CREATING ENABLING ENVIRONMENTS FOR SMALL AND MEDIUM ENTERPRISES (SMEs) TO CONTRIBUTE TO NIGERIAN DEVELOPMENT

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ABSTRACT

It has been observed that small and medium scale enterprises (SMEs) are the bedrock of a nation's industrial and technological advancement. Hence, creating an enabling environment for SMEs to thrive will result in development. This paper examines the enabling environment with particular reference to good governance as a basis for SMEs to contribute towards national development. The analysis is informed by primary data from interviews conducted in Nigeria and secondary data from relevant journals, books, Internet and newspapers. The paper concludes that for the dream of Nigeria's industrial and technological advancement to materialize, the Federal Government should address the issues of inadequate finding and the mode of funding of SMEs as well as the provision of adequate infrastructure to boost the expansion of SMEs. In addition, the government should create an enabling environment that is free of insecurity in order to motivate both local and foreign investors to contribute meaningfully toward the establishment and expansion of SMEs. By so doing it will be possible to advance the Nigerian national dream of becoming an industrial and technological giant..

KEY DESCRIPTORS: Small and Medium Enterprises, Good Governance, Enabling Environments, National Development

INTRODUCTION

The rapid industrialization of Asian countries today, attributed largely to the establishment of small and medium enterprises (SMEs), has shifted focus from industrial development predicated on large-scale enterprises to small and medium scale enterprises as the bedrock for the development of Africa. As observed by Nnanna (2001), SMEs are known to adapt with greater ease under difficult and changing circumstances because of their low capital requirement. They also allow product lines and inputs to be organized at relatively cheaper cost.

The low capital base available for investments in less-developed countries has shifted the emphasis towards the establishment and systematic nurturing of SMEs in the industrial, agricultural and information technology to achieve the goals of development in the country. According to Ihinodu (2004), government has an important role to play in the development of agriculture and manufacturing in the country either at the small, medium or even large-scale level. This can be done through policies and programmes that grant loans and advances at reasonable terms of repayment for the establishment of SMEs.

Considering the problem of the low level of industrialization, high rate of unemployment and poverty facing the less-developed countries today, is it possible for the establishment and expansion of SMEs in Nigeria through policies and programmes that promote SMEs to contribute to development? What role can the government play in its efforts to bring about the establishment and expansion of SMEs in the country as a basis for development? What relationship exists between good governance, the establishment and expansion of SMEs in their contribution to development? How can the encouragements of the establishment and expansion of SMEs by the government through its policies and programmes lead to industrialization in Nigeria? What role can the establishment and expansion of SMEs in Nigeria play in creating wealth for the people and enhanced export drive for the nation?

The objective of the paper is to find out whether the establishment and expansion of SMEs in Nigeria through the deliberate efforts of government in its policies and programmes can contribute to development as elsewhere, particularly the Asian countries. It also identifies hindrances that may make it impossible for SMEs to contribute to development in Nigeria with a view to offering some solutions. In addition, the paper argues that good governance creates an enabling environment for SMEs to contribute to a nation's development.

METHODOLOGY

In this study, interview of respondents were carried out between the month of February and September 2006. Group discussions with the respondents made up of 10 groups of 50 people per group, which represented 10 different SME sectors was adopted. These respondents are selected randomly based on their relative performance in their respective sectors. These sectors are: Oil industry, Telecommunication, Welding and Fabrications, Hairdressing, Shoe making, Transport, Woodwork, Tailoring and Agriculture. The study looked at two different aspects of the agricultural sector - Livestock and Farm Produce businesses.

Out of the 10 groups of respondents interviewed, 68.40 percent (342) were male and 31.60 percent (158) female. Ten (10) percent (50) of those interviewed started their businesses in less than two years, 62.20 percent (311) started their businesses within the last five years, and 27.80 percent (139) started their businesses in the last five years and above. Sixty-five (65) percent (325) of those interviewed are below 35 years of age, and 35 percent (175) are 35 years of age and above. Twenty-eight (28) percent (140) of those interviewed never worked for anyone before they started their businesses, thirty-five(35) percent (175) worked for the private sector, and 37 percent (185) worked for the government before starting their businesses. Forty-three (43) percent (215) of those interviewed had initial capital base of one million Naira or $7,692.31 and above, while 57 percent (285) had initial capital base of below one million Naira or $7,692.31.

Three trained research assistants carried out the interviews, which were conducted at the business district of Ikeja, the commercial nerve centre of Lagos, Nigeria. The results of the interviews formed part of the basis for this paper. Five structured questions were used as interview guide. The questions asked the respondents are: (1) what motivated you to establish your own business? (2) How did you get the initial capital and how much was it for your business take-off? (3) What are the challenges you face in carrying out your day-to-day business activities? (4) What role could government play to enable you overcome these challenges? (5) How can SMEs contribute to Nigeria' development? In addition, data from secondary sources are also utilized for the study mainly from relevant books, journals, Internet and newspapers.

CONCEPTUAL CLARIFICATION AND THEORETICAL LINKAGE BETWEEN GOOD GOVERNANCE AND THE ESTABLISHMENT OF SMEs

In this section, the following concepts, are central to our understanding of the topic are clarified. These are: Small and Medium Enterprises (SMEs), Development and Good Governance.

