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## Small and Medium Enterprises (SMEs): Veritable Tool for Economic Growth and Employment Generation in Nigeria

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### Abstract:

*Over the years, Small and Medium Scale Enterprises (SMEs) have been identified generally as the bedrock of an economy having the potential for employment generation, economic stability, wealth creation, increased Gross Domestic Product (GDP) and Foreign Direct Investment (FDI). Developing and sustaining this sector will greatly impact the economic growth of Nigeria. However, due to the minimal attention that have been paid to this sector over the years, its contribution to the GDP and employment generation has remained relatively non-substantial. Under the right business environment, SMEs can thrive and metamorphose into larger firms, thereby bringing about the much-needed economic revolution, technological advancement, self-sufficiency, poverty reduction and increased security. The success and failure of SMEs are characterized by several factors, both internal and external. This paper considers the importance of developing and promoting sustainable SMEs schemes to attain a competitive position in the local and international marketplace and also examines key determinants influencing the growth and development of SMEs in Nigeria. Several key factors were identified that should be addressed to enable SMEs attain robust growth and recognition, specifically the utilization of technology. Special attention was paid to the infrastructural gaps, the need to bridge the gaps to allow for a more efficient, vigorous and optimal deployment of resources. Key policy recommendations that could foster the development and sustenance of SMEs were proffered.*

**Keywords:** SME, economic growth

### 1. Introduction

Small and medium scale enterprises (SMEs) or small businesses have been recognized over the years as indispensable component contributing immensely to national development in both developed and developing economies. SMEs remain critical to the development of any nation's economy as they are an excellent source of employment generation, greater utilization of local raw materials, wealth creation, stimulating the development of local technology, development of indigenous entrepreneurs amongst other numerous gains.

Over the years, unemployment and underemployment has become a growing concern for Nigerians, this has attracted local and international attention. There has been blames and counter blames, diverse and divergent ideas on the causes and how to remedy the monster has been in the public domain for decades. The rising wave of unemployment and underemployment in Nigeria has negatively impacted individuals; families and the nation at large as poverty continue to loom in the face of a vast majority without any real solution in sight. Millions roam the streets in search of white-collar jobs that aren't available, the few operational SMEs are not able to absorbed this teaming working class, vast major are underpaid and with poor condition of service. Though unemployment is not peculiar to Nigeria, being a global monster, it must be addressed to forestall public menace, unwarranted and dangerous migration, security challenges, social vices and restoration of human dignity.

World leader in a bid to address the monumental challenges facing sustainable human and capital development, came up with the Millennium Development Goals (MDGs) in 2000 with expected target date of achieving the set goals in 2015. One of the cardinal goals was to end hunger and poverty. One of the key drivers to ending hanger and poverty is by providing quality and gainful employment to the able working class. It is estimated that about 104 million children under 5 years old are living in extreme poverty, while that number extends to 328 million for children under 18 (World Bank, 2016).Of this vast majority of extreme poor people, about 70% live in sub-Sahara African and Southern Asia living on less than \$1.90 per day.

To address these numerous threats, including unemployment and underemployment, nations of the world began looking inwards by creating strong socio-economic structures, enacting business friendly policies and harness local contents and potentials that would serve the entirety of their citizenry. Of the many strategies put together by leaders include the creation of enabling environment, formulating and implementing good policies, strengthening of local content, training and ensuring more funds were accessible to the SMEs amongst others. Recently, February 5, 2018, the President of the United States of America signed one of the biggest tax cuts and reforms. The massive tax cut was aimed at providing tremendous relief for the middle class, small businesses and attract investors which is correspondingly expected to stimulate the economy.

Studies have shown that tax cut for low income earners and SMEs could boost savings and investments with resultant effect of increasing the productive capacity of an economy.

When SMEs receive the right supports, corporate businesses also gain from their specialized skills, goods and services, creates competition, greater utilization of local raw materials, stronger and healthy private driven economy. Though in Nigeria, the government notably appears to be steering the ship in the right direction in terms of improving SMEs sustainability, sometime, most of these efforts end at the budgetary levels and often times mismanaged.

