

Creating Employment via Small and Medium Scale Enterprises: The Case of Nigeria

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Abstract

Nigeria is abundantly blessed with all manners of resources but the problem has always been that of mismanagement of these resources. Consequently, the country is facing lots of socio-economic and political problems among which is unemployment. Given the absence of an enabling environment for large scale industrialization, the only way out is by creating employment through Small and Medium Scale enterprises. as in the case of other developing nations. Overall, the Small and Medium Enterprises have been found to be a veritable source of employment generation. However, the accompanying increase in productivity is not commensurate with the level of employment generated. This paper discussed among others the concept of SMEs, a comparative study of SMEs in other countries And the problems and prospects of SMEs in Nigeria. The paper concluded by Proffering 'solutions to SMEs' problems through appropriate recommendations. It is hoped that with present administration's quest to improve the economy by rigorously pursuing its eight-point-agenda to logical conclusions, the micro finance institutions all over the country are made to grant loan capital to small scale entrepreneurs without stringent conditions, more ventures would open up while poverty and the unemployment level will reduce considerably.

Introduction

The dynamic role of Small and Medium enterprises as engine of growth in developing countries has long been recognized. Its accelerative effect in achieving macro objectives such as full employment, income distribution, development of local technology as well as diffusion of management skills and stimulation of indigenous entrepreneurship have been well documented in economic literature. It is estimated that SMEs employ 22.0 per cent of the adult population in developing countries (Daniels, L994),

In Nigeria, the small and medium enterprises sub-sector has been expanding, especially since the mid-1980s, following the introduction of SAP which forced many large enterprises to lay-off large proportions of their work force. The sector accounts for about 70.0 percent of industrial employment (World Bank, 1995). This paper reviews the' experiences of other Countries job creation through SMEs and proffers a way forward for Nigeria. The rest f the paper is divided into five sections. Following this introduction is the definition of concepts and characteristics of SMEs Section 2 reviews the policies and incentives for the development at SMEs in Nigeria while section 3 is an overview of other countries experiences Suggestions or the way forward are contained in section 4 while section 5 concludes the paper.

The Concept and Characteristics Of Small And Medium Enterprises

Definitions And Concept Of SMEs

The concept of SMEs is relative and dynamic, hence there is no universal definition for smart and medium enterprise However, within the fixed coordinates of national boundaries, it might be relatively easier as each country tends to derive its own definition based on the role SMEs are expected to play in the economic development of that country and the programme a assistance designed to achieve that goal.

The first attempt to overcome this definition problem was by the Bolton Committee (1971) which formulated an "economic" and a 'statistical' definition Under the economic definition, a firm is regarded as small if it has a relatively small share of the market place managed by owners or part owners in a personalized way, is independent in the sense of not forming part of a large enterprise The committee adopted different definitions of the small firm to different sectors Wynarczyk et al (1993), suggested three other ways of differentiating between small and large firms other than size, as the uncertainty associated with being a price taker, limited customer and product base, and uncertainty associated with greater diversity of objectives as compared with large firms Storey (1994) also identified three key distinguishing features between large and small firms The first is the greater external uncertainty of the environment which the small firm operates and the greater internal consistency of its motivations and actions Second they have different role in innovation small firms are able to produce something marginally different, in terms of product or service, this differs from the standardize product or service provided by large firms. Third is the greater likelihood of evolution and change in the smaller firms; small firms which become large undergo a number of stage changes. To overcome the problem of definition between small and large scale enterprises, the European Commission (BC) coined the term

Small and Medium Enterprises (SMEs) The three components of the SMEs are:

- (i) Firms with 0-9 employees are micro enterprises
- (ii) Firms with 10-99 employees are small enterprises
- (iii) Firms with 100- 499 employees are medium enterprises

The EC definitions are based solely on employment rather than multiplicity of criteria and restricted to enterprise, which employ less than 500 workers. This definition is considered too all embracing for a number of countries. This paper adopts the definitions for small firms which are more appropriate to their particular target group that is, operational definition. Consequently, definitions vary across environment as a result of differences in industrial organization at different levels of economic development and differences in economic development in parts of the same country (Sule, 1986). For instance, a firm that can be categorized as small scale in an advanced economy like the United State of America, given the high level of capital intensity may be classified as medium or even large in a developing economy like Nigeria. Definitions also change over time, owing to changes in price levels, advances in technology, etc. Even in the same country, definition may vary within institutions depending on their policy focus. For instance, prior to 1992 in Nigeria, different institutions like the Central Bank of Nigeria, Nigerian Bank of Commerce and Industry, Centre for Industrial Research and Development and the National Economic Reconstruction Fund adopted different definitions to achieve the objectives of the programme they want to execute. The criteria that have been used in the definitions include annual turn over, gross, output, capital investment and employment.