Small and Medium Enterprises (SMEs)

Ajayi (2002) conceives SMEs as enterprises with maximum asset base of 200 million Naira or equivalent of US$1,538,461.54, excluding land and working capital, and with a staff strength of not less than ten (10) and not more than 300 workers. Essien (2001) sees a small-scale enterprise as an enterprise with a total capital base of over 1.5 million Naira or equivalent of US$11,538.46 but not more than 50 million Naira or equivalent of US$384,615.38, including working capital but excluding cost of land and/or a labour size of 11 - 100 workers. A medium scale enterprise is viewed as an enterprise with a total capital base of over 50 million Naira or equivalent of US$384,615.38 but not more than 200 million Naira or equivalent US$1,538,461.54, including working capital but excluding cost of land and/or a labour size of 101 - 300 workers.

Mbogua (2003) observed that any meaning of SMEs in Africa that excludes an important sector - the street traders is not complete. He points out that the wider definition of this group invariably encompasses this category of entrepreneur. He argues that in some towns in Kenya, both the hawkers as well as the small/medium scale enterprises operate from the same areas. In this paper small scale enterprise (SSE) will be defined as an enterprise that operates with a total capital (including working capital and rent) of between 300,000 Naira or equivalent of US$2,307.69 and one million Naira or equivalent of US$7,692.31, and a workforce of not more than five people. A medium scale enterprise (MSE) has been described as an enterprise that operates with a total capital (including working capital and rent) of between 1.2 million Naira or equivalent of US$9,230.77 and 10 million Naira or equivalent of US$76,923.08, and a workforce of between six and 50 people.

Our justification for this definition of SMEs is based on the fact that Nigeria like most developing nations has a low-level capital base for investments due to the low earning capacity of employees in the country. For instance, the least paid public servant (Grade level-01) in the employment of the Federal Government of Nigeria earns a maximum of about 12,000 Naira or equivalent of US $92.31 per month. Public servants at the State public services earn even lower than what is paid at the federal level - 10,500 Naira or equivalent of US $80.77 per month. Worthy of note is that the public sector in Nigeria is the highest employer of labour (Fieldwork, September, 2006).

Development

Studies capture the concept of development in varied ways. In this paper, development is seen essentially as being concerned with growth; the process of perfecting and fully realizing potentials either at the level of the individual or nation. Chilcote (2004) observes that development to the economist is based on such aspects as per capita income, while the political scientist stresses democracy. On the other hand, the sociologists believe that cultural development, which emphasizes the building of individual outreach to others, is the basis for development in the society. Binder et al (1971) argue that development is the capacity of the political system to make decisions and implement policies to meet new demands and goals such as equality of opportunity, social justice and involvement while sustaining continuous change (cited in Chilcote 2004).

On a broader note, Obasanjo and Mabogunje (1991) see development as "A process concerned with people's capacity in a defined area over a defined period to manage and induce change..." (cited in Owens-Ibie, 2004). On their part, Korten, cited in Madlavu et al (1993) see development as 'a process whereby the members of a society increase their personal and institutional capacities to mobilize and manage resources to produce sustainable and justly distributed improvements in their quality of life consistent with their own aspirations' (cited in Mpolokeng, 2003:60).

The definitions above point to the fact that development is a process of transformation from one state to another. Development entails growth. This growth is more likely to be attained in an environment characterized by good governance, through policies and programmes capable of bringing about positive change in the lives of the citizens in that society.

Good Governance

While the concept of good governance has assumed wide usage in national and international development parlance, it nevertheless lacks precise meaning. For the purpose of this paper, it is important to point out the basic distinction between government and governance as a prelude to understanding what good governance is all about. In most cases, 'government' and 'governance' like 'good government' and 'good governance' are used interchangeably, though the former is more commonly used. A clear distinction that could be made between the two terms is that 'government' constitutes the institutions and personnel, or strictly put – the instrumentality of public administration, which is just an aspect of governance (Okunade, 2000). Haywood (2002) sees governance as referring to the various ways in which social life is coordinated.

To the African Development Bank (1999), governance may be seen as denoting how people are ruled, and how the affairs of a state are administered and regulated. Okunade (2000), in a similar vain, describes 'governance' as the activities and processes of governing not necessarily about outcomes, but how such outcomes are reached. Ogunjobi (2004), Vice-President, Operations - African Development Bank Group argues that 'governance' not only refers to the quality of leadership and the capacity to govern but also includes the effectiveness and consistency of policy and the development of institutions that deliver public goods and social services in a stable environment. On his part, Boyte (2005) points out that "Governance involves collaboration and empowerment more than hierarchy and control…it suggest an emphasis on the people involved – 'the tool-makers and tool users' as well as the tools."

Thus good governance, according to Johnson (1993), refers to efficiency and rationality in allocating resources, curbing corrupt practices which inhibit development and investment, guarantee of civil and human rights, and accountability to the people (cited in Adejumobi, 2004). What the above means is that for good governance to have taken place in a country indices such as the promotion of rationality, encouragement of development through investment which may be local or foreign, the guarantee of civil and human rights, and accountability to the people must be present or else good governance cannot be said to be in place in that society. These attributes of good governance enhance development in the society.

