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THE ROLE OF GOVERNMENT IN THE DEVELOPMENT OF SMEs SECTOR IN NIGERIA

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ABSTRACT

This study intends to investigate the failure of Government's programmes and policies for the promotion and development of small and medium enterprises in the country for more than five decades of Nation building. Despite the proliferations of programmes at the National and State levels and introduction of various policy measures by different Governments at different periods, these policies or programmes have not impacted positively and practically on the SME sector of the economy. They seem to have failed to stimulate growth and development of the Small and Medium Enterprises towards National Economic growth and Development. The papers acknowledges various contributions of different Researchers and Scholars on the subject matter and the identified problems or challenges confronting the SMEs and suggestions made to address them. Nevertheless, the goal of this research work is to further x-ray the role of Government policy measures in growing this segment of the economy that had widely been acknowledged as the engine room for economic development. Why is the involvement of Government in SMEs development in other Nations such as India, Great Britain, Taiwan, China, South Africa, United States of America etc having positive effects on the SMEs thereby propelling economic growth, but such interventions or involvements of Government in Nigeria seems to be failing to yield the expected results.

The study reveals acute deficiencies in policy conception and execution, controversies of definition of SMEs among Government agencies, constraint of legal status of SMEs, Poor regulatory framework and progressive legislation. unfocused policy direction and coordination, inconsistency in policies, Unfriendly and hostile business environment, politicking with population figures, lack of enduring financial support schemes or programmes, dearth of reliable database of Small and Medium enterprises in the Country, Misplaced priorities, misallocation of human and financial resources, Unprogressive and unproductive tax system, lack of infrastructure and incentives for small business firms and lack of government patronage for the SME sector. It is therefore suggested in view of all important role of the SME sector, the Government must take pragmatic and positive steps by making the development of small and medium enterprises a foremost priority by removing all bottlenecks, creating a more conducive business environment, establishment of an efficient SME Regulatory Agency to promote, develop, provide funding support for the sector, establishment of Small Business Development Bank(s), and State Governments must equally provide similar efficient support services at the state level.

KEYWORDS: *Small and Medium Enterprises (SMEs), Micro, Small and Medium Enterprises (MSMEs), Small Business firms, Gross Domestic Product.*

INTRODUCTION

The small and medium enterprises SMEs have been identified globally as the engine room that could effectively drive entrepreneurship and economic development and improve the living standards of the citizens. All over the world there are empirical evidence that Small and Medium enterprises (SMEs) serve as catalyst for entrepreneurship and economic development through employment creation, capital formation and income redistribution. Most of the World's largest enterprises today were once either micro or small enterprises. . SMEs also provide strong buffers against economic crisis , as they are notable job creators, employing more than half of the working population and wealth creators, contributing significantly to Gross Domestic Product (GDP). Through their wide dispersal , they provide an effective means of mitigating against rural – urban migration and resource utilization. Also they enjoy a competitive advantage over large enterprises in serving dispersed local markets and production of various goods with low scale economies for niche market ,as well as serving as veritable means of mobilisation and utilization of domestic savings Owualah (1999).There is no globally accepted uniform definition of SMEs, however by the definition of World Bank, at least two of the three requirements (Employee, assets and annual sales) have to be met by an enterprise to be an SME. Though there is no universally accepted definition of the term small business or small and medium enterprises as the definition vary from one country to another depending on the local conditions. Owualah (1999) affirms “there is no consensus among policy makers and scholars concerning the point at which a business firm is deemed to be small. Indeed there is no universally or even nationally acceptable standard definition except that the scale of business needs to be defined for a specific purpose, thus common sense dictates that practical standards of measurement should be adopted such as number of employees, assets employed, sales turnover, a combination of employees , sales and assets are used in determining the sizes of small business firms” yet countries have identification standards to benchmark small businesses in their respective economies. Ogunleye (2004) the terms small and medium enterprises are relative and they differ from industry to industry and country to country. The difference amongst industries could be ascribed to the different capital requirements of each business, whilst those among countries could arise as a result of differences in industrial organisations of countries. According to Organisation for Economic Cooperation and Development (OECD, 2004) small and medium-sized enterprises (SMEs) are a very heterogeneous group. SMEs are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet café in a small town to a small sophisticated engineering or software firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. The owners may or may not be poor; the firms operate in very different markets (urban, rural, local, national, regional and international); embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy. Statistical definition of SMEs varies from country to country and is usually based on the number of employees, and value of sales and/or value of assets. Due to its ease of collection, the most commonly used variable is the number of employees. The European Union (EU) and a large number of OECD, transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan (300 employees) and the USA (500 employees) . At the lower end of the SME sector, a large number of countries define a group, which is a mixture of the self-employed and “micro” enterprises, with less than 10 employees. Irrespective of the level of development of an



economy, a significant proportion of micro and, sometimes, small enterprises are found in the informal sector or the shadow economy.

Flora Richards defines Small scale business as a business that employs a small number of workers and does not have a high volume of sale; such enterprises are generally privately owned and operated sole proprietorship, cooperatives or partnership. The legal definition of a small scale enterprise varies by industry and country.

The Federal Government of Nigeria recognizes the vital roles of SMEs to economic transformation, consequently successive governments from Independence till date have continued to initiate policies, established Institutions and instruments towards promoting the development of SMEs. In 2003, the Federal Government further established the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) to oversee the promotion and development of small business enterprises in the country with the mandate of poverty alleviation, employment generation, wealth creation and ultimately economic growth. The Agency is to serve as a coordinating body of all matters relating to small businesses like capacity building, access to finance, entrepreneurship education and development, Data and information collating centre, policy advocacy among others. Official report shows there are over 17m small business enterprises that are employing more than 32 million people in the Country as at 2010 (SMEDAN Survey 2010).