In 1992, the National Council on industry streamlined the various definitions in order to ensure uniformity and provided for its review every four years. The definition adopted used a combination of capital investment and employment for categorization of industry. The definitions were first revised in 1996 and then in 2001 as follows:

- (i) Micro/Cottage industry enterprise with a labour size of not more than 10 workers or total cost (including working capital but excluding cost of land not more than N 1.5 million.
- (ii) Small-Scale Industry enterprise with a labour size of between 11-100 workers or a total cost including working capital but excluding cost of land) not more than N50.0 million..
- (iii) Medium-Scale Industry enterprise with a labour size of over 101-300 workers or a total cost (including working capital but excluding cost of land) of over N50.0 million but not more than N200.0 million.
- (iv) Large-Scale Industry enterprise with a labour size of over 300 workers or a total cost (including working capital but excluding cost of land) of over N200.0 million.

Characteristics of SMEs

The SMEs are characterized by simple management structure resulting from the fusing of ownership and management by one or very few individuals. Thus SMEs tend to strongly revolve around the owner managers rather than operate as separate corporate entities. There is often greater subjectivity in decision-making and the prevalence of largely informal employer employee relationships. They have very limited access to long-term capital and their access short-term financing is often limited and sometimes obtained at a penal rate of interest based on the perception of the sector as risky by the formal financial institutions. The unavailability of funds often results in the non-adoption of modern technology and the resort to labour intensive production processes. This coupled with very poor inter and intra-sectoral linkages do not allow the enterprises take advantage of the benefits associated with economies of large-scale production. SMEs are more widespread and resilient as a result of the greater use of local resources. Review of policies and Incentives for the development of SMEs in Nigeria. In order to promote small and medium scale enterprises and achieve the objectives of employment creation and even development through industrial dispersal, the Federal Government has adopted different strategies and policies. These could be broadly classified into three, namely: Incentives (fiscal and export) and tariff regime; Financial support; and Technical Assistance Programmes (Adebusuyi, 1997).

Incentives and Tariff Regimes

(a) *Fiscal Incentives*: An array of fiscal incentives have been put in place for SMEs promotion, this includes: Tax relief for small enterprises during the first six years of operation; granting of pioneer status for a period of five years with a possible extension of two years for enterprises located in economically disadvantaged area; provision of relief for investment in infrastructure; capital allowances and minimal local raw material utilization income Of 20.0 per cent.

b) *Export Incentives*: To encourage firms (including SMEs) to produce for export and diversify the country's revenue base, the government provided a package of incentives which include: the introduction of the manufacture in-bond; import duty draw and export credit and insurance schemes. Also, cash inducement was provided through the Export Development Fund and Export Adjustment Scheme Fund. Tax relief was granted on interest income: arising from export activities and additional capital allowance was made for turn over by exporting companies.

To protect the industrial sector (SMEs inclusive) from dumping, the government adopted the use of higher tariff rates to discourage the importation of some of the industrial goods that could be produced domestically. In some cases, this has been complemented with complete import ban on a variety of industrial and agricultural products. The measures were aimed at giving fillip to industrial and agricultural production for domestic and international markets.

Financial Support Programmes

Financial support was given to SMEs through the establishment of Development Finance institution (which include the Nigerian Agricultural Cooperative and Rural Development Bank, the Bank of industry, etc.), the introduction of the Small and Medium Industries Equity Investment Scheme (SMIEIS) that enable batiks to invest in equity of SMEs. Others are the establishment of the National Directorate of Employment (NDE), the SMEs Loan Scheme, and the Fund for Small Industries Credit Scheme. Over the years the Central Bank of Nigeria has through its credit guidelines required deposit money banks to allocate a stipulated minimum credited to the preferred sectors (including the SMEs.). Most recently, the CBN has directed that all Community Banks in the country should be converted to Micro Finance Banks institution to grant loans to Small and Medium Scale Enterprises in the country. Today, community banks have thus been changes to micro-finance banks.