It's unfortunate that SMEs in Nigeria have underperformed these years due to a number of factors which may be attributable to the operators or from their external environment, including the huge infrastructural deficits and frequent government policy changes. The current prevailing socio-economic and political conditions have not also allowed SMEs to thrive and contribute meaningfully to the growth of the country. To come out of the woods, there have to be a paradigm shift. With a population of over 200 million and 65% are below the age of 35 years, this group should strive to contest for elective offices and become agents of change by directly involve in policies design, implementation and holding more accountable positions. Nigeria is blessed with abundant natural and human resources and cannot continue to maintain the status of a stunted economy with total dependence on crude oil sales and export.

Review of numerous expert's analysis shows, the impact of SMEs in economic growth and development remains valuable and undisputable irrespective of the countries or region of the world. Hence, the development and sustainability of SMEs in Nigeria requires strategic frameworks that should touch several multidimensional areas; to include comprehensive design and implementing sound macroeconomic policies, good governance structure, simplified legal and regulatory framework, ease of doing business, improved infrastructure, access to finance, research & development (R & D) and training.

## 2. Literature Review

There is no gain-saying that government does not create jobs but, small and medium scale businesses. One of the exclusive functions of government is to create the enabling environment for businesses to thrive.

A simple definition of SMEs is relatively difficult especially when making comparison with the developed economics and the developing ones. For instance, the Organization for Economic Cooperation and Development (OECD) gave a broad prospect of SMEs as non-subsidiary, independent firms which employ fewer than a given number of employees, (OECD, 2005). This classification of SMEs follows the criteria and general recommendation of the United Nations (UN) using asset base, turnover and number of employees. In general, SMEs are often defined as registered business employing under 250 employees. This quantitative definition and classification may defer from country to country as a result of the size and robustness of the economy. For example, a small business in developed economies of countries like the United States of America (USA), Germany, Italy, France and Japan may be a medium or large-scaled business in developing economy like Angola, Ghana, Senegal, Kenya, Cote D'ivoire and Nigeria.

The Central Bank of Nigeria (CBN) under its, Small and Medium Enterprise Credit Guarantee Scheme (SMECGS) defined SME as an enterprise that has asset based (excluding land) of between N5million – N500million and labour force of between 11 and 300, Jan 1, 2014. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) under its national policy on micro, small and medium enterprise concurred with this definition. The Table below provides a detailed breakdown of this definition:

S/n	Size Category	Employment	Assets (=N = Million) excl. land and building.
1	Micro enterprises	< 10	< 10
2	Small enterprises	10 - 49	10 to < 100
3	Medium enterprises	50 -199	100 to < 1,000

Table 1

Source: SMEDAN National Policy on MSMEs, 2015

The SMEs having been recognized as one of the engines that drive job creation and development, have underperformed in Nigeria over the years due to numerous factors including poor policy implementation and other environmental factors.

A joint study conducted by the Nigerian Bureau of Statistics (NBS) and SMEDAN (2010), the analysis shows SMEs contributed about 46% to the national Gross Domestic Product (GDP) hoping progressively by the year 2020, Nigeria would be among the top twenty economy of the world. Studies have shown that SMEs have grossly underperformed in Nigeria hence, urgent, deliberate and concerted efforts from all stakeholder is required to allow for the growth and sustainability of this sector.

Oyelaran-Oyeyinka (2020) clearly captured the underperformance of SMEs in Nigeria in relation to their counterparts by revealing that although about 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in Europe, they contribute approximately 1% of GDP compared to 40% in Asian countries and 50% in both the US and Europe.

Conclusively, the government needs to provide the much-needed enabling environment, leadership, support and all that is required to stimulate SMEs and position them on the right footing.

