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ANALYTICAL REVIEW OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

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ABSTRACT: *The primary purpose of business is the supply of goods and services to satisfy the societal needs. Wherever people live in conurbations, there is always the need for goods and services. These goods and services are supplied by institutions such as the family, the voluntary organization, the business firms, local, state and federal government. Also, the importance of credit facilities from both the bank and non-bank financial institutions cannot be overemphasized in enhancing the development of SMEs in the country. However, only the effect of initial capital (CAP) and non bank credit facilities (NBK) is significant and responsive towards the enhancement of performance of SMEs while credit facilities from banks are insignificant with respect to SMEs development. Lastly it concluded that government agencies such as the National Directorate of Employment should intensify efforts geared towards training programmes for SMEs.*

KEYWORDS: Enterprise, Entrepreneurship, Growth, Environment, SMEs

INTRODUCTION

Business, whether small, medium or large-scale can be defined as the sum total of activities involved in the creation and distribution of goods and services for private or personal profit (Isimoya, 2005). Adaramola (2012) defines business as a commercial activity, a means of livelihood; a trade, a profession or an occupation. The above implies that a business is regarded as a lawful human activity aimed at creating utilities for personal profit. It is noteworthy, however, that there are some voluntary institutions involved in the creation of goods and services but without the profit motive.

Business is a social activity aimed at creating goods and services within the legal framework of a society or community. This implies that the types of business activity that takes place in a particular community, state or nation, is largely determined by the beliefs, needs, attitudes as well as the stage of development of that community. A business cannot exist in isolation; it is bound to relate with its environment. The community, in which it operates, amounts to the business environment, and the community makes some policies. .

Awe (2002), opined that up to about 90% of the business ventures operating in Nigeria as a country can be referred to as small and medium scale enterprises (SMEs). In some economies of the world, SMEs have been acclaimed to be the engineer of growth. However, despite the several attempts made by the government as well as other interested parties in Nigeria, efforts to use SMEs as wheel of progress to drive economic growth and development have not yielded any positive result. However evidences have also shown that SMEs in Nigeria still face a lot of problems affecting their performance. Yet, the extent to which infrastructure support, technological support, and financial support affected SMEs in Nigeria has not adequately been explored, hence this research

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Entrepreneurship and Business Enterprises

Entrepreneurship as a process involves recognizing opportunities, in providing improved goods and services to the ultimate consumers and making profit as a reward of risk taking. As a consequence an entrepreneur is regarded as the individual who perceives opportunities and takes action to obtain required resources for the provision of new and or improved goods and service (Smilor, 1997).

The economist sees the entrepreneur as a man who perceives business opportunities and takes advantage of scarce resources to use them. Relevant, therefore are the structure of economic incentives that are available in the market. According to Schumpeter (1934) and Drucker (1985), the patterns of economic incentives have acted as stimuli for the emergence of entrepreneurs. They have also influenced the positive responses in terms of behaviour and their performance (Kilby 1965; Schatz, 1982).

Small and Medium Scale Enterprises (SMEs) in Nigeria

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 Owualah (1987) and Fadahusi (1992) stated that SMEs represent 90% of the enterprises in Africa, Carribean and Pacific (ACP) countries. They also provide 70% of employment opportunities for the citizens and promote indigenous technology. They further stated that small businesses employ 53% of the private workforce and accounted for 47% of sales and 51% of private sector gross domestic product GDP. Therefore the SMEs predominate the economy in both developed and developing countries.

The 3rd Nigerian National Development Plan (1975 – 1980) defined small scale industry (SSI) as a manufacturing establishment that employs less than 10 people and whose investment on machinery and equipment do not exceed 600,000.00 (six hundred thousand naira). Central Bank of Nigeria (1995) in its credit guidelines defined small business enterprises as any business organization with an annual turnover of less than ₦500,000.00 (Five hundred thousand naira). Ogundele (2000) defined small-scale enterprise as an organization employing a minimum of five employees and with a minimum initial capital outlay of not less than ₦500,000.00 (five hundred thousand naira) when such organizations were established between 1972 and 1986. Omotosho (2007) stated that the National council on industry classifies small business enterprises in Nigeria with regard to employed labour force, and capital investment.