Technical Assistance Programme

To enhance entrepreneurial development in various aspects of Small and Medium Enterprises management, the government provided array of technical assistance programmes. The programmes were aimed at providing the needed skills in the areas of proper evaluation of viable opportunities, mobilization of necessary resources and project implementation. Some of the government agencies charged with the responsibility to implement these programmes include: the Industrial Development Centers (IDCs), Centre for Industrial Research and Development (CIRD), Centre for Management Development (GMD), Project Development Agency (PRODA), Federal Institute for Industrial Research, Oshodi (FIIRO), Raw Material Research and Development Council. The IDCs are established to render free technical and managerial assistance to SMEs towards the establishment of new enterprises, development modernization, promotion and growth of existing SMEs. They are to provide technical services in selecting appropriate machinery assist in equipment installation; undertake machine repairs and maintenance as well as provide on- the-job training facilities to SMEs in the handling of the machines.

In spite of these support programmes and policies, the potentials of the small and medium enterprises sector have not been fully exploited as the SMEs, which contribute about 70.0 per cent of industrial employment account for only 10-15 percent of manufacturing output. Also, the agricultural sector, which engages about 65 .0 percents of the labour force contributes only about 40.0 per cent to the gross domestic product (GDP).

Some countries' experiences in SMEs' development

Some economic theories about globalization and information technology predict a substantial reduction in employment opportunities, while others have equally predicted that the same factors will provide an engine for growth and prosperity in all economies. There is however, a general consensus that for any business to grow and create new jobs, the business must create value, the management must be able to execute its business plan consistently over time and cost advantages must be sustainable over time. The job creation efforts of SMEs in some countries as reported in CBN Bullion Vol.27 No 4(2003) are reviewed below.

(i) Mauritius

The potential of SMEs for job creation was well demonstrated in Mauritius in the early 1980g. When economic recession led to high unemployment and it was noted that the SMEs could create jobs for 10.0 percent of the cost of jobs created by larger enterprises. As a result of these insights, a package of policies targeted at large enterprises was adapted to the needs of SMEs; the Government of Mauritius spearheaded an initiative, which was supported by a wide range of institutions, Credit was made available at preferential interest rates, advice was provided to SMEs, and import tariffs were waived for machinery and parts.

The encouragement of SMEs reduced unemployment from 21.0 percent in 1983 to 1.6 percent in 1996. During the same period, the 8MB share of employment rose from 53.0 percent to 43.0 percent. It was also observed that between the periods 1992-1996, large enterprises generated only 7000 jobs, while SMEs generated nine times more opportunities.

ii. Thailand

Small and medium Enterprises constitute more than 90.0 percent of the total number of establishments in the manufacturing sector in Thailand. They employ about 65.0 percent of industrial workers and contribute about 47.0 percent of the total manufacturing value added. The policy of the Thai government is to use SMEs as instrument to create employment, to harness and effectively use given natural resources and to narrow income

gap. The policy measures provided by the government for the promotion and support of SMEs can be classified into three key areas, namely: Investment Promotion; Financial Assistance; and Technical Training and Consultancy through various administrative organizations dealing with SMEs promotion activities. Industrial subcontracting is one of the strategies to help SMEs' Development and to encourage the growth of supporting industries in Thailand.

iii. Malaysia

Malaysia has transformed from a commodity-based producing nation to a manufacturer of industrial products, geared towards exports. The small and medium industries account for more than 80.0 percent of the total manufacturing establishments. The SMIs played a critical role in the country's industrialization programme through the strengthening of both forward and backward industrial linkages. The government of Malaysia enhanced the performance of SMEs through policies and programmes that integrate domestic SMEs. Into the mainstream of industrial development, through the provision of critical inputs that enable them to expand their market internationally.

iv. Philippines

In the Philippines, the SMEs comprise 99.0 percent of the total manufacturing establishments; contribute 54.9 percent in employment generation and 28.1 percent of value-added production. There is a plethora of support programmes and services. That addresses the compelling concerns of Philippines SMEs. These are offered by both government agencies and the private sector, including non-governmental organizations and community volunteer groups. There is also increasing involvement of local government units in SME assistance and development. Furthermore, government financing and international lending institutions are devoting more of their lending portfolios to micro, cottage, small and medium enterprise.