### 3. Theoretical Framework

The catalytic role SMEs play in economic growth and development of nations cannot be over emphasized. Studies have shown they are the foundation upon which large firms have metamorphosed. Nigeria cannot afford not to invigorate the SMEs by providing the enabling environment, sound and robust policies to enable them to thrive. The attendant impact of SMEs to economic growth and development includes, substantial contribution to the Gross Domestic Products (GDP), Foreign Direct Investment (FDI), employment generation and wealth creation, improved security, local technological advancement and knowledge transfer, export and trade investments amongst many other benefits.

The unemployment rate in Nigeria has been on a steady rise, in 2015, it skyrocketed from 6.4 to 18.8% Q3 of 2017, the National Bureau of Statistic (NBS) study shows this rising trend. The unemployment rate has continued to be on the increase, within a timeline of one year, there was a terrific jump from 18.8% in Q3 2017 to 23.1% in Q3, 2018 (NBS) while the underemployment was 20.1%. This pattern of rise in unemployment portrays all isn't well and could potentially trigger acute hunger and social vices. To ameliorate the suffering of vast majority of Nigerians living below one US Dollars per day, something must be done urgently to savage the situation. One of the key decisions the government needs to urgently undertake is to provide the enabling environment to enhance SMEs optimal performance especially in employment generation.

The table below shows the unemployment trend spanning 2015 – 2017 as obtained from NBS.



Figure 1

Source: *Tradingeconomics.Com – National Bureau of Statistics, Nigeria (NBS)*

### 4. Research Methodology

This paper seeks to examine the economic and social impact of SMEs as a dynamic tool for Economic Growth and Employment Generation in Nigeria. Also, review factors militating against its growth, sustainability and proffer solutions that when potentially implemented, will move the industry in the right direction.

Research methods, accurate and reliable data gathering is a key task in research work; to allow for the realization of real time and considerable connection with the interviewees, the qualitative analysis method was deployed for this study. MdShidur (2016) research work on *“The advantages and disadvantages of using qualitative and quantitative approaches and methods in language ‘Testing and Assessment’ Research: A Literature Review* detailed a number of advantages of qualitative method to include that *qualitative research approach (interpretivism) holistically understands the human experience in the specific settings*. This work leads credibility to the effectiveness of the selected methodology.

The interview questions asked revolved around the role of government in the growth and sustainability of SMEs in Nigeria, key challenges of small business owners, reasons for premature failure of SMEs and, what can be done differently to sustain SMEs in Nigeria since its one of the cardinal tools for employment generation and wealth creation. Of the over one hundred and thirty-four persons interviewed with women entrepreneur accounting for about 53%, there was a general pointer to the lack or poor essential infrastructure, principally poor electricity supply and bad roads. While others lamented immensely the lack of access to funds/Bank loans, high interest rates, high rate of insecurity, corruption and poor skill set.

Analysis of the information gathered, it clearly shows the undeniable impact SMEs can make in the economic growth, development and employment generation in Nigeria. It is expected and expedient that every stakeholder come on board and do the needful to ensure SMEs are giving the right environment to thrive.

### 5. Factors Affecting the Growth & Development of SMEs

Amongst the many quantum factors militating against the growth and sustainability of SMEs in Nigeria, the following stands more prominently:

- **Poor or Lack of Power Supply** - It's no gainsaying that the impact of steady and uninterrupted power supply is key to the industrial development of any nation in all its ramifications. Nigeria electricity has been a flip-flop situation for almost six decades with the inability of the responsible agencies to get this sector working properly. Inadequate, dilapidated and obsolete power facilities abound across the length and breadth of the nation. The elliptical or absence of electricity supply have contributed immensely to crumbling several small businesses in Nigeria with many entrepreneurs having to source for alternates at a cost too high making their products and services uncompetitive price-wise. A lot of small businesses run 'Power Generating Sets' for several hours on a daily basis, this is economically not viable, increases noise, smoke/emissions pollutions which has resultant effect

on the health and safety of the Nigerian people. The joint survey conducted by NBS and SMEDAN (2017) as shown below clearly detailed the average hour small businesses source for alternate electricity in Nigeria.