Ojo (2004) agrees that there is no consensus on the definition of small and medium scale enterprises (SME's) as the terms small and medium are relative and they differ from industry to industry and country to country. The difference amongst industries could be ascribed to different capital requirements of each business, whilst those among countries could arise as a result of differences in industrial organizations of countries at different stages of economic development.

Obikoya (1995) defined a small scale enterprise as an enterprise with a capital base not exceeding N250,000 and employing on full time basis, 50 workers or less.

The Nigerian Bank for Commerce and Industry (NBCI) adopted a definition of small business as one with total capital not exceeding N750, 000 excluding cost of land but including working capital. The Nigeria Industrial Development Bank (NIDB) defined small scale enterprise as an

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enterprise that has investment and working capital not exceeding ₦750,000, while it defined medium scale business as those operating within the range of ₦750,000 to ₦3.0 million.

Another attempt to overcome definitional problem was by the Bolton Committee (1971) when they formulated an "economic" and a "statistical" definition. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

i It has a relatively small share of their market place;

ii It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;

iii It is independent, in the sense of not forming part of a large enterprise.

The Committee also devised a "statistical" definition to be used in three main areas:

a Quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.;

b Comparing the extent to which the small firm sector's economic contribution has changed over time;

c Applying the statistical definition in a cross country comparison of the small firms' economic contribution.

Thus, the Bolton Committee employed different definitions of the small firm to different sectors. The table below indicates the various sectoral definitions:

Table 1: The Bolton Committee Definitions of a Small Firm

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining/Quarrying	" " " "
Retailing	Turnover of 50,000 pounds or less
Miscellaneous	" " " " "
Services	" " " " "
Motor Trades	Turnover of 100,000 pounds or less
Wholesale Trades	" " " 200,000 pounds or less
Road Transport	Five Vehicles or less
Catering	All excluding multiples and Brewery – managed houses

Source: The Bolton Committee (1971)

Criticism of the Bolton Committee's "Economic" Definition

A number of weaknesses can be identified with the Bolton Committee's "economic" and 'statistical' definitions. First, the economic definition which states that a small business is managed by its owners or part owners in a personalized way, and not through the medium of a formal management structure, is incompatible with its statistical definition of small manufacturing firms which could have up to 200 employees. As firm size increases, owners

no longer make principal decisions but devolve responsibility to a team of managers. For example, it is unlikely for a firm with hundred employees to be managed in a personalized way, suggesting that the 'economic' and 'statistical' definitions are incompatible.

Another shortcoming of the Bolton Committee's economic definition is that it considers small firms to be operating in a perfectly competitive market. However, the idea of perfect competition may not apply here; many small firms occupy `niches' and provide a highly specialized service or product in a geographically isolated area and do not perceive any clear competition.

As a corollary, Wynarczyk (1993) identified the characteristics of the small firm other than size. They argued that there are three ways of differentiating between small and large firms. The small firm has to deal with uncertainty associated with being a price taker; limited customer and product base and uncertainty associated with greater diversity of objectives as compared with large firms.

As Seweje (2007) stated, there are three key distinguishing features between large and small firms. First, the greater external uncertainty of the environment in which the small firm operates and the greater internal consistency of its motivations and actions. Second, they have a different role in innovation; small firms are able to produce something marginally different, in terms of product or service; this differs from the standardized product or service provided by large firms. A third area of distinction between small and large firms is the greater likelihood of evolution and change in the smaller firm; small firms which become large undergo a number of stage changes.

Criticism of the Bolton Committee's "Statistical" Definition:

(i) No single definition or criterion was used for "smallness", (number of employees, turnover, ownership and assets were used instead)

(ii) Three different upper limits of turnover were specified for the different sectors and two different upper limits were identified for number of employees. This makes the definition complex to allow for cross country comparison.

(iii) Comparing monetary units over time requires construction of index numbers to take account of price changes. Moreover, currency fluctuations make international comparison more difficult.