In its broadest context, good governance according to the Organization of Economic Corporation and Development (OECD), "Seeks to create capable and effective states, as well as an enabling environment in which the public and private sectors play their respective roles in a mutually reinforcing manner towards poverty reduction, sustainable growth and development" (cited in Ogunjobi, 2004). In essence, good governance should be concerned with policies and programmes that will encourage business interest, particularly in the area of small and medium enterprises (SMEs) as a means of development in terms of wealth creation, export expansion, employment opportunities and poverty reduction in the society.

There seems to be a relationship between good governance and development in any society. According to Kofi Annan (1997), the former Secretary-General of the United Nations, "Without good governance, without the rule of law, predictable administration, legitimate power, and responsive regulation, no amount of funding of charity will set us on the path of prosperity" (cited in Adejumobi, 2004). While emphasizing the link between good governance and development in the society, Zouheir M'Dhaffar, the Tunisian Minister of Civil Services and Administrative Development, affirmed that, "Good governance, efficient and effective public administration, are necessary conditions to achieve sustainable development" (cited in Kim, Halligan, Cho, Oh and Eikenberry, 2005). The discussion on good governance above, points to the fact that no meaningful development can take place in an environment devoid of it. Good governance therefore promotes peace, encourages investments in a country, and enforces the rule of law as a basis for interaction in the society.

Good governance as earlier stated "seeks to create capable and effective state as well as an enabling environment in which the public and private sectors play their respective roles in mutually reinforcing manner towards poverty reduction, sustainable growth and development" (Ogunjobi, 2004). On the other hand, poor governance would not promote those policies and programmes that could lead to the reduction of unemployment and poverty in the society. Good governance is more likely to promote policies and programmes that would enhance the establishment and expansion of SMEs in a country. This is because SMEs have been found to create wealth for business owners, export expansion for nations, employment opportunities and reduction of poverty in the society (Mbogua, 2003). The lack of deliberate efforts on the part of government to enhance the establishment of SMEs could result in unemployment and poverty, and by extension underdevelopment in a country. Thus poor governance generates and reinforces poverty, and subverts efforts to reduce it in the society (Holmes, 2002).

On his part, Ozigbo (2001) sees good governance as good government of society. He argues that good government guides the country along a course leading to the desired goals - goals of development. According to Kofi Annan (2005), former Secretary-General of the United Nations "good governance is vital for the protection of rights of citizens and the advancement of economic and social development" (cited in Kim, et al 2005). In a situation whereby a government of a nation is unable to bring about sound policies and programmes that could encourage the establishment and expansion of SMEs, considering their unique roles of wealth creation, employment opportunities and industrialization, development would have been hindered in that society. The place of good governance in the establishment and expansion of SMEs in its contribution to development therefore cannot be overemphasized. This is because good governance enhances sustainable development (Kim et al, 2005). We can therefore conclude that there is a relationship between good governance and the establishment and expansion of SMEs in a nation's quest for development.

FUNDING SOURCES FOR SMES IN NIGERIA

Koroma (2003) reports that in its bid to cater for the needs of SMEs, the Nigerian government established, specifically, the Nigerian Bank for Commerce and Industry (NBCI). This is distinct from the Nigerian Industrial Development Bank (NIDB), which was designed to promote and finance large business enterprises. Apart from NBCI established by the government to fund SMEs, several institutions and agencies both at the state and local government levels were also designed purposely to fund the development of SMEs in Nigeria. It was due to the realization of the unique place of SMEs as a launching pad for development that made the SMEs Apex office at the Central Bank of Nigeria (CBN) to approve a total of 211 projects valued at US $132.8 million between 1990 and 1994. Total disbursement of $107.1 million as at June 1996, resulted in the establishment of 85 new SMEs and the expanding, diversification and modernization of 102 existing ones (Nnanna 2001).

It was the importance attached to SMEs as a possible catalyst for development that made 33 Banks as at April 2001 to set aside the sum of 4.151 billion naira, for equity participation under the SMEs scheme. The total estimate of funds that was to be made available for equity investment by Banks under the scheme was well over five billon naira per annum (Sanusi, 2001). To further encourage the growth of SMEs, in addition to its funding the Federal Government and Banks made the CBN to call on all levels of government in the country to complement the Bank's effort by developing industrial estates with adequate and reliable infrastructure - including roads, security, water, energy and communication (Ibid).

Sanusi (2001) argues that intervention by government at all levels in the provision of infrastructure would spare the SME operators from incurring extra costs of providing infrastructures, which would other wise render them uncompetitive. He contends that for the successful implementation of the SMEs scheme to take place, stakeholders in the organized private sector, government ministries and agencies, Securities and Exchange Commission, the Presidential Consultative Committee and the International Financial and Development Institutions must ensure that the Small and Medium Industries Equity Investment Scheme (SMIEIS) contributes adequately to the achievement of overall policy objective of promoting economic growth and eradication of poverty in Nigeria.

As observed by Kazeem (2004), it was the importance attached to SMEs as a catalyst for development in Nigeria that made the Central Bank of Nigeria (CBN) and the small and medium industries equity investment scheme (SMIEIS) initiative to mandate all Banks in Nigeria to set aside 10% of their profits before tax for direct equity investment in SMEs. He argues that SMEs scheme would pave the way for the development of a sustainable micro finance sector. As at the end of December 2004, the cumulative sum of 28.8 billion naira had been set aside by 82 banks under the SMIEIS to finance small and medium industries in the country compared to 20.1 billion naira as at the end of December of 2003. No doubt, this has been an improvement in SMEs financing for economic growth and development in the country (CBN, 2005).