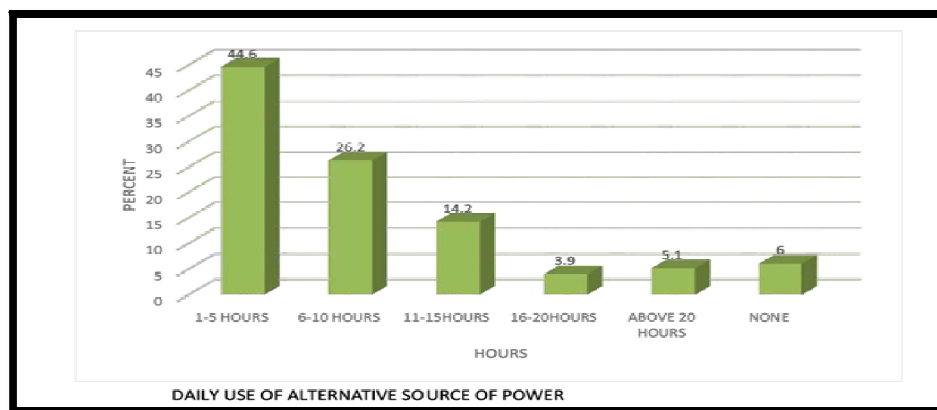


Figure 2

Source: Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics (NBS) Collaborative Survey: Findings (2017)

- Poor Infrastructure – the poor state of lots of infrastructure in many parts of the country does not support the development and growth of SMEs. Several roads are in quite dilapidated and deplorable conditions making it very difficult for the movement of goods and services across the length and breadth of the nation. A good example is agricultural produce; very rarely perishable products get to their intended destinations without business owners suffering one form of post-harvest lose or the other as a result of poor states of these roads. Lack or absence of storage facilities, processing machinery and other agricultural implements is a major drawback making it not attractive to lots of potential investors.

#### 5.1. Insufficient Capital/Lack of Access to Bank Loans.

Lack or access to credit has the potential to retard the growth and development of SMEs in any nation. This research has shown that accessing Bank loans is one of the major formidable threat SMEs grapple with in Nigeria making the informal sectors major source of SMEs financing. Even when Bank loans are accessed, the interest rates are so high making it difficult for small business owners to cope with. For instance, the Central Bank of Nigeria (CBN) lending rates was up to 14 percent as at May 2018; while the commercial Banks lending rates were in the higher two digits. The figure below shows the CBN lending rate between 2008 and 2020. A single digit lending rate will be more attractive if the SMEs must be revolutionized and sustained.

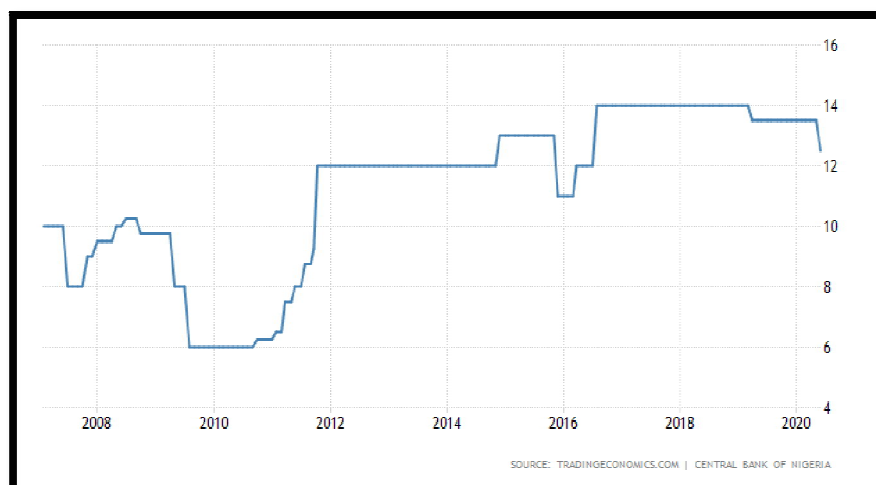


Figure 3

Source: Tradingeconomics.com – Central Bank of Nigeria (CBN)