(iv) The definition considered the small firm sector to be homogeneous; however, firms may grow from small to medium and in some cases to large.

It was against this background that the European Commission (EC) coined the term Small and Medium Enterprises (SMEs). The SMEs sector is made up of three components:

(i) Firms with 0 to 9 employees - micro enterprises

(ii) 10 to 99 employees - small enterprises

(iii) 100 to 499 employees - medium enterprises.

Thus, the SMEs sector is comprised of enterprises (except agric, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on

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employment rather than on a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate given the increase in productivity over the last two decades (Seweje 2007). Finally, the EC definition did not assume the SMEs group as homogenous, that is, the definition makes a distinction between micro, small, and medium-sized enterprises.

However, the EC definition is too all-embracing for a number of countries. Researchers would have to use definitions for small firms which are more appropriate to their particular 'target' group (an operational definition). It must be emphasized that debates on definitions can turn out to be sterile unless size is a factor which influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a targeted group (Seweje, 2007).

Alternative Definitions

According to World Bank, since 1976, firms with fixed assets (excluding land) less than US$ 250,000 in value are Small Scale Enterprises.

USAID in the 1990s - Firms with less than 50 employees and at least half the output is sold (Mead, 1994).

UNIDO's Definition for Developing Countries:

Large - firms with 100 + workers

Medium - firms with 20 - 99 workers

Small - " " 5 - 19 workers

Micro - " " < 5 workers

UNIDO's Definition for Industrialized Countries:

Large - firms with 500 + workers

Medium - firms with 100 - 499 workers

Small - " " ≤99 workers

From the various definitions above, it can be said that there is no unique definition for a small and medium scale enterprise thus, an operational definition is required.

Country Specific Definition

There is hardly any unique and universally acceptable definition of SMEs because the classification of business into small, medium or large is subjective and quantitative (Awe, 2000). Small and Medium Scale Enterprises are variously defined in Nigeria, as in other economies, on the basis of one or all of the following:

(a) The size or amount of investment in assets, excluding real estate

(b) Their total annual turnover, and

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(c) The number of employees.

Within this framework, the classification of enterprises as ‘medium' and 'small' naturally varies from one economy to another and from one period to another in the same economy. In Nigeria, the National Council of Industry, under the Federal Ministry of Industries, periodically revises the classification of SMEs. Other institutions, such as the Central Bank of Nigeria and the Nigerian Association of Small Scale Industries (NASSI), adopt classifications that vary from those of the Federal Ministry of Industries. There is however, greater concurrence of opinion when it comes to defining SMEs in terms of assets' values than on any other basis. This is because in case of an economic downturn, the impact on turnover and the number of people employed is greater than the impact on assets' values. For instance, during a depression, there is a tendency for turnover to fall substantially and the number of employees to drop, but assets values may remain unchanged.

From Table 2 below, SMEs are divided into Medium Scale (MSE), Small Scale (SSE) and Micro Enterprises (ME). The Federal Ministry of Industries defines a medium scale enterprise as any company with operating assets less than 200 million, and employing less than 300 persons. A small-scale enterprise, on the hand, is one that has total assets less than 50 million, with less than 100 employees. Annual turnover is not considered in its definition of an SMEs. The National Economic Reconstruction Fund (NERFUND) defines a SSE as one whose total assets is less than 10 million, but made no reference either to its annual turnover or the number of employees. These and other definitions of NASSI, the National Association of Small and Medium Enterprises (NASME), the Central Bank of Nigeria and other institutions are indicated in Table 2:

Table 2: Definition of SMEs by Nigerian institutions

	Asset Value('m)			**Annual Turnover**			**No of Employees**		
Institution	**MSE**	**SSE**	**ME**	**MSE**	**SSE**	**ME**	**MSE**	**SSE**	**ME**
Fed. Min. of Indus.	<200	<50	n.a.	n.a.	n.a.	n.a.	<300	<100	<10
Central Bank	<150	<1	n.a.	<150	<1	n.a.	<100	<50	n.a.
NERFUND	n.a.	<10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NASSI	n.a.	<40	<1	n.a.	<40	n.a.	n.a.	3 - 35	n.a.
NASME	<150	<50	<1	<500	<100	<10	<100	<50	<10