To further encourage the establishment of SMEs because of their importance to development, the repayments under the World Bank SME II loans amounted to US$ 10.8 million in 2005, and US$10.6 million in 2004, compared with US$9.9 million in 2003. The increase in amount repaid was as a result of the interest charged by the World Bank (CBN online, 2006; and CBN, 2005). A total of N 1.1 million was received from one of the participating banks, compared with N 5. 2 million received in 2003. The lower amount received in 2004 was due to the fact that all projects under the viable participating banks had fully repaid their loans by February of 2004, which is an encouraging development for the growth of SMEs in Nigeria (CBN, 2005).

As at the end of December 2004, the cumulative SME funds invested in Nigerian Treasury Bills and waiting transfer to the World Bank stood at 524.3 million naira (CBN, 2005). In February 2005, SMIEIS was changed to Small and Medium Enterprises Equity Investment Scheme (SMEEIS) to reflect the inclusion of non-industrial enterprises (excluding trading). The SMEEIS recorded improved performance in 2005. The cumulative amount set aside by banks at the end of December 2005, stood at 41.4 billion naira, compared with 28.8 billion naira at the end of December 2004 (CBN online, 2006). In the same vain, Bank of Industry (BOI) - federal government bank-disbursed 3.6 billion naira or 38 percent of the total 9.7 billion naira available to it for loans to SMEs in 2005 (Ibid).

To further encourage the establishment and expansion SMEs in Nigeria, banks invested N 8.5 billion as at the end of December of 2004, compared with N 7.1 billion invested by banks into SMEs in the previous year (2003). The value of investments made by banks in 2004 amounted to N 1.4 billion, compared to N 4.7 billion in 2003. An analysis of the cumulative investments showed that the aggregate volume and value of investment, as at the end of December 2004, stood at 168 and 8.5 billion naira, respectively. The share of the real sector was 68 percent (114 projects) and 66 percent (5.5 billion naira) respectively. Investment in the service sector accounted for 32 percent (54 projects) and 34 percent (2.95 billion naira) respectively. A further breakdown showed that 81 investments were made in the manufacturing subsector (including printing and publishing) and accounted for 48 percent and 44 percent of total number and value of projects, respectively (CBN, 2005).

The need to promote industrial development in Nigeria through the establishment of the SMEs made a micro-credit loan scheme worth US $5 million as initial capital of a micro-finance institution to be obtained in the year 2004. This loan was facilitated by ACCION Investment of the USA with the support of local banks in Nigeria including Zenith International Bank Plc. According to the ACCION team leader, Woicke "Entrepreneurs do not need subsidies but access to finance and capital to grow and help Nigeria achieve a high growth rate" (cited in Kazeem 2004, January 26).

To further enhance the financing of SMEs in Nigeria, funds set aside by banks under the small and medium industries equity investment scheme (SMIEIS) scheme increased from 13.1 billion naira in 2002 to 41.4 billion naira in 2005. However, actual investment grew much slower from 2.2 billion naira in 2002 to 12.1 billion naira in 2005, representing only 29.1 percent of the funds set aside (CBN online, 2006). In addition, the limit of the equity investment of banks in a single enterprise was increased from 200 million naira to 500 million naira and by this measure, investment rose by 29.4 percent in 2005 to 12.1 billion naira (CBN online, 2006).

THE IMPACT OF FINANCIAL FACILITIES AND DEVELOPMENT OF SMEs IN NIGERIA

The impact of the huge financial facilities available from the government, banks and donor agencies in the country has helped to boost the establishment and expansion of SMEs in Nigeria in its quest for development. In a report presented by the CBN on the performance of SMEs/SMIEIS at the end of 2004, because of their access to improved funding, the number of persons employed by enterprises rose by 72 percent. About 46.7 percent of the enterprises, which operated single shifts before access to SMEs/SMIEIS funds, reported double shifts by July of 2004 after access to SMEs/SMIEIS funds (CBN, 2005).

SMEs/SMIEIS, therefore, are avenues for wealth creation for the individual business owners, employment opportunities for citizens in the society and export expansion for the nation. The establishment of the Bank of Industry (BOI) by the Federal Government for the expansion of SMEs made it possible for SME operators to obtain additional sources of loan to the tune of 8.1 billion Naira from the BOI between January and September 2006. The outcome of the loan boosted SMEs projects from 35 percent to 85 percent in Nigeria (cited in Adekoya 2006, September 11).

THE ROLE OF SMEs IN AND NIGERIAN DEVELOPMENT

The place of SME development is very crucial for Nigeria's desire for industrial advancement. As observed by Essien (2001), due to the importance of SMEs to development, the Nigerian Industrial Development Bank (NIDB) whose original mandate was to finance large-scale industries in Nigeria had to shift its focus to the financing of the SMEs in line with the current national industrial policy of the Federal Government. He points out that the number of projects financed by NIDB through the SMEs stood at 83 with a total disbursement of N628 million. He observes that prior to the two schemes, NIDB had disbursed about N2 billion to Small and Medium Industries (SMIs) over the years from the resources mobilized by it directly from the World Bank and European Investment Bank.