STATEMENT OF THE PROBLEM

There is expressed concern of failure of Government policies and programmes to promote the growth and development of the SME sector of the economy despite the acknowledged potentials of the small business enterprises to stimulate the economy for growth.

OBJECTIVES OF THE STUDY

The central objective of this study is to identify the reason(s) for the failure of Government policies and programme to grow the small and medium enterprises in Nigeria despite the proliferation and multiplicity of schemes or programmes.

LITERATURE AND THEORETICAL CONCEPT

Globally, SME definition has been an issue among Nations as there is no common or uniform definition for small and medium enterprises, even within a Country there are varied definitions of SMEs given by government agencies, and this is partly responsible for inability to formulate appropriate policies for the development of SME sector in developing Nations. There have been a number of efforts to harmonise SME definition, although the heterogeneity of SMEs themselves and the nature of the country they operate in, might mean that establishing a global definition is not feasible. The most common definition used by regulators is based on the numbers of employees, sales and or loan size. The most common among the three is the number of employees. Owualah (1999) argues that small firms are difficult to count and measure individually and the parameters used in defining SMEs are number of employees, assets employed, and sales turnover. Mensah (2001) ,Small scale industry has been defined variously by authors , organisations and countries and most definitions are based on either the number of workers per establishment and /or the value of fixed asset even with such definitions , there are

differences in the cut off points. In Ghana, the National Board for small scale Industries defines a small scale industry as one with a labour strength of not more than nine persons and with plant and machinery not exceeding US\$100,000. The presentation below confirms the problem of SME definition among various Nations of the world, though the nomenclature SME stands for small and medium enterprises or MSME for micro, small and medium enterprises.

Country	Definitional features
Australia	There are two definitions, one for statistical purposes and one for labour registration purposes. Small businesses must have Independent ownership and operations. Definition includes non-employing businesses
Canada	Definition by different agencies eg Canadian Bankers Association, Export Development Corporation and Industry. Canada have different turnover limits
China	Definition distinguishes between small and medium enterprises only
Egypt	Definition distinguishes between small and medium enterprises
Korea ,Republic	Definition distinguishes between micro and small enterprises only
South Africa	Definition distinguishes between micro very small, small or medium enterprises. Some reports also distinguish the Survivalist business that is generally defined as providing income only below the poverty line. Survivalist enterprises involve activities by people unable to find a paid job or get into a economic sector of their choice, that is people whose activities cannot be viewed as sustainable micro enterprises even though many of them may eventually achieve such a position.
United Kingdom	Definition distinguishes between general small companies and parent small company.
United States of America	To be considered an MSME an enterprise must be independently owned and operated and not be dominant in its field of operation.

Mainnoma (2012) argues that MSMEs are variously defined in Nigeria as in other economies on the basis of one or all of the followings; size or amount of investment in assets excluding real estate, total annual turnover and the number of employees. Similarly, Darren (2009) concludes that generally small or small to medium sized SME firms are used as a proxy for entrepreneurial activity with many definitions because of their global diversity and characteristics. According to Bolton Committee Report, Bolton (1971) SMEs are indepedent , managed by owners or part owners and having a small market share. The Small Business Act 1953, of the USA, states that a

Small firm is a small business that is independently owned and operated and which is not dominant in its field of operation. The Small Business Administration (SBA), the US government responsible for Small business development defines small business as having less than 500 employees. Katz (2011) defines small business as economic activity that involves 1 -50 people and has its owner managing the business on a day to day basis.

Situation in Nigeria

The definition of small and enterprises in Nigeria has varied over the years among Government establishments and agencies. For instance ,in 1988, the Central Bank of Nigeria (CBN) defined small business firms as firms (excluding general commerce) whose total investment (excluding land and working capital) did not exceed N500,000 and /or whose annual turnover did not exceed N5million . Again in 1993, CBN redefined small business as firms whose total cost excluding cost of land but including working capital is above N1million but not exceeding N10 million. By 2001, the CBN in conjunction with Bankers’ committee under the SMEEIS(Small and Medium Enterprises Equity Investment Scheme) defined SMEs as those firms whose total cost excluding cost of land but including working capital do not exceed N200million. At its 13th Meeting in 2001 in Makurdi, Benue State , the National Council on Industry put forward a set of definitions for micro, medium and large scale industries, according to National council on Industry, a **micro or cottage industry** is one with a labour size of not more than 10 workers or total cost not more than N1.5million in working capital excluding cost of land. **For small scale industry** is defined as a firm with labour size of 11 -100 workers and total cost of not more than N50 million including working capital and excluding cost of land. **Medium scale industry** as industry with a labour size of 101 – 300 workers or total cost of over N50 million but not more than N200 million including working capital and excluding cost of land. **Large scale industry** is defined as an industry with labour size of over 300 workers or total cost of over N200 million including working capital excluding cost of land. In 1989, the National Industrial policy , states that a **micro scale business** is one that has investment or assets value of not more than N100,000 excluding land but including working capital . **Small scale business** is a firm that has between N100,000 and N2 million investment or assets value excluding land but including working capital. The National Industrial Policy did not differentiate between small scale and medium scale firms. The National Policy on MSMSE has adopted a dual criteria for the definition using employment and assets (excluding land and building) as follows, **Micro enterprises** are those enterprises whose total assets (excluding land and building) are less than N5million with a workforce not exceeding 10 employees. **Small enterprises** are those enterprises whose total assets (excluding land and building) are above N5 million with a total workforce of above 10 workers but not exceeding 49 employees. **Medium enterprises** are those enterprises with total assets (excluding land and building) are above N50 million but not exceeding N500 million with a total workforce of between 50 to 199 employees.