Source: World Bank, SMEs Country Mapping 2001

Features of SMEs

One of the commonest characteristic of SMEs is that they are either sole proprietorships or partnerships. Even when they register as Limited Liability Companies, this is merely on paper, as their true ownership structure is one-man or partnership. Most SMEs have labour-intensive production processes, centralized management and have limited access to long-term capital; even their access to short-term financing is limited and sometime attained at a penal rate of interest and other conditionality (Oyedijo, 2014).

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Since partnership spirit in Nigeria is at its infancy, partners in many SMEs pursue individualistic goals at the expense of the overall interest of the SMEs. Consequently, mortality rate among SMEs is high as a result of mistrust that often develops among the owners. Beside poor partnership spirit, regulatory environment – policy instability and reversals, inadequate infrastructure, etc, - often contribute to their mortality rate (Oladele, 2013).

Another major feature of many SMEs is their over-dependence on imported raw materials and spare parts. In fact, no industrial sub-unit under SMEs category is immune to this structural weakness: Added to this, SMEs in Nigeria suffer from very poor inter and intra-sectoral linkages, and as a result lose benefits synonymous with economies of large-scale production (Oyedijo, 2012).

Furthermore, many entrepreneurs who found and manage SMEs lack the appropriate management skills and because of lack of adequate capital or sheer ignorance of technological advances, such entrepreneurs purchase obsolete and inefficient equipment thereby setting the stage *abinitio* for lower level of productivity and poor product quality with serious consequences on product output and market acceptability. As a natural outflow of these deficiencies, it is not a surprise that various attempts by the government to restructure the economy only worsened and wrecked further dislocation and hardship on many industries. The outcome, of course, was closure of some enterprises while many others drastically reduced their scale of operation at the expense of labour. The present unfolding scenario is more frightening in anticipation of the whirlwind that will accompany the implementation of the world trade organization agreements. It is obvious that in the face of uneven competition, many more industries face the grim possibility of closure unless the government applies urgent brake to the present full throttle liberation policy (Oladele 2013).

SMEs constitute the most viable and veritable vehicle for self-sustaining industrial development. From varied experience especially in developing countries, SMEs indeed posses enormous capability to grow an indigenous enterprise culture more than any other strategy. It is, therefore, not unusual that SMEs are generally synonymous with indigenous business wherever they exist. From all account, SMEs in most developing economies represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and reversing rural-urban migration. In essence, "SMALL IS PROFITABLE IN AFRICA" as UNIDO rightly describes the immeasurable contributions of SMEs to the economies of many African countries. In Africa and Asia, most of the jobs, especially those in non-urban areas, are provided by small and medium-scale enterprises. In many cases, SMEs also account for the vast majority of industrial units operating in the continent (Oyedijo 2014).

Relevance of SMEs

SMEs have drawn attention in developing countries, transition countries as well as in advanced developed countries. Success stories of small and medium scale enterprises are talked about in many countries and their activities in contributing to revitalize local communities. SMEs is a common topic of discussion in many bilateral and international meetings and has become the target of official development assistance. Behind this lies the increasingly common recognition that small and medium scales enterprises play a key role in the revitalization and development of national economy in many countries (Omotoso, 2000).

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To Namiki (1998) SMEs have been described as the lifeblood of most economies. On average, they represent 90% of enterprises and account for 50 – 60% of employment at a rational level. He also agrees that SME’s are particularly important in supporting economic growth in developing countries because; one, they tend to use more labour intensive production process than large enterprises, boosting employment and leading to more equitable income distribution; two, they provide livelihood opportunities through simple, value-adding processing activities in agriculturally based economies.

Three, create employment opportunities; they mobilize local resources; four, SMEs mitigate rural-urban migration; five, they help to distribute industrial enterprises; six, SMEs help to supply potential entrepreneurs and lastly, they support the building up of systematic productive capacities and the creation of resilient small economic systems, through linkage between small and large enterprises and mature entrepreneurship.

