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EVALUATION OF SMALL AND MEDIUM ENTERPRISES AS CATALYST FOR GROWTH AND DEVELOPMENT OF ECONOMY IN NIGERIA: AN OVERVIEW

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Abstract
The role of Small and Medium Enterprises (SMEs) as pivotal drivers of economic growth and development has gained significant attention in both academic and policy circles. This paper provides an overview of the evaluation of SMEs as catalysts for the growth and development of the Nigerian economy. With a focus on Nigeria's unique economic landscape, the study discussed the conceptual framework of Small and Medium Enterprises, the challenges of small and medium scale industries in Nigeria which includes: lack of access to affordable financing; management problems; lack of accounting records; strategic planning problems et cetera. Also, it discussed some of the characteristics possessed by the Nigerian small and medium enterprises such as sole proprietorship, partnership et cetera. It further talked about the contributions of small and medium scale industries to the economic development of Nigeria, and made a concrete conclusion and some recommendation were made. One of such recommendations is that Nigerian Government should have monetary policies so as to reduce the rate of interest charged by banks and as well bring about a more realistic exchange rate for naira in order to encourage entrepreneurs. It was also recommended that there should be policies that focus on technical and vocational education at all levels, for the development of human capital in Nigeria, amongst others.

Keywords: Small enterprise, medium enterprise, economic growth, development

1.0 Introduction

The pattern of industrial growth in Nigeria shows that prior to independence, there were little or no manufacturing activities in Nigeria. The predominant economic activity then was trading, based on imported finished goods. While on the hand the exported products include cocoa, cotton, coffee, groundnut, coal, timber, gold, and tin.

According to Bushe (2019), the post independence era was aimed at industrializing the country by producing what were being exported, thereby conserving foreign exchange. The imported machinery and equipment were financed through the export of domestic raw and semi-processed commodities. The local industries were being protected from foreign competition through high import regimes.

Aided by the oil boom of the 1970's government invested in heavy industries such as iron and steel, machine tools, vehicle assembly plants, fertilizer manufacture sugar mills, refineries and petrochemical industries. In addition, the private sector also advocated import substitution industries to be involved in what was term mixed economy (Austin, 2009).

For decades, the Small and Medium business have been found to constitute the very foundation upon which the large businesses were built. Eze and Okpala (2015), revealed that the development of small and medium enterprises (SME's) should be seen as attempts towards the achievement of a wider economic and socio-economic objective, including poverty alleviation in Nigeria.

Abdullahi, and Sulaiman (2018), also argued that prior to the late 19th century, cottage industries, and mostly small and medium scale businesses controlled the economy of world giants like Europe and America. The industrial revolution changed the status quo and introduced mass production. The Small and Medium Scale Enterprises (SMEs) development facilitates the mobilization of human and capital resources towards economic development, in general, and the rural sector, in particular (Micah, Kassahvirginia, & Andah, 2017). They have been identified as a vehicle for employment generation and providing opportunities for entrepreneurial sourcing, training, development and empowerment.

Developing nations such as Nigeria characterized as low income earners by the World Bank, value small and medium scale enterprises (SMEs) for several reasons. Small and medium enterprises (SMEs) are common in

every developing or developed economy as they are one of the major drivers of economic development both at the rural and urban areas (Anyebe, 2017). In acknowledging the vital role of industrialization in economic growth and development in Nigeria; an efficient strategy require robust, solid, concentrated and focused emphasis on growth and development of Small and Medium Scale Enterprises (SMEs) (Etale & Light 2021).

In many emerging markets such as Nigeria, the SME sector is one of the principal driving forces for economic growth and job creation. This is true particularly for many countries in Africa where SMEs and the informal sector represent over 90% of businesses, contributed to over 50% of GDP, and account for about 63% of employment in low income countries. Therefore, SMEs is the means to an end of economic growth. Thus, the intention of developing, sustaining and supporting SMEs is to increase their involvement in economic growth in terms of increasing output of goods and services, and improving the lives of the populace (Bello, et al 2018). Nonetheless, the obvious philosophy and idea that effectively succeeded in most developed countries has not produced the much impact in the Nigerian economy. This may be as a result of inefficient, insignificant, unimportant and irrelevant roles assigned to this sub sector by Nigeria's macroeconomic policymakers.

Furthermore, the educational system in this country does not help the situation. This is in lieu with the Nigerian tertiary institutions that churn out hundreds of thousand graduate's perannum while the labour market does not have the capacity to absorb them. As a result, the National University Commission (NUC) incorporated entrepreneurship, where students are equipped with skills required to make them be their own bosses and an employer of labour, into the curriculum of tertiary institutions, in a bid to make graduate self-employed and self-reliant. This stemmed from the belief that a self-employed person will create job and be an employer of labour rather than jostle for the limited available job opportunities in the country. As a result, many unemployed people have ventured into small scale businesses including livestock farming, fisheries, shoe production, laundry and dry-cleaning services, car-wash, soap-making, carpentry, tailoring, and barbering, among others. Accordingly, these small businesses are spread across different geographical areas of the country. The apparent reason for the preponderance of these SMEs is the continued efforts of government at all level and microfinance institutions to provide capital to SMEs owners (Gbam, 2017).