SN	Size Category	Employment	Assets N million Excluding; land & building
1	Micro Enterprise	Less than 10	Less than N5m
2	Small Enterprise	10 to 49	5 to less than N50m
3	Medium Enterprise	50 to 199	50 to less than N500m

Source: SMEDAN SURVEY 2010

In 1990, the Federal Government Budget defined small business firms for purpose of commercial bank loans as those firms with capital investments not exceeding N2 million (excluding cost of land) or a maximum of N5million. The National Economic Recovery Fund pegs the total cost for small business firm at N10 million. The Companies and Allied Matter Decree defines a small business company as one with value of not more than N1million.

Identity of SMEs

From the forgoing definitions and explanations there are basic characteristics that can be deduced as the features or identities of small and medium enterprise.

- Independent ownership
- Personalised management
- Small scale operations
- small capital
- Small market share
- Lack Structured administration

Contrast between SMEs and LSEs

SMEs – Small and Medium enterprises, LSEs - Large scale enterprises

	SMEs	LSEs
Ownership	Individual/Independent	Diluted /Diversed ownership
Mangement structure	Personalised/Owner managed	Structured , ownership separated from management
Funding source	Owner’s funding	Equity /Debt funding
Operational scope	Very small	Wide/Broad
Focus	Efficiency	Effectiveness
Management Preference	Retain autonomy	Involvement of skilled personnel
Human Resources Management	Personalised	Professionalised
Delegation of Authority	Not effectively practised	Practised and Essential
Access to Finance	Not accessible	Accessible
Growth Potentials	Restrictive	Possible
Business Strategy	Imitation	Innovation through Research and Development
Market	Very limited	Wide market outreach
Effects of Competition	Adverse	Compete effectively
International Market	Difficult	Possible
External Control Preference	Control firm	Control market
Accounting Systems	Poor/Not visible	Practised/Visible
Internal Control Systems	Poor /Not Visible	Practised/Visible

IMPORTANCE OF SMEs TO THE ECONOMY

The relevance of SMEs is widely acknowledged all over the world, as many of today’s multinational corporations and large scale enterprises started as small business (SME) at a point in time. Empirical studies have shown that SMEs contribute over 55 percent of GDP, 60 percent of total employment on average to world economies generally.

In Nigeria, the 2012 Enterprise Baseline Survey conducted jointly by the Pro-Poor Growth and Promotion of Employment Programme and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) with support from the German Development Agency showed that there are 17,284,671 Small and Medium Scale Enterprises in Nigeria, employing 32,414,884 persons and contributing 46.54% to the nation’s Gross Domestic Product (GDP) in nominal terms. (**myfinancialintelligence.com**) The cross sectional analysis of employment carried out by Organisation for Economic Cooperation and Development reveals that employment in large firms declined whereas small businesses recorded an increase in their share of employment (Owualah 2014) as shown below;

Contributions of SMEs to Employment in OECD Member Countries

Country	Employment Generation (%)	Year of Data
Australia	45.0 (Mfg only)	1991
Belgium	72.0	1991
Canada	66.0 (percentage of private sector employment)	1989
Denmark	77.8	1992
Finland	52.6	1991
France	69.0	1990
Germany	65.7	1988
Greece	73.8	1988
Ireland	85.6 (Mfg only)	1989
Italy	49.0 (Mfg only)	1989
Japan	73.8 (Mfg only)	1992
Netherlands	57.0	1990
Portugal	79.0	1991
Spain	63.7	1989
Sweden	56.0 (percentage of private sector employment)	1992
Switzerland	79.3	1991
United Kingdom	67.2	1991
USA	53.7	1991

Owualah (2014), Inaugural lecture

Experiences worldwide clearly shows the positive contributions of SMEs to the economies of developed and developing countries , in terms of GDP, employment , income generation and poverty reduction;

	GDP	Total Employment
High Income economies	55 %	60%
Middle Income Economies	60%	70%
Low income Economies	70%	95%

According to Ibbih (2005), the experience of countries in North America and Western Europe is a good example that should challenge us in Nigeria. The success story of industrialization process in the United States, Netherlands, Germany and Japan is a testimony of the outstanding performance and contributions of the MSMEs to those economies.

In Japan, SMEs accounts for an overwhelming majority of total enterprises and a large part of employment and value added making their health crucial to the economy as a whole. More than 99 percent of all businesses in Japan are small or medium sized enterprises (SMEs) , they also employ a majority of the working population and account for a large proportion of economic output .

The SMEs in India as at 1994 employed over 31 million people spread across 12.8 enterprises. The SME sector in India represents one of the most developed in the World primarily due to appropriate laws and creation of friendly business environment by the government. The Governments in India have continued to accord the right priority to small and medium enterprises with continuous review and appraisal. Some of the strategic policies of the Indian Governments are;

India 2006 MSMED Act amending the nomenclature of Micro, Small and Medium enterprises (MSME) to Micro and Small Enterprise (MSE)

Establishment of Small Industries Development Bank of India as the principal financial Institution responsible for promotion, financing development of the MSE sector and coordinating the functions of Institutions engaged in similar activities. Its operations involve refinancing, direct lending, development and support services

Commercial banks also play important complimentary roles as channels of credit dispensation and financing the working capital requirements besides providing term loans.

- Provision of capital subsidy scheme for the MSE sector
- Credit Guarantee scheme to provide collateral free loans
- Infrastructural development and establishment of Institutes for entrepreneurial and skill development
- MSME development Institutes set up all over India to train Youth in skills and entrepreneurship
- State Financial Corporation’s (SFCs) and State Industrial Development Corporations (SIDC) provide sources of long term finance for the MSE sector.

