayiwola, 2005). The first perspective considers poverty in terms of deprivation in some materials of well being which can usually be assessed in terms of money. Also, the World Bank (1990) defines poverty as the inability to attain a minimal standard of living and lack of what is necessary for material well-being. Here, the minimum standard of living connotes a certain level of income, consumption or expenditure.

The second view considers poverty as being multidimensional in nature, entailing lack of adequate livelihood, assets and failure to achieve basic capabilities in nutrition, health, economic and social life. So, poverty is seen as a consequence of deprivation, lack of rights and entitlements to assets and resources, insufficient capabilities such as skills, good health and socio-economic exclusion mechanisms including lack of access to active involvement in community's life in all its ramifications. According to this view, the conceptualization of poverty covers both the primary basic needs (food, clothing, shelter) and the secondary basic needs (economic, social and cultural rights, property rights, access to productive assets and employment) of man. Lack of these, lead to the states of

powerlessness, helplessness, inability to protect oneself against economic, social, cultural and political discrimination.

The third view defines poverty as a phenomenon that is difficult to objectively determine. It is subjective in nature and has both physical and psychological dimensions that predispose its sufferers to hunger, violence and crime, insecurity, and political repression. This view therefore sees poverty as a concept that can be best described by the poor themselves and the communities in which they live in.

Therefore, given the present understanding that poverty has both material and non-material dimensions, it is then generally considered that a sustainable approach to poverty alleviation depends on the interaction of a wide range of policy measures cutting across diverse targets and dimensions.

Theoretical Postulations to Poverty Alleviation

Approaches to poverty reduction have been grouped into two-economic growth and non-growth strategies (Obadan, 1997). The economic growth strategy focuses on some macro and micro economic policies and programmes that would ensure rapid growth of the economy. It sees economic growth as crucial and driving force for job creation, income generation and poverty reduction. The non growth strategies contain a wide variety of social policies and strategies aimed at human capital development, safety nets provision, basic social services, basic needs provision, employment, good governance and institutional development.

The second perspective (Ogwuike, 2002) groups poverty reduction strategies into four types, based on the methodology adopted for poverty reduction. These are:

- i. **Economic Growth Approach:** This focuses on ensuring growth especially through increased focus on human capital formation through education, health, housing needs of the labour force.
- ii. **Basic Need Approach:** This lays emphasis on the provision of basic needs like food, shelter water, sanitation, health care, basic education etc.
- iii. **Rural Development Approach:** This sees poverty as mainly a rural phenomenon; that traditional measures of poverty alleviation may not work in the rural areas because of its peculiarities. The approach therefore recommends a multi-dimensional, multi-pronged integrated approach to poverty alleviation through development programmes for rural dwellers in general and the poor in particular.

The third perspective dwells on the mechanisms for implementation of poverty alleviation programmes. The approaches are;

- i. **Pro-poor Growth Approach:** This aims at ensuring macro economic policy that are favourable to the poor to ensure stability of the economy, good business climate, growth enhancing technological innovation and improved output leading to increased earnings for the people especially the poor.
- ii. **Resource Based Approach:** This focuses on redistribution of assets. They promote security against social risks such as ill health, natural disaster and provide social and physical infrastructures.
- iii. **Sustainable Livelihood Approach:** This is people focused. It combines the features of all the previous approaches. It aims at development that is pro-poor, pro-nature, pro-jobs, pro-women and pro-children, rights and empowerment enhancing. It perceives that the poor are imbued with agency and as such, poverty alleviation programmes will only be effective, if it complements rather than supplements their current livelihood strategies (Gester, 2000).

This work adopts Obadan's economic growth and pro-poor growth approach under the third perspective as frameworks of analysis. This is because the two approaches are vital to poverty alleviation in that they see economic growth as crucial and driving force for job creation, income generation and inequality/poverty reduction. They also ensure good business climate, growth enhancing, technological innovation and improved output leading to increased earnings for the people. It is only the growth and sustainable development of SMEs in Nigeria can achieve the above.

Problems of SMEs and their Implication on Poverty Alleviation

Small and Medium Scale Enterprises have a lot of important contributions to make to the economic development of the country. However, they are equally beset with a number of problems which have constrained their ability to

play the pivotal role expected of them. Some of the problems are inadequacy of funds and high cost of borrowing, poor infrastructure facilities, poor manpower development and inadequate business plan.

Inadequacy of Fund and High Cost of Borrowing

This problem comes up at the investment and operational stages of the business. Adequate money is required for plant, buildings and all civil works, the preliminary expenses, the working capital etc. Salami (1995:10) notes that the problem of adequate funding is usually regarded by entrepreneurs to be the most crucial factor in the implementation of an industrial enterprise. This condition, accounts for the slow rate of new business projects and the under funding of the existing ones.