- Insecurity– the rising wave of insecurity in Nigerian for almost a decade now has threaten and continue to affect negatively the growth and development of SMEs. Insistent killings, kidnapping and banditry activities have scared away lots of potential investors (local and international) and weakened the confidence of the existing ones. One of the cardinal responsibilities of government is to protect lives and properties, whenever a gap exists in this fundamental obligation, the catastrophic effects could be felt across the entire spectrum of the economy. The need for the government to do more cannot be over emphasized as killing and kidnapping is becoming endemic and the time to double effort is now. The Work Bank 2020 ease of doing business publication ranked Nigeria 131 of 190 of

the countries surveyed, it implies more work needs to be done. At the point where lots of businesses were struggling, the government hiked the Value Added Tax (VAT) in 2020 from 5.0% to 7.5%, this is hurting many SMEs with the possibility of some companies going under and people losing jobs. This hike in tariff instead of incentives negate the expected support from the government.

- Inconsistent and Poor Implementation of Government Policies – Over the past three decades, we've witnessed systemic and somersault of policies from one government to another resulting in investors losing so much of their investments. The continued reoccurrence of inconsistency in policies initiation and implementation, makes it difficult for investors to have faith in the system and, the return on investment (ROI) not guaranteed. This has adversely taunted the growth of SMEs and if left unchecked, the SMEs may never be able to contribute meaningfully to the development of the economy. Many policies initiated by the government are on paper, the institutional and political willpower to see through the complete implementation, one of the key challenges.
- Inexperience and Self-discipline–This is one of the huge problems bedeviling the growth and sustainability of SMEs in Nigeria. Often times, the inability of SMEs executives to separate business from family, distinguish between revenue and profit, poor record keeping, reckless spending have led to the crumbling of so many SMEs. Oftentimes in Nigeria, lots of SMEs have collapsed almost immediately the principal's demise as there is sometimes no clear path to transitioning of businesses to the next generation. Toyin, A.A et al (2014) research leads credence to this as one of the many reasons SMEs shutdown prematurely. There is the need for more sensitization from the government and other relevant agencies to forestall further collapse of SMEs operations.

## 6. Conclusion and Recommendation

The pivotal role play by SMEs as a reliable tool for employment generation cannot be under estimated. If the sector is well repositioned in Nigeria, the unemployment and under employment rate will drastically be reduced which in turn will help check the high level of insecurity, un-necessary and dangerous migration as well as other social vices being witnessed today. There is need to look inwards and be more creative rather than depend on other countries for aids. There are a number of ailing SMEs which stands out as low hanging fruits that when revitalized can take thousands of graduates, youths and professionals off the streets. The quick-wins are not limited to bringing on stream the multibillion Dollar Ajaokuta Steel Company built but not operational for almost four decades now. Others include the Delta Steel Company Aladja, Aluminum Smelters Company Ikot-Abasi, Osogbo Steel Rolling Mill, the Katsina Steel Rolling Mill, Machine Tools Osogbo, Jos Rolling Mill, Ewu Flour Mill, Okpella Cement Factory, Coal Industries, the breweries, textiles mills, mining sector, the agricultural sector – mechanization, processing and storage. For a meaningful progress to be made, the government and all relevant stakeholders should make concerted effort at stabilizing the power sector as industrial development and revolution revolves around this important sector. It is worrisome and extremely difficult for SMEs to survive as cost of alternate sources of energy is astronomically high, not sustainable and unsafe for the wellbeing of the populates. Tax break and incentive for small businesses is strongly recommended including formulation of policies to check trade in balance amongst member states, malpractices, corruption and other sharp practices that are counterproductive for the sustainability of SMEs. If Nigeria SMEs are well positioned, the multiplier effects can redefine the nation, the West-Africa, sub-Saharan, the Africa continent and the world in general.

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