In the EU, SMEs constitute 99.8% of all firms, employing 75million people representing 67.4 % of total employment

In the United Kingdom, SMEs are predominantly relevant to the economy as the country has a well established SME sector. SMEs contribute 99.9 percent of all businesses, provides 54.1 per cent of employment and 50% to the Gross Domestic Product. There are 3.7million small and medium enterprises in the UK. The government gives tax relief to enterprises who are quoted companies. There is also Credit Guarantee schemes for small scale enterprises.

Taiwan has a record of 7 million SMEs that contribute 70 percent of employment opportunities, 55 per cent to the Gross Domestic Product and 60percent of total manufacturing exports. As part of government supportive measures there are the Taiwan Medium Business Bank, Bank of Taiwan, Small and Medium Business Credit Guarantee Fund, and Small Business Integrated Assistance centre for the promotion and development of SMEs in Taiwan. Further areas of priority assistance include provision of infrastructure, roads, markets, workspace, adequate and regular power and water supply.

The German Association for Small and Medium sized businesses reported that SMEs account for over 90% of all businesses in Germany paying sales tax, create 70% of jobs in the country and 80% of job training opportunities

The SMEs in Malaysia have performed favourably well because of Pro growth policies of the Government with the establishment of the National SME Development Council, favourable labour market, continued access to credit, rising incomes and high commodity prices. SMEs account for 97.3 percent of total business establishments. In Malaysia, most SMEs 55.9 % sourced their finance from internally generated fund or shareholders, while medium enterprises 47.7% sourced their funds from the financial institutions like Commercial banks, Micro credit organisations Development finance Institutions

Contributions of SMEs to GDP in 2007

Country	No of Enterprises (%)	Total Employment(%)	Value Added (%)
France	99.8	60.5	56.0
Germany	99.5	60.4	53.6
Japan	99.7	69.0	53.0
South Korea	98.9	71.0	45.5
Uk	99.6	54.1	51.0
US	98.9	57.9	Na

Source: Economist Intelligence 2010

Specifically the contributions of SMEs could be itemized as follows;

- Employment generation
- Income generation
- Wealth redistribution
- Sources of revenue for government

- Poverty alleviation strategy
- Standard of living
- Transformation of the Rural economies
- Transformation of Traditional Industry and Technology
- Utilization of local Resources
- Dispersal of Economic activities
- Mobilisation of savings
- Providing variety of choice for the consumers
- Capital formation
- Supply of raw materials to large enterprises
- Output expansion

IMPEDIMENTS TO SMEs DEVELOPMENT IN NIGERIA

SMEs , unlike the large scale business firms such as transnational companies, multinational corporations, public owned companies or quoted companies are constrained not only by their nature of business but by their legal status. As most of these small and medium enterprises fall within either sole proprietorship or partnership business firms that lack access to finance or operational capacity to approach the capital market to raise funds for their business activities. According to SMEDAN (2010), Survey reports 97.36% of business firms are sole proprietorship type, Partnership business firms account for 2.12%. The same report reveals that business firms with total capital less than N10 million accounted for 68.9 percent and 54.4 percent of business firms source their capital from personal savings.

The critical lesson from the SMEDAN (2010) Survey report (Federal Government agency) responsible for development of SMEs is CAPITAL.

SMEDAN REPORT ON OWNERSHIP STATUS (2010)

Form of Ownership	Number of firms	%
Sole Proprietorship	16,699,803	97.36
Partnership	414,369	2.12
Cooperatives	18,435	0.11
Faith Based orgainsations	19,762	0.12
TOTAL	17,152,368	100%

Source: SMEDAN (2010) Survey

SMEDAN REPORT ON TOTAL CAPITAL BY ENTERPRISES

Total Capital (N)	No of Enterprises	%
Below 10 Million	14,231	68.9
10 - 20 Million	2,541	12.3
21 - 30 Million	1,028	5.0
31 - 40 Million	581	2.8
41- 50 Million	315	1.5
Above 50 Million	1957	9.5

Source: SMEDAN (2010) Survey

SMEDAN REPORT ON SOURCE OF CAPITAL FOR ENTERPRISES

Source	Number	%
Personal Savings	13,661,185	84.56
Loan	1,068,228	9.17
Family source	3,708,361	29.83
Cooperative /Esusu	923,047	7.98
Parents	17,612	0.24
Friends	18,285	0.25
Husbands	187,509	1.69
Partnership	13,201	0.18
Children	6,423	0.09
TOTAL		100.0

Source: SMEDAN (2010) Survey

LEGAL STATUS OF BUSINESS FIRMS

Form of Firm	Features
Sole proprietorship	Most common form of business ownership Simple and ease of business operations Limited access to finance and capital Limited life cycle Unlimited personal liability
Partnership	Two or more owners as partners Limited life cycle Limited access to finance and capital Unlimited personal liability
Limited liability companies	Legal entity Unlimited life Limited liability Individual contracting Unlimited access to finance/capital

Some of the identified constraints facing small business firms are listed;

- Lack of Policy direction by the Government
- Lack of Institutional framework for the SME sector
- Policy inconsistencies of Government
- Lack of Financial Institutions to provide financial support based on the definition of small business firms
- Lack of Infrastructures like roads, power , water
- Corruption within government establishments
- High cost of doing business and government bureaucracy
- Unfriendly and hostile business Environment
- Lack of progressive legislation on SME development
- Lack of government patronage and contract support for the SMEs
- Lack of data base
- Lack of business support services
- Proliferation of SMEs agencies by the government
- Low managerial competencies
- Low technical capacities
- Poor service delivery
- Heavy regulatory burden
- Heavy tax burden
- Low international competitiveness

INSTITUTIONAL INCENTIVES FOR SMEs DEVELOPMENT

In view of the vital role of the SME Sector to economies, there are some Governments in developed and developing countries that have taken institutional measures to support the small business enterprises in their respective countries.