SMEs are primarily expected to serve as bedrock of supply of promising entrepreneurs who would be ready to take calculated chances to explore new ideas or favourable market development. They are also expected to assist further entrepreneurship and skill development. In most developing economies, unemployment is the greatest threat to economic growth and development. Hence, the proliferation of virile SMEs could be an antidote to large-scale unemployment in these economies. This could be especially helpful in mitigating the rural-urban drift, a burgeoning socio-economic problem in the developing economies. This is because most of the enterprise in the rural areas is small scale in nature and an increase in their change of survival could spell their greater ability to sustain the trust of rural dwellers.

SMEs are expected to ensure the supply of high quality parts and components and intermediate products; thereby minimizing the dependence on imported materials. Thus SMEs would not only encourage indigenous technology but also promote the establishment of import substitution industries. They are expected to produce for exports; thereby generating additional foreign exchange and hence help to strengthen the national currency and the balance of payment position. SMEs are expected to ensure better use of scarce financial resources and appropriate technology.

Performance of SMEs

Earlier studies have shown that several factors affect performance in SMEs. The major factor has been shown as lack of capital and financial resources. However, Dia (1996) found that additional capital and finance can be overcome through innovation and creativity. Kamunge, Njeru and Tirimba (2014) also found out that access to commercial credit did not contribute to entrepreneurial success in any significant way. Some researchers argue that small businesses are undercapitalized. Business owners in Africa tend to depend upon their own family savings and access to capital remains a challenge. Most of them cannot meet the requirements for commercial loans, and those who do find such loans expensive. Administrative problems have been cited as a major cause of business failure. Kamunge, et al. (2014) found that poor record keeping and lack of basic business management experience and skills were major contributors. Other factors identified are inexperience in the field of business particularly lack of technical knowledge, lack of managerial skills, inadequate planning and failure to do market research (Pietro & Sekioua; 2012). Mugo (2012), exploring performance of SMEs concludes that access to business information services affected the performance of business to a great extent and that access to finance affected performance of SMEs because it limited the entrepreneurs' ability to take advantage of opportunity as and when they arose. The study concluded that technology

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affected businesses to a very great extent by facilitating communication with both the supplier and customers, by easing the transportation of goods and by easing the marketing of the products.

Technological Support

Technological support is a key factor in a firm's competitiveness. According to Bala-Subrahmanya, Mathirajan and Krishnaswamy, technological support is unavoidable for firms which want to develop and maintain a competitive advantage and/or gain entry in to new markets. Becheikh, Landry, and Amara (2006) lend support to this in sharing the view that among firms of different sizes, SMEs are generally more flexible, adapt themselves better, and are better placed to develop and implement new ideas. The flexibility of SMEs, their simple organizational structure, their low risk and receptivity are the essential features facilitating them to be technologically innovative (Harrison & Watson 1998). Therefore, SMEs across industries have the unrealized technological innovation potential (Chaminade&Vang, 2006). There is substantial evidence to show that a number of SMEs in a wide variety of sectors do engage in technological innovations, and that these innovations are likely to be an important determinant of their success (Hoffman, Parejo, Bessant, &Perren, 1998). However, the ability and resources, and the business environment in which they operate (Burrone&Jaiya 2005). Becheikh, et al. (2006) are of the opinion that innovation in the manufacturing sector is a very complex process which is propelled by numerous factors. This leads them to the question—what drives manufacturing SMEs to technologically innovate? If a firm has to technologically innovate, it should have in-house technological competence in the form of technically qualified and motivated entrepreneurs or managers with innovative ideas and technically skilled employees. Similarly, there must be a market demand for the innovated products in the form of an explicit customer demand or implicit market opportunities. Of course, the relative importance of these internal as well as external factors might vary from firm to firm or from industry to industry or even from economy to economy and from time to time.