It is against this background that this study aims at examining the SMEs-unemployment nexus in Nigeria with a view to proffering lasting solution to the unemployment conundrum in Nigeria.

2.0 Conceptual Framework of Small and Medium Enterprise

The existing literature by Nagaya, (2017). revealed that the concept and definition of small and medium enterprises (SMEs) differ among various agencies, institutions and authors, mainly based on the characteristics and perspective from which an SME, as a business unit, has been considered (Obasan et al., 2016). Thus, an enterprise that is considered small and medium in one place is seen differently in another. Even within a country, the definition changes over time.

Some common indicators employed in the various definitions include total assets, size of labour employed, values of annual turnover and capital investment (Baumol & schramm2007). SMEs vary by ownership. Ownership structure varies along with ownership concentration and ownership mix. Ownership concentration implies the owner takes a major risk, management of inflow and outflow of the business. In contrast, the ownership mix allows for a more relaxed management style, trusting others with key responsibilities (Obasan, et al., 2016). While some are sole proprietorships, others are family-based, that is, couples, while others are partnerships consisting of friends or business associates (Peruzzi,2017). It is interesting to note that some individuals or families have multiple businesses registered and run different areas of commerce.

Several authors have posited different definitions and explanations as to what Small and Medium Enterprises are. It might seem difficult to derive an exact or precise definition of Small and Medium Enterprise. Some defined it based on the characteristics of the business such as, size, level of operations, type of industry, assets employed and the number of employees, turnover, market, management or control of the business or several others (Maksimov et al., 2017). Nigerian Bank for Commerce and Industrial (NBCI) adopted a definition of small - scale business as one with total Capital not

greater than N750,000 (exempting cost of land but including working capital).

Nigerian Industrial Development Bank (NIDB) defined Small Scale enterprise as an enterprise with investment and working capital not exceeding N750,000, while Medium Scale enterprises as those operating within the range of N750,000 to N3,000,000 in 1979. According to Ogunjimi (2021), he stated that new Industrial Policy defined Nigeria Small Scale Industries as industry with total investment between N100,000 and N2,000,000.

Central Bank of Nigeria, in its credit guidelines to banks, state that in the case of Commercial Banks, small scale enterprises are those with annual turnover not above N500,000, for Merchant Banks, they are enterprises with capital investment not above N2,000,000 {apart from cost of land} or with maximum turnover not more than N5,000,000 (Central Bank of Nigeria, 2016). Conversely, in the view of new Industrial policy for the country, Small Scale industries are defined as industries with total investment of between N100,000 and N2,000,000 above the cost of capital, but including working capital (Guidelines for the Small Scale industries Equity Investment Scheme 2001, as in Ogunleye, (2004) in a paper titled, "Small and Medium Scale Enterprises As Foundation For Rapid Economic Development in Nigeria" as quoted in (Maryland Finance Company and Consulting Servicing Ltd 2004, Pp. 35 - 36).

3.0 The challenges of small and medium scale industries in Nigeria

a. Infrastructural Inadequacies

This is due to lack of sufficient infrastructure, inadequate provision of essential services such as; telecommunications, good roads, electricity and water supply which constitute one of the greatest constraints to small business development. Most, medium scale industries resort to private provision of this infrastructure at great expense.

b. Lack of Access to Affordable Financing

The banking sector tends to be unknown in meeting the credit requirement of small and medium scale industries. a senior banker in Nigeria was once quoted as saying, "the banks are not charity, so why should they take risk with small and medium scale industries when they can make good profit elsewhere". The banks also regard many small and medium scale industries as high risk ventures because of absence of succession plan in the event of the death of the proprietor.

c. Management Problems: Poor management affects small and medium scale industries adversely. Most small businesses are one-man business. Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs in Nigeria. According to West and Wood (1972), "90% of all these business failures result from lack of experience and competence." Rogers (2002), also added that inefficiency in overall business management and poor record keeping is also a major feature of most SMEs; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, wrong and costly decision making. This hinders effective control and planning.

d. Lack of Accounting Records: Many small businesses do not keep proper records of their transactions. This hinders the activities of the enterprise. This lack of accounting records makes it difficult for credit or investor to assess the credit worthiness of potential small and medium business potentials.

e. Risky and uncertain business: The risky uncertain business environment leads to the fear that small firms will not be able to repay debts and this is reinforced by a history of small and medium scale industries non-payment.

f. Unstable macroeconomic variable: Another major concern that is very worrisome in Nigeria is lack of stable macroeconomic variables. This has over the years reduced the entrepreneur's confidence in doing business in small and medium scale as they are unable to have stable financial plans and budgets. This has in turn brought inefficiency and technological backwardness. The Nigerian economy suffers distortions by inflation, high interest rates and exchange rate instability culminating in cost escalation.

g. Socio-Cultural Problems: Most Nigerian Entrepreneurs do not have the investment culture of ploughing back profits. Bala (2002) stressed that the attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

h. Strategic Planning Problems: SMEs often do not carry out proper strategic planning in their operations. Ojiako (2000) stated that one problem of SMEs is lack of strategic planning. Sound planning is a necessary input to a sound decision-making.

i. Taxes and tariffs: Entrepreneurs in Nigeria are saddled with all sort of unimaginable taxes and tariffs due to the absence of a unified and gazette tax regime amongst the 3 tiers of government, each of them especially the state and local government intending to enact all forms of obnoxious and draconian tax laws to raise money at the taxies of the investing entrepreneur. The decentralization of tax roles amongst these three tiers of government, will surely lead to reduced taxes and a more efficient and effective taxing system.