In the USA, the Apex Institution for the development of entrepreneurship is the US Senate Committee on Small Business and Entrepreneurship. This committee is statutorily charged with the responsibility for the oversight of the Small Business Administration and Small Investment Act, as well as researching and investigating all problems of American small business enterprise(US Senate Committee on Small Business 2009). The Small Business Investment Act of 1998 empowers the SBA (Small Business Administration) to license Small Business Investment Companies and Minority Enterprises Small Business Investment Companies that assist in the financing and management of small entrepreneurial businesses.

The Small Business Administration provides support for the promotion, incentives, sustenance and development of small businesses and entrepreneurship in the United States of America such as;

- Financial assistance in the form of loans, grants and disaster assistance

- Assistance in growing small business in form of entrepreneurial development, small business advice and counselling, equity and venture capital, contracting opportunities, Government contracting and procurement technical assistance
- Assistance with Regulatory Tax and other concerns including Regulations advocacy and compliance assistance, tax advice, health care, environmental concerns and energy efficiency and export and trade advisory and information services.

In India, the Government has established the Ministry of Micro, Small and Medium Enterprises (MSME) and its strategic plans include among others, scheme for international cooperation, scheme of surveys, studies, and policy research, Entrepreneurship, development Institutes, scheme of fund for regeneration of traditional industries, rural employment generation programme, product development , design intervention and packaging and interest subsidy eligibility certification.

Government of India has set up the Small Industries Development Bank of India (SIDB) in 1990, as the principal financial Institution for the promotion, financing and development of small scale industries and to coordinate the functioning of existing institutions engaged in similar activities. It provides financial support to SMEs in form of refinancing facilities, loans and advances, bills finance, seed capital or soft loans, direct assistance, factoring, leasing etc. The SIDB also refinances National Industries Development Corporation, State Industrial Development Corporations, State small Industries Corporations, Scheduled banks, State Cooperative banks, etc. Similarly the Industrial Investment Bank of India is the principal financial institution for revamping and rehabilitation of distressed and closed private and public industries.

India through the Ministry of Micro, Small and Medium enterprises have introduced a number of development schemes for SME sector like,

- National Manufacturing Competitiveness Programme
- Micro and small Enterprises Cluster Development Programme which operates to promote technology upgradation in clusters for groups of MSME, units in one industry.
- Credit linked capital subsidy scheme for technology upgradation which provides 15% upfront capital subsidy to MSME units
- Credit Guarantee scheme to encourage collateral free loans
- Iso 9001/Iso 14001 certification reimbursement scheme , an incentive scheme that provides reimbursement of expenses incurred for acquiring Quality Management System (QMS) Iso 9000 certification and environment management (EMS) Iso 14001 certification to the extent of 75% or Rs 7500 which is ever is lower
- Participation in International Exhibitions /Fairs which involves provision of funding for small and micro manufacturing enterprises to display at International fairs/exhibitions
- Financial assistance for using Global Standards in bar-coding
- Purchase and price preference policy.

INSTITUTIONAL FRAMEWORK FOR SME DEVELOPMENT

In view of the vital role of the SME Sector to economies, there are some Governments in developed and developing countries that have taken institutional measures to support the small business enterprises in their respective countries.

To buttress the need for government’s role in promoting, supporting and developing the SMEs, let us look at how the positive and progress actions of some other Nations.

Country	Institutional Actions for SMEs
USA	<p>Small Business Administration SBA was established in 1953 , as an Independent agency of the Federal Government to aid, counsel , assist, and protect the interests of Small business concerns.</p> <p>SBA is to preserve free competitive enterprise</p> <p>SBA is to strengthen the overall economy</p> <p>In February two Small business Lending Initiatives were established to improve access to credit for SMES</p> <p>In US , SME enterprises are called Foundation enterprises and are the core of the Country’s industrial base.</p>
EU	<p>In 1992 EU established the observatory of European SMEs in order to improve the monitory of the Economic performance of SMEs in Europe</p> <p>The Small Business Act for Europe (SBA) is the EU’s flagship policy initiative to support Small and Medium sized Enterprises(SMEs).</p> <p>It comprises a set of policy measures organised around 10 principles ranging from Entrepreneurship , Second Chance, Think Small first, Responsive Administration, State/Public procurement, Access to finance, Single market, Skills and innovation, Environment, and Internationalisation.</p> <p>In order to improve the governance of SBA, the 2011 review Act called for improved monitoring . The SBA fact sheets are produced annually and aim to improve understanding of recent trends and National policies affecting SMEs.</p> <p>Since 2011 each EU member has appointed a high ranking government official as the National SME envoy .</p> <p>SME envoy spearheads the implementation of the SBA agenda in their Countries</p> <p>In 2008, it has been replaced by the SME Performance Review.</p> <p>EU adopted Small Business Act in 2008 to provide best environment for SME development</p> <p>EU considers the needs of SMEs in the EU’s policy framework</p> <p>EU provides an SME vision to all member Nations.</p> <p>European Investment Bank’s top operational priorities is to support the investments in SMEs.</p> <p>Between 2008 to 2011, during and after the Financial crisis EIB has</p>