Lehtimaki (1991) attributed the emergence of new ideas for product innovations in SMEs of Finland to top management. These small firms very actively explored new product ideas and the most frequent way of achieving this included contacts with customers. Chanaron (1998) identified demand placed on business by customers/clients, close working relationships with a key customer and close analysis of competitor products are the major drivers of innovation in SMEs covered in three different countries: UK, France, and Portugal. Reid (1993) in his coherent, integrated and nationwide profile of the UK's SME sector on technology and innovation (which covered 2028 SMEs drawn equally from manufacturing and key professional, technical, and business service sectors) found that internal technological capability is important but SMEs at the same time access technical information from a range of external sources, of which suppliers or customers are the most frequent. According to Ussman, Almeida, Ferreira, Franco, and Mendes (2001), SMEs in Portugal do not just depend on internal sources but are also strongly influenced by the overall environment.

Hoffman et al. (1998) based on a survey of studies pertaining to UK, found that on balance, internal factors are likely to be more important core determinants of whether innovation plays a key role in success or failure than are external factors. By and large, these studies underline the importance of both internal and external factors as the driving forces of innovation.

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Vonortas and Xue (1997), while studying the process innovations of small firms in the USA, observed that economic incentives, internal resources, and technical and organizational competencies that a firm has developed or accumulated over time and a

firm's linkage to external sources of expertise for learning about new technological development were the major forces that influenced these firms in adopting a process innovation. Danneels and Kleinschmidt (2001) in the context of new product development argued that it consists of bringing together two main components: markets and technology. According to them, product innovation requires the firm to have competences relating to technology (enabling the firm to make the product) and relating to customers (enabling the firm to serve certain customers). These studies strongly indicate that neither internal competence of the firm nor customer requirements alone will drive a firm to undertake innovations. Innovation will emerge only when a technically competent firm is able to identify and respond to customer requirements by developing and/or improving products/processes.

Summing up the above divergent views, Apulu and Latham (2011) found that the competitiveness of SMEs will be increased through the use of relevant and modern technology. Subrahmanya, Mathirajan, and Krishnaswamy (2010) also cap it all that those SMEs which have technological innovation have a higher growth compared to the SMEs which are not creative in the sales turnover, investment and job.

Infrastructural Support

The inadequacy of the physical infrastructure is a principal cause of low levels of investment and unsatisfactory performance of small and micro enterprises. The economic recovery strategy paper, 2003 identified poor infrastructure as a critical factor that constrained profitable business in Kenya. The infrastructure problem includes poor state of roads, inaccessibility to land, work space, electricity and utility. Lack of allocation of suitable land to SMEs in most urban and rural areas is a major impediment to growth and development. Inaccessibility to land and lack of property rights hamper access to infrastructure and utilities by line SMEs (Kamunge et al 2014).

Ombura (1997) points out that infrastructure networks are useful instruments within network economies. Infrastructure and related services help to make things happen, it feeds and it is fed by trade, it fuels foreign direct investment, it backs up the creation and sustainability of industrial clusters, it cuts costs and raises competitiveness. A spatial planning approach ensures the most efficient use of land by balancing competing demands within the context of sustainable development (Kamunge, et al.2014). It becomes an ongoing, enduring process of managing change by a range of actors, in the interests of sustainable development (Tewdwr, 2004). This makes efforts to promote industrial development extremely urgent and rural focused (Kinyua, 2012).

Financial Support

Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through in the Sub-Saharan Africa. Even after getting started, getting sufficient finance to sustain business growth is another problem. Research findings by Kamunge et al (2014) show how SMEs are constrained by finance. Studies undertaken by Tushabonwe-Kazooba (2006) for Uganda Rural Enterprise Programme (K-Rep) confirm that a major constraint within the small business enterprise sector is financing. In the study carried out in Nairobi among small

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manufacturing enterprises, Widner (1991) established that finance was rated among the biggest problem.

In Nigeria Ariyo (2008) and Adaramola (2012) found finance as one of the most prominent constrains of SMEs. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs. Insufficient financing is as much a problem as lack of finance and as a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. The profit margins are usually little to support growth. Harper and Soon (1979) note that businesses like grain millers and tailors are unable to compete with large manufactures of ready-made goods because they have to wait until a customer provides them with raw material or money to buy it. Some may be unable to get started until a customer pays the deposit, which will be used to buy the raw material.