According to Ayanwu (1996), the Federal Government recognizes and places a high premium on SMEs as vehicles for development in Nigeria; hence it negotiated for a loan from the World Bank, which was approved in 1989. The SME Apex unit, located in the CBN, executed the loan. The total project cost was estimated at $418 million, including $264.4 million (63 percent) in foreign exchange. The World Bank provided a loan of $270 million or 65 percent of the total project cost, 100 percent of the foreign exchange requirements and four percent of local costs. The balance of $148 million was to be financed by the beneficiary enterprises and the participating banks from their own resources. The participating banks were to bear the credit-risk, while the foreign exchange risk was to be borne by the Federal Government (Ayanwu, 1996). All this goes to show the seriousness attached to the growth of SMEs in bringing about development in Nigeria by the Federal Government.

Considering the unique position of SMEs to development of any nation, Ajayi (2002), observed that in terms of contribution to development, the SMEs represent 95 percent of the total number of business ownership and 82 percent of employment in Nigeria. He argues that SMEs are predominant in almost all the sectors of the Nigerian economic activity. Below are the tables showing the breakdown of registered establishments by SMEs sectors, size, and their contribution to employment opportunities in Nigeria.

Table 1 Shows the Breakdown of Registered Establishments Ownership by Sector and Size.

Sub-sectors	Micro-Enterprise	Small-Scale	Medium-Scale	Large-Scale	Total	%
Activity group	0 – 4	5 – 19	20 – 499	Above 499	-	-
Manufacturing	130	14364	1939	109	16542	28%
Other services	854	13573	1074	18	15519	26%
Wholesale & Retail trade	179	9466	689	10	10344	18%
Private prof. Services	1546	5136	1134	7	7823	13%
Hotel & Restaurant	46	4232	349	6	4633	8%
Agriculture & Forestry	5	1057	438	13	1513	3%
Building, Transport, Utilities & Mining	48	1519	694	30	2291	4%
Total number of establishments	2808	49347	6317	193	58665	100%
Total in % of establishment	5%	84%	11%	0%	100%	-
Total contribution to employment in %	1%	42%	40%	17%	100%	-

Table 2 Shows SMEs Proportion Contribution to Employment by Sector

Activity group	**Total number**	%
Manufacturing	382139	37%
Other services	196569	19%
Whole-sale & Retail Trade	123094	12%
Private prof. Services	110934	11%
Hotel & Restaurant	60862	6%
Agriculture & Forestry	54131	5%
Building & Construction	46217	4%
Land Transport	17410	2%
Electricity, gas & water	12816	1%
Other transport	11924	1%
Mining & quarrying	11425	1%

Table 3 shows the Contribution and Proportion of SMEs by Sector

Electricity, gas & water	39%	61%
Building & Construction	39%	61%
Mining & quarrying	45%	55%
Manufacturing	57%	43%
Agriculture & Forestry	60%	40%
Other transport	69%	31%
Land transport	83%	18%
Other services	85%	15%
Private prof. Services	87%	13%
Hotel & Restaurant	87%	13%
Wholesale & Retail trade	90%	10%

Source: Extracted from Africa Forum (2002), 6(1).

Note: Tables 1-3 Sources: ALF/DRN "The Private Sector Development Programme" EU Programming Study Conducted by Africa Leadership Forum and Development Researchers Network for National Planning Commission and the European Commission cited in Ajayi (2002, March). An assessment of government incentives to SMEs in a globalized world. Africa Forum. Vol. 6 (1).

Tables 1 – 3 presented above show that the domestic economy of Nigeria is sustained by SMEs; this means that for development to take place in the country, the Federal Government must continue to give the establishment of SMEs top priority.

SME CONTRIBUTION TO DEVELOPMENT IN DIFFERENT COUNTRIES

- *Kenya* - Mbogua (2003) observed that a baseline survey carried out in Kenya in 1999/2000, estimated that there are close to 1.3 million macro and small enterprises employing nearly 2.3 million people in Kenya alone. This situation has helped to create job opportunities for the citizens, wealth for the individual business owners and export expansion for the country. No doubt, this is development indeed.

- *Japan* - SMEs play a significant role in the national economy of Japan. According to the SME agency (2006), there are 4.69 million SMEs in Japan, constituting 99.7 percent of all enterprises, and accounting for 81 percent of all employment, while more than 99 percent of business establishment/ownership are classified as an SME. Fifteen (51) percent of shipped manufactured goods are produced by SMEs. In the wholesale industry, this figure is 62 percent, while in the retail, it represents 73 percent. This development has helped to create job opportunities for Japanese, wealth for the business owners and export expansion for the nation (Japan SMEs, 2004 and 2006).

- *India* – The SME sector in India has 3.3 million units and contributes around 40 percent of industries production of the country by manufacturing more than 8,000 products that range from the traditional artisan based to modern and hi-tech. The sector holds 35 percent share of the Indian export basket. The above data shows that SMEs are playing a major role in India's quest for development in terms of job opportunities to overcome unemployment in the country, wealth creation for SMEs' owners, and enhanced export drive of the government (India's SMEs, 2002; and Ogogo, 2005).