	a target of lending 30 Billion Euros to SMEs
Japan	<p>Japan's Small and Medium Enterprises Agency was established in 1948 to promote the SME sector and SMEs have been increasingly recognised by the government as an important sector for the economy</p> <p>In 1999, the Small and Medium Enterprises law was amended to redefine SMEs as a source of economic growth and dynamism</p>
Belgium	<p>The structure of Belgium's SME sector closely resembles that of EU as a member Nation.</p> <p>Belgium is a Federal State and Federal Government coordinates SBA development in policies related to market surveillance, competition, regulation, statistics and International competitiveness</p> <p>In line with the Federal Structure most other competencies are transferred to the Regional government of Brussels Capital region, Flanders and Wallon</p> <p>Belgium has adopted specific strategies for implementing the SBA at Federal and Regional levels</p> <p>All Regions are actively promoting SME support policies at all levels and administration are engaged in SBA development.</p> <p>Four large Banks in Belgium support SME funding</p> <p>SME venture capital exists in Brussels capital and Wallon Regions</p> <p>Brussels Regional Investment Society and Wallon Regional Investment society provide equity finance as minority shareholding with a buy out undertaking, venture loans convertible into shares and unsubordinated loans for SMEs</p> <p>SMEs in Belgium have access to various EU financing tools indirectly through local, regional and National partners of the European Union and EIB for various grants.</p>
India	<p>India enacted the MSME Development Act in 2006 to reclassify MSMEs into 2 categories micro and small enterprise MSEs</p> <p>Establishment of Small Industries Bank of India</p> <p>Establishment of Institute for Small Enterprises Development</p> <p>Involvement of Commercial banks in giving financial support to SMEs</p>
South Africa	<p>Existence of National Small Business Act 1996 for the promotion and development of small business activities</p> <p>Establishment of SEDA (Small Enterprises Development Agency)</p>
Philippine	<p>The Small and Medium Enterprises Development council is the coordinating agency for SME sector in Philippines</p> <p>In Philippine Small and Medium enterprises as they called represent 99.6% of total registered businesses in the country.</p> <p>The Republic Act No 9178 also known as Barangy Micro Business Enterprises Act of 2002 categorised SMEs as micro, small, medium and large. Out of the 811,589 registered business entities consists of, 743,949 or 97.1%, micro enterprises, 61,759 or 7.6% small enterprises, 2,923 or 0.4% medium enterprises and 2,958 or</p>



	<p>0.3% large enterprises. SMEs accounts for 70% of the total workforce of the Nation.</p> <p>SMEs financing: All lending Institutions are required to lend at least 6% of their total loan portfolio to small enterprises and at least 2% to medium sized enterprises. Magna carta for Small enterprises required to reserve 10% or more to SMES and Bangko SEntral ng Philippine is mandated by law to monitor this directive.</p> <p>Policy Initiatives:</p> <p>National Business Registration (NBR) project aims at collecting information on all registered businesses in Philippine.</p> <p>SMEs database project to act as repository databank of corporate profiles of SMEs . It is a tool to serve for monitoring the assistance given by the different agencies to each SME firm. The database is also designed to identify individual companies and to track the kinds of government assistance given to each SME. Database of all SMEs nationwide and for networking among members.</p>
Malaysia	<p>The Contributions of SMEs in Malaysia is highlighted below;</p> <p>97.3% of total businesses</p> <p>Contribution to GDP increased from 29.4% in 2005 to 32.5% in 2011.</p> <p>Value added growth improved by 6.8% in 2011.</p> <p>Number of SMEs increased from 548,287 in 2005 to 645,136 in 2011</p> <p>SMEs employment grew by 3.9% in 2011</p> <p>SME generate a total jobs of 4,100,000 of the total employment of 6,901,089 in 2009.</p> <p>SME created a total employment of 4,062,815 out of the total jobs of 7,966,364 in 2011</p> <p>SME productivity grew by 2.8% in 2011.</p> <p>Most SMEs (55.9%) sourced their finance from internally generated fund or from shareholders in 2011</p> <p>Medium enterprises (47.7%) sourced their funds from financial institutions, like commercial banks, micro credit organisations and Development Finance Institutions.</p> <p>The Government has put in place an SME Master plan for 2012 – 2020 termed Catalysing Growth and Income.</p> <p>The favourable performance of SMEs in Malaysia was due to Pro-growth policies of the Government with the establishment of the National SME Development Council, favourable labour market conditions, continued access to credit , rising incomes and high commodity prices.</p>

INSTITUTIONAL CAPACITY OF SMEDAN

The Small and Medium Enterprises Development Agency of Nigeria was established by the SMEDAN Act of 2003 to promote the development of micro, small and medium enterprises [MSME] sector of the Nigeria Economy. It is the coordinating agency for the development of small and medium enterprises in the country. SMEDAN was created as a vanguard and focal point for the promotion and development of the SMEs subsector of the Nigerian economy. SMEDAN in collaboration with the United Nations Development Programme have developed the National Policy on Micro, small and Medium Enterprises. The Policy envisions MSMEs subsector that can deliver maximum benefits of employment generation, wealth creation, poverty reduction and growth to the Nigerian Economy. As part of its policy objectives is a MSMEs growing in scope, skills, technology and size, and increasingly able to compete effectively in local, regional and global markets. Its mission is to enhance the contribution of MSMEs to national output, employment and poverty reduction and build the MSMEs sector as a solid foundation for the competitiveness, growth and sustainability of the Nigerian economy. The Policy further mentioned key policy and programme areas as follows;

- Institutional , Legal and Regulatory framework
- Business Registration
- Land/Property Rights and Land Use Planning
- Contract Enforcement and Dispute Resolution
- Tax Administration
- Technology, Research and Development
- Extension and Support Services
- Information Resources
- Business Development Services
- Marketing
- Infrastructure
- Finance

SMEDAN acknowledges the obstacles mitigating the growth of SMEs sector, according to Adelaja (2004) the Director General of SMEDAN, the problems militating the development of the sector include

- Obsolete technologies and machines
- Lack of access to modern technology
- Lack or limited access to management support and technical advisory services
- Poor access to information on raw materials
- Markets, technology , machinery etc
- Production development
- Societal attitudinal problems of preference for imported goods
- Government fiscal and macroeconomic policies
- Access to credit and finance
- Disabling business environment , ,poor infrastructure, multiple taxation
- Unstable and ineffective institutional support

- Undercapitalisation.