Also, SMEs are still classified as high risk ventures by most lending institutions, despite the recognition of their potential contribution to economic development. As a result, credits to them have been very low. Entrepreneurs find it difficult to obtain loans from financial institutions due to high default risks associated with the sector and even those that have access to loans obtain such at a penal rate of interest. When the cost of borrowing is high, it reduces the prospects of profitability and if the interest rate is high, the cost of production rises and prices have to rise to prevent losses. Faced with static income, consumers have to reduce consumption. This results to low sales and reduces profitability. This poor performance consequently affects the growth and development of SMEs and therefore sustains poverty.

Poor Infrastructure Facilities

These facilities include road network, water, electricity etc. In Nigeria, the shortage and inadequacy of economic and social infrastructure facilities affect the development of SMEs. A World Bank study in 1989 estimated that the cost of providing infrastructure facilities by SMEs, in the absence of those facilities is estimated to be about 15-20 per cent of the cost of establishing SMEs in Nigeria. Omolola (2008:15) contends that the percentage has since increased to 30-35 per cent. The services of PHCN have been very disappointing. There is always frequent interruption of power supply that is often not available in the right quality and quantity, thus affecting the activities of these enterprises. Also, the provision of water in many cities and towns has not been impressive.

The problem of poor infrastructure facilities makes entrepreneurs seek for alternative sources which are very expensive. For instance, due to the interruption of power supply, entrepreneurs resort to the use of generators (Olagunju,2008). This is accompanied with the extra cost of getting fuel or diesel and maintenance. These lead to high prices of the product of SMEs, which further discourages consumers from patronizing the goods of SMEs. This subsequently threatens the continuous existence of SMEs and leads to poor growth and sustainable development of the country.

Poor Manpower Development

One of the determinants of development of SMEs is the availability of trained and skilled manpower (Joshua,2008) This is because it directly or indirectly determines the effectiveness of other factor of production. Nigeria economy is blessed with rich human resources- those who are competent enough to handle businesses. However, many SMEs, in their attempt to make huge profit from operations end up engaging the services of unqualified personnel, resulting to the failure of the business. Also, some entrepreneurs have little or no managerial ability to run their business and when they engage in small businesses, they lack necessary training to make them succeed. This eventually leads to the failure of the business and thus encourages poverty.

Inadequate Business Plan

Adequate planning is very essential for success to be achieved. In most cases, entrepreneurs fail to plan for their business before embarking on them. They feel they have access to funds needed to execute their business projects. In order to realize the objectives for which the business is established, it is important to first of all plan and come out with a feasibility study which is a requirement for project implementation and operation.

Furthermore, many entrepreneurs of SMEs are not known to keeping acceptable accounting records and hardly maintain the ethics of accounting. This results to financial institutions finding it difficult to assess viability of these SMEs when they are approached for credit assistance. Since these SMEs do not have adequate business plan, cases

abound where some have diverted project funds to private and extravagant uses, thus starving the business of the needed funds. This eventually results in failure of the business which leads to sustained poverty.

Conclusion

It is becoming increasingly clear to government and policy makers that the role of small and medium scale enterprises is very important to the development and growth of any economy. Their successes have been recorded both in developed and some developing economies. In Nigeria, governments in recognition of the numerous roles of SMEs have put in place measures that can help their growth and development. Among such measures are provision of financial institutions for lending processes, favourable tariff structure, exemption and preferential treatment in excise duties to encourage indigenous entrepreneurs. All these aim at alleviating poverty on the land.

However, despite all these provisions to encourage SMEs, poverty still thrives both in the urban and rural areas. This stems from the fact that the SMEs have not been doing well over the years. Investigations carried out show that many factors are militating against their growth and development. Some of these factors are inadequacy of funds and high cost of borrowing, poor infrastructure facilities, poor manpower development and inadequate business plans. The paper therefore concludes that for SMEs in Nigeria to grow and be sustained, the above militating factors must be adequately addressed.

Recommendations

The challenges and problems of SMEs are many and can be effectively tackled if the following recommendations are implemented;

- i. Adequate funding is the most important and cogent key to any enterprises. SMEs must be financially supported so that they can take off and expand in order to meet the needs of the Nigerians. For this to be effective, a monitoring unit should be created in the financial institutions like Bank of Industry (BoI) that give loans. This is to ensure they were not diverted for other usage.
- ii. In the area of infrastructure, government should as a matter of urgency, work on all the rural /urban roads and rail networks for easy transportation of goods. Electricity supply and other infrastructure facilities should be provided, adequately. In order to achieve this, government should create a body to take care of the provision and maintenance of these facilities.
- iii. A body known as Small and Medium Enterprises Development Association of Nigeria (SMEDAN) should be empowered to provide managerial and technical advice, information and training services at subsidized rates, to the existing and prospective entrepreneurs. The body, through its business development services, provides support in the areas of capacity building and skill acquisition.
- iv. Finally, government should prioritize the SME sector giving it devoted, practical and visible attention with a view to making it vibrant, focused and productive. The employment creation cannot be achieved without a vibrant SME sector.

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