- *European Union* – In the European Union (EU) for instance, SMEs account for 98 percent of an estimated 19.3 million enterprises, providing around 65 million jobs. This development has helped the EU member nations to overcome unemployment and brought about enhanced industrial growth (Lukacs, 2005).

- *The USA* - In the USA available statistics show that 218,382 SMEs exports from the country in 2003 accounted for 97 percent of all USA exporters. SMEs accounted for over 98 percent of the 1998 – 2003 growth in the exporter population. The number of SMEs that exported merchandise soared from 108,026 in 1992 to 218,382 in 2003 (USA's SMEs, 2003). The known export revenue of SMEs rose from $102.8 billion in 1992 to $171.5 billion in 2003. This was an increase of 67 percent, while exports from all companies increased by 80 percent over the same period (Ibid). No doubt, the data presented above about that USA shows the unique role SMEs could play in the nation's quest to development in terms of wealth creation for the individual business owners, creation of job opportunities for the citizens, rapid industrial growth and export expansion for a nation.

- *Industrial Revolution* - "A journey of a thousand miles begins with one step" so it was said. Empirical evidence has shown that the newly emerging industrialized nations in Asia got their industries revolutionalized through the promotion of SMEs in their societies. For instance, Japan and South Korea are countries now well advanced in terms of economic development, standing with gross domestic product (GDP) per capita of $26,900 and $16,950 respectively (Paskaleva, ITAS and Shapira, 2006). The number of manufacturing SMEs in South Korea for example, has seen some recent increase of up by 13 percent in four years through to 2004, to more than 72,000 enterprises (Ibid).

- *Technological Break-through* - Countries like Japan, South Korea and India have success stories to tell of how they became technologically advanced today than where they were 20 years ago. These success stories can be traced to the growth of SMEs in those countries. It is in the light of the above that made Iguisi to argue that entrepreneurs and small businesses are needed in Africa, for among other things, they will help to create new jobs, wealth and provide technological and social innovation, the combination of these according to him will lead to economic growth in African nations (Iguisi, 2002).

- *Nigeria* - The expansion of SMEs has meant an increase in wealth creation, industrial growth, job opportunities and export expansion in the country. Ajayi (2002) observes that SMEs provide employment to 85 percent of Nigerians. And 95 percent of total establishments of business ownership in the country are SMEs. This number has since increased with the establishment of additional new small and medium enterprises brought about by the current reforms of the Federal Government that disengaged about 33,000 civil servants from the public service due to over-staffing and the deregulation policies of government in the areas of telecommunication and down-stream petroleum industries, which has opened up small and medium businesses in these sectors (Fieldwork, September, 2006). The establishment and expansion of SMEs is vital for a nation's desire for development. This is because according to Ogogo (2005) "The SMEs are not just job creators but creators of wealth."

<u>Reduction of poverty</u> - When unemployment falls in a country due to citizen ability to engage either in paid employment or personal businesses arising from the establishment of SMEs, it means that people are gainfully employed and by extension poverty that result from unemployment is reduced in such a society. SMEs provide an avenue for the reduction of poverty and by extension, development as it is currently doing in Nigeria.

<u>Rallying Point for National Integration</u> - With the expansion of SMEs sector in Nigeria, the level of trade between the different segments of the society in terms of across geographical boundaries, across religious divide and ethnic barriers are watered

down considerably thereby enhancing national integration. For instance, SMEs in the agricultural sector in different parts of Nigeria in terms of farm produce and live-stock have received a boost with the construction of new dams for irrigation farming and pastoral purposes. The props that were seasonal in time past are now being traded between the different parts of the country all year round. The business transactions between the northern (mainly Muslims) and southern (mainly Christians) parts of Nigeria have been able to a considerable extent watered down barriers that hitherto created conflict in the past in terms of religious and ethnic divide in the country (Fieldwork, September, 2006).

FACTORS THAT HINDER SME CONTRIBUTION TO DEVELOPMENT IN NIGERIA

Nnanna (2001; Fieldwork, September, 2006) identified some factors that hinder the establishment and expansion of SMEs and thereby make their contribution to development in Nigeria almost impossible as: Poor management practices and low entrepreneurial skills; distress in the banking sector; over-bearing regulatory and operational environment; political/social insecurity and bad governance and lack of proper mode of funding SMEs in Nigeria.

Poor Management Practices and Low Entrepreneurial Skill

Due to low entrepreneurial skill, lots of SMEs operators in Nigeria do not keep proper record of transactions, effective control and planning is thereby hindered. In addition, there is the problem of low level of educational background of many operators of SMEs in the country; this constitutes a serious constraint to their expansion, thereby making it almost impossible for SMEs to contribute to development in Nigeria in spite of the Federal Government efforts to encourage the establishment and expansion of SMEs in the country.

Distress in the Banking Sector

Distress experienced in the banking sector in the late 1990s affected the operations of SMEs in the past, because those SMEs sponsored by the banks that were distressed could not provide working capital for their operations. As a result, there is need for the Nigerian government to put adequate measures in place to avoid distressed in banking sector in the future. No doubt, the 25 billion naira re-capitalization policy of the CBN, which recently took place in the banking sector in Nigeria (2005/2006) is a right step in the right direction towards avoiding distresses in the banking sector in the country.