Access to finance is essential for improving SME competitiveness, as SMEs have to invest in new technologies, skills and innovation. Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum. There are institutional issues covering a spectrum from the macro level to the micro level, which are accompanied by capacity deficiencies (Sagagi, 2006). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative than pointing it out as their number one obstacle, they need to mobilize joint advocacy and recommendations based on sound analyses, through their membership organizations. Most significantly, SMEs must implement sound business practices and continuously invest in good internal management systems: in accounting, planning, financial, operations and human resource management. Obstacles come at two levels. In least developed economies, and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of SMEs to financing. In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very underdeveloped, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral, absence of registries for mortgages and pledges may increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary, (Brijlal, 2008). The obstacles may be due to organizational capacity weaknesses: For example, in least developed economies, business services markets in accounting, auditing, financial management and legal counsel may be so underdeveloped that SMEs may not be able to access or afford such essential services they would need when they approach banks and other types of lenders. In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital and leasing. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high perceived risks in SME loans, access to competitive interest rates may also be an obstacle.

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In many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out most of the private sector from the financial system. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure enterprises are unable to expand, modernize or meet urgent orders from customers. Capital is therefore necessary for the long-term survival and growth of small enterprises. It should also be noted that more money than required can be much of a

problem as less money. More money means high cost for money in terms of interest and may also lead to worthless investments.

Fatoki (2012), points to finance as one of the key constraints to small enterprise growth. This is worsened by the absence of financial markets in the developing countries. Small enterprise owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges. This means that they cannot access finance to enable them to grow. Ihua (2009), makes a detailed analysis of finance as a constraining factor and includes collateral, interest rates, extra bank charges, inability to evaluate financial proposals and lack of financial management skills as hindrances to small enterprise growth. Under developed financial markets impose additional constraints.

CONCLUSION

The dynamic role of SMEs in developing countries as engines through which the growth objectives of development can be achieved has long been recognized. In view of the importance and place of SMEs in an economy, it is imperative that SMEs should be given the priority it deserves. In Nigeria and indeed many other developing countries, where poverty level is still very high. The general belief is that the investment environments have not been friendly to the survival and development of SMEs. This is evident from the rate of mortality of these small scale ventures; and of course a reason for high poverty level. A study of this nature is, therefore, needed to enhance the performance of SMEs, creating stable jobs for the teeming population which will bring about poverty reduction. Moreover, studies of this type will contribute in no small measure to the knowledge needed globally.

SMEs are primarily expected to serve as bedrock of supply of promising entrepreneurs who would be ready to take calculated chances to explore new ideas or favourable market development. They are also expected to assist further entrepreneurship and skill development. In most developing economies, unemployment is the greatest threat to economic growth and development. Hence, the proliferation of virile SMEs could be an antidote to large-scale unemployment in these economies. This could be especially helpful in mitigating the rural-urban drift, a burgeoning socio-economic problem in the developing economies.

From the reviewed results so far of various study, employing various performance measures of SMEs showed the significance and importance of the level of policy support proxied by financial, infrastructural and technologically driven support on the performance of SMEs. Expectedly, for Nigerian SMEs to thrive, the importance of financial, infrastructural and technologically enhanced supports cannot be over emphasized.

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Also, the importance of credit facilities from both the bank and non-bank financial institutions cannot be overemphasized in enhancing the development of SMEs in the country. However, only the effect of initial capital (CAP) and non bank credit facilities (NBK) is significant and responsive towards the enhancement of performance of SMEs while credit facilities from banks are insignificant with respect to SMEs development. This is an indication that bank and financial institutions have not influenced the performance of SMEs, as a result of the unavailability of credit or financial support of the SMEs due to stringent and high interest payment on credit and loans. In addition to the above, there is no or very low credit facilities to SMEs by the banks due to banking business of borrowings for long term and lending for short term especially to the sectors that are considered risky.

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