Like in other sectors of the economy the country is rich in policy formulation unfortunately deficient in policy execution as presently constituted SMEDAN is ill equipped to effectively grow the sector. SMEDAN (2010) laments that “despite an understanding of the importance of MSME in Nigeria in particular, there is a dearth of information about their number, people they employ and sectors they operate in Nigeria. While the development of the MSME is unarguably the mandate of Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), The National Bureau of Statistics (NBS) according to the Statistics Act, 2007 is the main National Agency responsible for the development and management of official statistics, the authoritative source and custodian of official statistics in Nigeria. The NBS is responsible for coordinating the National Statistical System (NSS); advising Federal, States and Local Governments on all matters relating to statistical developments; developing and promoting the use of statistical standards and appropriate methodologies in the system among other responsibilities”

INFRASTRUCTURES FOR THE SUPPORT OF SMEs DEVELOPMENT IN NIGERIA

The Federal Government must go beyond recognizing the pivotal role of SMEs in the development of the economy by providing enabling and friendly business environment. Maijama'a (2004) advised that there must be consistent government fiscal policies and monetary policies, reliable infrastructure (electricity, water, roads railway, and telecommunication), security of life and property, and reactivation of SME support institutions. Ukpabio (2009) laments that the shortcomings of our various institutions and the dearth of infrastructures have affected the growth of the small and medium enterprises, such institutional deficiencies are in the areas of law enforcement (Judiciary), electricity and water, communication, transportation and haulage, security of life and property. Ojo, A T (2009) opines that there three factors that have facilitated the development of small scale industries in India are, Policy support of the Government, Institutional framework and trade financing policy support. The responsibility of providing infrastructures and enabling business is that of the government that must be practically and sincerely addressed. The success stories of countries like US, India among have prompted the renewed interest of the Federal Government in the SME development, this is understandable with the failure of past industrialization policies of government, significant role of SMEs in poverty reduction, and the fact that SMEs can be used as tool to drastically reduced unemployment level in the country through Entrepreneurship development and promotion.

The reports of OECD (2004) of Top Priority Areas and SMEDAN(2010) Survey on Government's most unfavourable on SMEs confirms the need, for the government to address the infrastructural challenge in the country as this would drastically reduce the cost of operating business in the economy.

SMEDAN (2010) SURVEY ON TOP PRIORITY OECD (2004) Report on Top Priority Areas

Rank	All Firms		Small firms		Medium firms		Large firms	
1	Financing	36.5	Financing	38.9	Financing	38.0	Policy Instability	29.8
2	Inflation	34.6	Inflation	36.9	Taxes/Regulation	37.2	Financing	27.9
3	Policy instability	34.4	Taxes/Regulation	35.5	Inflation	36.1	Inflation	26.2
4	Taxes/Regulation	33.5	Policy instability	35.0	Policy Instability	36.0	Street crime	23.9
5	Exchange Rate	28.0	Street Crime	30.6	Exchange Rate	29.7	Corruption	23.4
6	Corruption	27.7	Corruption	30.1	Corruption	27.4	Exchange rate	22.4
7	Street Crime	27.2	Exchange Rate	28.9	Street crime	25.5	Organized crime	21.7
8	Organized Crime	24.5	Organized crime	26.9	Organized crime	23.4	Taxes/Regulation	21.4
9	Anti Competitive practices	21.9	Anti competitive practices	23.8	Anti Competitive practices	21.9	Infrastructure	18.2
10	Infrastructure	17.0	Infrastructure	16.3	Infrastructure	17.2	Anti competitive practices	16.9
11	Judiciary	13.7	Judiciary	13.8	Judiciary	14.4	Judiciary	11.6

Source: OECD (2001) Ranking of firms on Business Obstacles

The key problems of the SMEs globally are financing, unstable policies of government, inflation, taxation, regulation, corrupt practices, crimes, insecurity, legal system, and poor infrastructure and social amenities.

SMEDAN (2010) SURVEY ON SMEs AREAS OF ASSISTANCE

Item	Number	Percentage
Financing/Financial Assistance	11,259,005	73.24
Provide financial Institutions	173,896	1.13
Adequate transport facility	312,514	2.03
Adequate regular Power/Water Supply	590,374	3.84
Reduced rate of Taxation	36,913	0.24
Reduced charge of Medical treatment	39,363	0.26
Reduced Interest rate	354,046	2.30
Regular fuel supply at approved rate	34,822	0.23
Provide farm inputs (Seedlings, equipment, fertilizer etc)	507,543	3.30
Facilitate Quality Product	17,222	0.11
Provision of Infrastructure (access roads, markets, work space)	1,636,776	10.65
Provide Security	62,108	0.40
Provision of Equipment spare parts/raw materials	234,144	1.52
Others	114,931	0.75
Total	15,373,658	100

Source: SMEDAN (2010) Survey

SMEs REGULATION

Business regulation is important for, control, monitoring and coordination. It is necessary for such regulatory framework should be progressive and friendly especially for the SMEs sector, such regulatory policy must aim to facilitate its growth and development and not otherwise. It has to address in practical terms and details the peculiarities of the small and medium businesses. The Cambodia Workshop on Trade Capacity Building and Private Sector Development in Asia (2003) identified the following principles of Good regulation for SMEs

- **Proportionality:** Government must avoid placing on unnecessary demands on the SMEs
- **Transparency:** Policy objectives should be clearly stated and properly communicated to the SMEs. The regulated firms understand their obligations and know what to expect from the enforcing authorities.
- **Accountability:** The draft proposals are published and all those affected are consulted before final decisions are taken
- **Consistency:** Amendments or new regulations are consistent with existing regulations. Regulations are applied consistently across the country.