Over-Bearing Regulatory and Operational Environment

The numerous regulatory agencies of the Federal, State and Local Governments, multiple taxes and levies collected by them, cumbersome importation procedures and high port charges have continued to exert serious burden on the operations of SMEs. No doubt, the numerous problems faced by SMEs' operators in this direction have the capacity to hinder the contributions of SMEs to development. For SMEs to play the role of contributing towards development in Nigeria therefore, the Federal Government should put measures in place to harmonize the various regulations currently implemented to avoid double charges of levies on SMEs operators in the country.

The Instability of the Foreign Exchange Rate in the Country

Another problem that hinders the effective performance of SMEs from bringing about development is the instability of foreign exchange market. Obitayo (2001) argues that the import dependent private enterprises have continued to experience difficulties in sourcing for the much-needed foreign exchange at a very high cost to procure raw materials and spares. This has adversely affected the operations of the SMEs due to unstable exchange rate in the country, thereby hindering SMEs from contributing meaningfully to development. The government has a role to play in stabilizing the foreign exchange rate by giving some measure of waver for genuine SMEs operators in their day-to-day business transactions.

However, with the introduction of the Wholesale Dutch Auction System (WDAS) (whereby any organization in need of foreign exchange could easily get it through any commercial bank in the country) by the Federal Government would go a long to ameliorate the difficulties SMEs operators are currently facing in the area of foreign exchange sourcing for raw materials. This system would also make it easy for the government to track the sectoral utilization of foreign exchange in the country including the SMEs (Adesida 2006, September 29).

Problem of Infrastructure

Another problem that hinders SME operations in Nigeria is that of inadequate infrastructure. Essien (2001) argues that a situation whereby SME operators are made to provide for themselves basic infrastructure - roads, water and electricity is not good because doing that will actually cut deep into their capital thereby hindering the effective performance of SMEs to contribute to development in the country. Nnanna, Englama and Odoko (2004) consider the challenge of inadequate infrastructure as a major set back on the ability of SMEs to achieve the purpose of industrial development in Nigeria. In order for SMEs to contribute meaningfully to development, the government should build industrial estates, well equipped with adequate infrastructures for enhanced performance of SMEs in the country.

Political/Social Insecurity and Bad Governance

Yet another problem that hinders SME operations in the country is that of political, social insecurity and bad governance. Mbogua (2003) points out that bad governance and social insecurity act as disincentive to investments in any nation. Where bad governance emanating from authoritarian regime and social insecurity persists people would not like to invest in such a society, therefore the establishment and expansion of SMEs and their contribution to development is hindered in that society. The government has a role to play in this direction by putting in place adequate security measures and also formulate quality policies and programmes that will engender support from the people, which will bring about political and social stability needed for the establishment of SMEs and their expansion in the country.

Lack of Proper Mode of Funding

Another problem that hinders the operations of SMEs in the country is that of lack of proper funding. Koroma (2003) points out that loans from government and public credit micro or others are not the best answer for raising capital for SME development. He argues that the loans are expensive and interest rates very high. This hinders the establishment and expansion of SMEs and by extension its ability to contribute to development in the country. Government could lower the interest rate and reduce the collateral needed to obtain loans as concessions to SME operators to enable them contribute to development in the area of business ownership, wealth creation, export expansion for the country and job employment opportunities.

We are to note that in a bid to enhance the establishment and expansion of SMEs for development in the country, the Federal Government under the current democratic dispensation (1999 – 2006) has put in place measures to actualize the country's dream for development in the area of business ownership, wealth creation, export expansion for the country, job employment opportunities and improvement in the living standard of the people through SMEs. For instance, the Federal Government introduced the Universal Basic Education (UBE) to address the problem of low literacy rate of Nigerians. The purpose is to improve the skills of would be SME operators in the country (NMDG, 2005). In the same vein, the Federal Government of Nigeria introduced the National Economic Empowerment and Development Strategy (NEEDS) in 2004 to ensure better life for the people. The purpose of NEEDS, among other things is to create wealth through the establishment and expansion of SMEs and generation of employment for the unemployed in Nigeria (Gberevbie and Arowosegbe, 2006).

As a way to further enhance wealth creation, export expansion employment opportunities and the standard of living of the people through SMEs, in the year 2000, the Nigerian government took a bold step to liberalize the telecommunication sector for the first time in the history of the country, and the outcome was influx of foreign investors into the telecommunication industry. For instance, between 2001 and 2006, Nigeria established 4 telecommunication companies that operate the Global System for Mobile Telecommunication (GSM). This development was possible due to the enabling business environment (free of over-bearing regulation of government at all levels in the area of multiple tax collection in the country, problem of infrastructure and political instability occasioned by past military governments) created by the Federal Government under the current democratic dispensation. The telecommunication industry in the country has become a good source of wealth creation and employment opportunities through the establishment and expansion of SMEs in the telecommunication sector in Nigeria (Fieldwork, September 2006).