v. Pakistan

Small and Medium Enterprises in Pakistan constitute 90.0 percent of business in the country and accounts for 80.0 percent of total employment and contributes 30.0 percent to GDR. The SMEs which are primary in the information sector rely on traditional technology and are linked to the large scale industries and generate 25.0 percent of the export earnings of the country. Banks shy away from financing SMEs because of lack of reliable information on borrowers, difficulties in enforcing contracts; and inadequate instruments for managing risks.

The way forward

It is obvious from the experiences of the above countries that SMEs are veritable sources for employment. This has been achieved in the countries under review through a combination of policies and institutional arrangements that encourage the growth of SMEs. However, the increase in employment by SMEs is not always associated with increases in productivity. For instance, in Nigeria, SMEs that provide jobs for about 70.0 percent of the labour force account for only 10.0 - 15.0 percent of manufacturing output, while the agricultural sector which provides jobs for about 65.0 percent of the population account for only 40.0 percent of the Gross Domestic Product. Nevertheless, the important role performed by these enterprises cannot be overlooked. To promote the growth of SMEs in Nigeria. It is suggested that the following be adopted:

Development of Enterprise Culture

The country should pursue the development of enterprise culture, through the system and programmes of education, entrepreneurship and training linked to job needs and the attainment of economic growth and development, with particular emphasis on the importance of good labour relations and the vocational and managerial skills needed by small and medium sized enterprises.

Designing and implementing, with full involvement of the organizations of employers and workers concerned, awareness campaigns to promote better working conditions, higher productivity and improved quality goods and services.

Development of an Efficient Service Infrastructure

In order to enhance the growth, job creation potential and competitiveness of small and medium sized enterprises, consideration should be given to the availability and accessibility of a range of direct and indirect support services to the SMEs and their workers. The provision of pre-start-up, start-up and development assistance:

- Development of business incubators;
- Promotion of development of enterprise based training;
- Information services, including advice on government policies;
- Access to credit and loan guarantees;
- Advice on the effective application of information and communication technologies to the business

process.

Policy Formulations and Legal Framework

In order to create an environment conducive to the growth and development of SMEs government should adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal environment as regards in particular interest and exchange rates taxation, employment and social stability).

Specific measures and incentives should be given to assist and upgrade the informal sector to become part of the organized sector. In times of economic difficulties, government should seek to provide effective assistance to SMEs and their workers.

International Cooperation

Appropriate international cooperation should be encouraged to promote access by small and medium sized enterprises and their workers to national and international databases on such subjects as employment opportunities market information laws and regulations, technology and (I product standards.

Roles of Organization of Employers and Workers

Organizations and employers could contribute to the development of SMEs through the promotion of exchange of experience and establishment of linkages between SME. Participate in activities to raise quality and productivity, as well as to promote ethical standards.

Community Based Enterprises

The establishment of community based enterprises should be encouraged. This will strengthen community identity, local employment and enhance long-term stability of the community. Communities can also develop for themselves organization and partnerships with municipal and other agencies to take on various roles that nourish activity and jobs for community residents.

Industrial Subcontracting

The large scale enterprises may increase their production while at the same time helping the SMEs to grow through industrial subcontracting. This will strengthen both forward and backward industrial linkage, guarantee a market for the output of SMEs and enhance improvement in the quality of products. The combination of all the above coupled with the incentives provided under the new initiative on the Small Medium Industries Equity Investment Scheme (SMIEIS) will no doubt assist in moving SMEs forward.

Conclusion

On the whole, the small and medium enterprises have been found to be a veritable source of employment generation. However, the accompanying increase in productivity is not commensurate with the level of employment generated. There is no doubt that SMEs need encouragement to become sustainable and competitive. The promotion of small and medium enterprises requires a recognition that places them in the context of economic and private sector development. In the past, the promotion of SMEs has been carried out by subsidizing credits, providing preferential treatment and targeting locations and businesses. The wider perspective calls for government to promote competitiveness among all business sectors, allowing SMEs to participate in the economy under a level playing field and take advantage of entrepreneurship ability to innovate and grow.

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