SMEs FINANCING

Access to finance has been identified as one of the challenges facing the development of small and medium enterprises. Unfortunately, financing from the mainstream banking institutions has been a very difficult task for the small business firms due primarily of their ownership or legal status of sole proprietorship, partnership or cooperative that inherently limits their access to loans or credits. Another issue relating to SME financing is age status as this would determine the type of capital requirement and possibility of attracting funding from financial institutions. A business firm can fall into Early stage firm, Expansion Stage, Maturity stage or Decline stage. Each stage of growth has particular funding need and associated risks elements. The capital problem also originates from within the SMEs due to poor financial management and managerial competency. Dalberg (2011) mentioned that SMEs are a fundamental part of the economic fabric in developing countries and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately they are strongly restricted in accessing the capital that they require to grow and expand with nearly half of SMEs in developing countries rating access to finance as a major constraint. They might not be able to access finance from local banks at all or face strongly unfavorable lending conditions. Due to these factors and others, Governments of USA, India, Malaysia and other places where SMEs have been successfully developed, have created specific financing and funding institutions, credit/guarantees schemes to promote and finance the activities of Small and medium enterprises.

Forms of Business finance

Business finance refers to raising funds for economic activities such as production, marketing, distribution, personnel cost, material procurement, expansion, research and development and other related services. Basically there are two sources of funding namely, equity finance and debt finance (external funding). Equity finance includes owner's contributions (financial, nonfinancial) or investments by others in form of share ownership. Sources of equity funding are personal savings, family and friends, business angels and the capital market. A well managed business firms or properly packaged business idea can attract equity participation from Venture capital firms, Strategic investors or government financial support.

Debt finance is a loan facility from Banking or non banking financial institutions. Loan facility could take different tenors or duration like short term, medium term and long term depending on the funding requirements of a business enterprise. Such debts include overdraft, direct loan, lease facility etc.

Business financing Institutions

Funding sources include Deposits Money Banks, Investments or Merchant Banks, Microfinance Banks, Development Finance Institutions, Microfinance Institutions, Non Banking institutions, Specialized Financial Institutions, Government business support agencies or Intervention funds among others. Business firms can also source funds from the Capital market.

IMPROVING THE PERFORMANCE CAPACITY OF SMEs

In its 2004 reports on Promoting Enterprises and Innovative SMEs in Global economy, Organisation for Economic Cooperation and Development (OECD) emphasized the necessity of an SME friendly, legal regulatory and administrative environment for a sustainable development of SME sector. The followings were issues identified that are key to promoting and growing the operational capacity of small and medium enterprises. To OECD, SMEs play a key role in transition and developing countries especially as these firms (SMEs) typically account for more than 90% of all firms outside the agricultural sector. Constitute major sources of employment and generate significant domestic and export earnings hence SMEs development emerges as a key instrument for poverty reduction agenda. The followings were issues identified that are key to promoting and growing the operational capacity of small and medium enterprises.

- Property rights are clearly recognized
- Contracts are easily enforced
- A simple transparent and low compliance cost tax system is operational and it is perceived as fair
- Businesses are able to register with authorities through a simple and inexpensive system
- Business licensing requirements are minimized and they are enforced , the objective is to safeguard health and safety of consumers and labour rather than being a source of revenue for local or central government
- Labour regulations are balanced and flexible protecting the rights of labour and the firm equally.
- SMEs, whether they are exporting or importing interact with a streamlined customs administration that is efficient, simple and transparent.
- Financial sector regulations (Banking, Insurance, Leasing) recognise SME constraints and have introduced appropriate legal and regulatory instruments that enable commonly available SME assets to be used as collateral
- Public administrators at levels appreciate entrepreneurs as contributors to economic growth , treat them fairly and are committed to limiting corruption to a minimum
- Legislation and regulation , rule of law and rules of the game apply equally to men and women
- SMEs can easily set up and form membership organisations
- Bankruptcy legislation does not impose unduly high penalties on the entrepreneurs or the SME.

CONCLUSION

The significant or relevance of the SMEs to economic development is not doubt, the government must develop the political will to address the well known issues or obstacles impeding the promotion and development of SME sector. Below are some of the suggestions that help to stimulate the sector;

1. Enactment of Progressive Policy framework for SME promotion
2. Creating an SME friendly environment.
3. Establishing an SME based Financial Institution.
4. Restructuring and empowering SMEDAN as effective and efficient SME coordinating agency,
5. Adoption of Small and Medium Enterprises (SME) or Small Business. National agreement on choice of term for SMEs is urgently required.
6. Decentralization of SMEs administration by allowing States and Local governments to be actively involved the SMEs support programme,
7. Ensure a more stable Macroeconomic policies
8. Fragmentation of the financial systems to create room for different financial institutions such Commercial banks, Merchant banks, Development finance institutions, Microfinance banks, Mortgage banks, Venture capital companies , Agricultural banks, and Rural banks
9. Establishment of Small Business Investments Companies,
10. Promotion of Development Finance institutions to be more active in supporting the productive sector of the economy,
11. Establish SME data bank,
12. Flexible and fair tax system for SMEs, taxation on SMEs should not be for revenue solely.
13. Bank of Industry should be restricted to funding large firms,
14. The National Economic Reconstruction Fund (NERFUND) should be revived to primarily cater for revamping ailing or distressed manufacturing firms in the country.
15. The Securities and Exchange Commission should create a window for Small Business Capital market.

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