4.0 Characteristics of the Nigerian Small and Medium Enterprises

a. **Sole proprietorship**

This is a feature of small and medium scale industries in Nigeria which is characterized by single management structure which combines ownership and management in one person. Over 50% of businesses in Nigeria are run as sole proprietorship. Most small scale businesses in Nigeria are founded by sole proprietors. The single advantage derived from this feature is the dynamism it offers in terms of decision making and administration.

b. **Partnership**

Partnership is another feature of small and medium scale industries. Since partnership spirit in Nigeria is at its infancy, partners in many small and medium scale industries pursues individualistic goals at the expense of the overall interest of the small and medium scale industries. Consequently the mortality among small and medium scale industries is on the rampage as a result mistrust that often develops among the owners (poor partnership spirit).

c. **Over-dependence on imported materials**

Another major feature of many small and medium scale industries is their over reliance on imported materials and spare parts. In fact, no industrial sub-unit under small scale category is immune from this structural weakness.

5.0 Contributions of Small and Medium Enterprise Industries to the Economic Development of Nigeria

Small businesses offer several contributions to an economy. In Nigeria, small businesses constituting 10 to 99 persons increased from a little above 15 million in 2010 to 36,994,578 in 2013, while large-scale industries constituting 100 persons and above pegged at over 2,000 in 2010 and increased to 4,670 in 2013 (Small and Medium Enterprises Agency of Nigeria, 2014). Small businesses account for 70% of industrial employment and about 50%ofmanufacturing output (Ogunmuyiwa and Okunleye, 2019).

The following are some of the contributions of small and medium enterprise industries to Nigeria:

a. Firstly, small and medium enterprise industries help to drive economic growth. It has been recognized that development means accumulation of higher wealth in an economy. For the wealth in an economy to grow, it means that many households and business entities in the economy are experiencing increase in their principal resources and assets. One measure of this is the Gross Domestic Product (GDP).
b. Small and medium enterprises drive economic growth of Nigeria by helping in capital formation. Capital is an essential factor of production and is important for investment in productive activities. Small and medium enterprise industries help in capital formation by helping to mobilize financial resources that are hitherto not part of the formal economy.
c. Stimulation of technological development. Small and medium enterprise industries drive economic development in Nigeria through stimulating technological innovation in the course of a synergetic relationship with big industries. Big corporations are conversant with technological innovation. There have both the incentives and resources to finance cutting-edge technical breakthroughs. But, because there are very few of such corporations, the impact of such breakthrough may not be diffused throughout the economy.
d. Provide gainful employment to citizens who otherwise may have been gainfully employed. By equipping thousands and millions of citizens with financial resources and knowledge to begin their own business, small and medium enterprise industries also reduce the population of the community that is extremely poor.
e. Small and medium enterprise also helps to reduce people's dependence on state resources for welfare payments.
f. Small and medium enterprises help poor persons to gradually acquire physical and financial assets which could be a defence against poverty.

g. Small and medium industries further help economic development by the process by which a country moves her resources i.e. dependent economy to the one that is manufacturing and service oriented. In Nigeria, small and medium enterprise industries constitute about 80% of the total industries in Nigeria.

6.0 Conclusion and Policy Recommendations

Small and medium scale enterprises have significantly contributed to the real Gross Domestic Product (GDF) of Nigeria. The importance of SMEs in any country cannot be ignored by the government, especially in Nigeria. In other words, SMEs plays a vital role by constituting the driving force of industrial growth and development in Nigeria.

Moreover, for small and medium businesses (SMEs) to thrive, entrepreneurship has to be well developed in Nigeria in a manner that is sustainable and capable of resulting in economic development for the country. This is because it translates into employment and wealth creation. However, regulation by the government and the condition of the business environment, especially factors that cannot be controlled, can ruin the ability of entrepreneurship to positively influence the growth and development of Nigeria

Nigerian government should have monetary policies so as to reduce the rate of interest charge by banks as well as bring about a more realistic exchange rate for naira in order to encourage entrepreneurs.

Nigerian government should as a deliberate policy, encourage rural based industrialization whereby investors in different communities in all the nooks and crannies of Nigeria should be encouraged to establish small and medium scale industries that would be based entirely on local raw materials, including machines and equipment.

Also, Nigerian government should formulate policies that will enhance agricultural development and productivity so that resources can be transferred from this sector to facilitate growth of the non-agricultural sector, especially to small and medium scale businesses.

There should be policies that focus on technical and vocational education at all levels, for the development of human capital in Nigeria.

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