In addition to liberalizing the telecommunication sector, the Federal Government under the current democratic dispensation has also liberalized the down-stream petroleum sector. This development has made it possible for both local and foreign investors to be attracted to that sector, which has witnessed the expansion of SMEs in the area of business ownership, wealth creation and employment opportunities in the last two years in Nigeria (Gberevbie and Arowosegbe, 2006). To further enhance the expansion of SMEs and Nigeria's quest for industrialization, the Federal Government through its policies encouraged banks to increase the limits of bank equity investment in a single enterprise from 200 million naira to 500 million naira and by this measure, investment rose by 29.4 percent in 2005 to 12.1 billion naira (CBN online, 2006).

Electricity is found to be very vital to the establishment and expansion of SMEs in the area of small businesses like: hairdressing, tailoring, barbing, welding and fabrications, woodwork and shoe making in Nigeria. This is because it helps to propel the development of these SMEs that are hydro power energy based, which serves as catalyst for industrialization in the society. The realization of the above made the Federal Government to double its effort in the area of electricity generation in the country. For instance, the electricity installed capacity in the country of 4,548.5 Megawatts hour in 1998 under the military government rose to 6,130.0 Megawatts hour in 2004 under the current democratic government. It however declined in 2005 to 2,687.1 Megawatts hour (MWH). The decline was attributed largely to low water levels in the hydropower plants, disruptions of gas supply to the thermal plants and the inability of Power Holding of Nigeria (PHCN) to pay the increased gas prices (CBN, 2005. Vol. 15; and CBN online, 2006).

However, efforts are currently ongoing by the government to boost power generation in Nigeria through the introduction the National Integrated Power Project (NIPP). The main data for the NIPP include: 21 Gas turbines, PG 9171E – 2,444 MWel, 3 Stream turbines – 300 MWel, Transmission line (330kv, 132kv – 3,000km, Add. capacity (330kv, 132kv) – 8,903 MVA, Substation autotransformer, 60 – 300 MVA, Distribution – 3,540 MVA and new distribution transformers – 22,600 Pcs (Lahmeyer online Int., 2004). It is hoped that by the time these projects are fully completed, the problem of hydro power supply would have been solved in Nigeria.

RESULTS/DISCUSSION

The results of this study based on the interview carried out shows that 37 percent of respondents worked for government before they started their businesses, which goes to support the view that the reform of government that disengaged 33,000 staff from the public service on the ground of overstaffing contributed to the increase in the number of SME operators currently in place in Nigeria. The study shows that 35 percent of SMEs operators interviewed in this study worked in the private sector before they started their businesses, this goes to support the view that the deregulation of the oil and telecommunication sectors contributed to increased SMEs operators in Nigeria. The study further shows that only 43 percent of the SMEs operators interviewed in this study had initial capital base of one million Naira or $7,692.31and above, while 57 percent had less than one million or $7,692.31 as initial capital base. This goes to support the view that low capital for investment in the country contributed to hindering the establishment and expansion of SMEs in Nigeria.

Majority of those interviewed in this study complained about the mode of funding SMEs in Nigeria as not favourable. This is because banks and other agencies established by government to disburse these funds demand collaterals that are out of reach of an average SMEs operator in Nigeria. The study further shows that good governance; particularly under a democratic dispensation provides an enabling environment for the establishment and expansion of SMEs. In addition, the study reveals that the presence of SMEs and their expansion in any country serves as a catalyst for development.

However, the study reveals that for Nigeria to enjoy the benefits accrued from SMEs in her quest for development, that there is the need for the mode of funding SMEs to be revisited particularly in the area of obtaining the funds from banks and other agencies established for the purpose in terms of collaterals required by them. In addition, the results of the study shows that insecurity of lives and properties, inadequate infrastructures and government policies as they relate to tax regulation are some of the problems militating against the establishment and expansion of SMEs in Nigeria in her quest to achieve development.

The results of the study reveals further that countries like Japan, South Korea, nations of European Union, United States of America and India, which are classified today as industrialized nations could tell success story about how SMEs really contributed positively towards their industrial success. For instance, SMEs provide 81 percent of employment and 99 percent of total business establishment in Japan. The number of manufacturing SMEs in South Korea, for example, has increased by 13 percent in four years through to 2004, to more than 72,000 enterprises. On the other hand, SMEs exports from the USA in 2003 accounted for 97 percent. SMEs accounted for over 98 percent of the 1998 – 2003 growth in the exporter population in the United State of America. While in India, more than 40 percent of production and over 35 percent of the nation's export are direct output of SMEs.

CONCLUSION

In this paper, we have examined the unique role SMEs played in their contribution to development in different countries of the world, including developing nations where the capital base for investments is low. This is made possible by proper funding of SMEs and the enabling environment for the establishment and expansion of SMEs to take place. Based on the results of this study, we recommend that if the desire of the Federal Government of Nigeria to achieve development is to materialize through SMEs as it has been in other nations then it should do everything possible to address the issues of inadequate funds and mode of funding SMEs in the country.

In addition, the government should put in place proper laws to regulate business transactions and insecurity to enable both local and foreign investors to come into the country to invest in SMEs; Government should address the issue of inadequate infra-structures to encourage the establishment of SMEs in their contribution to develop-ment; Government should address the issue of multiple taxes and levies as away of enhancing the expansion of SMEs in the country; and finally, government should keep a closer watch on the activities of banks to avoid any one going into distress because it could bring about the setback on progress of SMEs in the country, thereby jeopardizing Nigeria's dream for development through SMEs.

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