

IMPLICATIONS OF SMALL AND MEDIUM ENTERPRISES ON SOUTH EAST DEVELOPMENT IN NIGERIA

Dr. Nwanne, T. F. I. Ph.D, HCIB

Department of Accounting/Finance, Faculty of Management and Social Sciences, Godfrey Okoye University, Enugu

ABSTRACT: *There has been a growing concern on the relationship between the output of small and medium enterprises and Igbo development in Nigeria, despite the fact that the South East government had embarked on several policies aimed at improving the growth of Nigerian economy through the contribution of small and medium enterprises output. The aim of this study is to empirically examine the relationship between small and medium enterprises output and Igbo development in South Eastern part of Nigeria. Empirical evidence from the developed and developing economies has shown that small and medium enterprises have the capacity to influence the entire socio economic development in Igbo land if it is well managed. Quantitative research design and multiple regressions were used to carry out this study. The results of the study indicates that small and medium enterprises contribute significantly to the development of Igbo land based on the magnitude and the level of significance of the coefficient and p-value. And there is significant and positive relationship between Igbo development and small and medium enterprises output. The implication of this findings is that if small and medium enterprises does not increase the size of their employment generation in Igbo land, the development of Igbo's through small and medium enterprises will not contribute meaningfully to the growth of Nigerian economy. It is the recommendation of this study that the operators of small and medium enterprises in South East (Igbo Land) Nigeria should make maintain their level of social corporate responsibility. That there is also need to strengthen policies that will enhance rapid growth and development in Igbo land through small and medium enterprises in Nigeria.*

KEYWORDS: Igbo Development, SMEs, Economic Growth, Output, South East.

INTRODUCTION

Profitability of small and medium enterprises requires quality service. Education, experience and interest in business of entrepreneurs are the characteristic that improve small and medium enterprises in Igbo land. For some years now, one of the cardinal economic objectives of South East, has been to achieve high economic growth that will lead to rapid economic development and reduce poverty through enhancement of small and medium enterprises in the area. Viewing from this theoretical angle, small and medium enterprises (SMEs) indicates the ability of an economy to increase and diversify the production of goods and services with stock of capital (equity/debt) and other factors of production within the economy (Idowu, 2010 and Akingunola, 2011). It is assumed that a high level of capital accumulation, with the right combination of other factors of production will bring about a high level of small and medium enterprises output (Abiola, 2012). Small and Medium Enterprises (SMEs) is theoretically and empirically established to be dependent on capital availability in form of access to credit facilities from financial institutions in South East of Nigeria.

It is in a bid to have sound and effective small and medium enterprises in Nigeria and to function well by promoting a sound financial system in Nigeria that Central Bank of Nigeria (CBN) in August 5, 2013 launched the micro, small and medium enterprises development fund following the inability of other developmental financial institutions in South East to lend with low interest rate to micro, small and medium enterprises. The launching of micro, small and medium enterprises development fund was in recognition of its significant contribution to the growth of Nigerian economy. Micro, small and medium enterprises is characterized by huge financing gap which hinders its development (CBN, 2014).

The commitment of the South East Nigeria in reduction of poverty and other associated socio-economic activities in Nigeria, informed the decision of establishing a functional developmental financial institution in the zone aimed at stimulating sustainable growth, channelling of low interest fund to small and medium enterprises sub-sector of the Nigerian economy by enhancing access of micro, small and medium enterprises to financial services, increase productivity and output of micro enterprises, increase employment generation and increase the level of growth in South East Nigeria. This has become more imperative in view of the limited capacity of the formal banking sector in providing financial services to the vast majority (about 65%) of the Nigeria population considered poor but economically active (CBN 2010).

The role of developmental financial institutions in South East Nigeria in promoting small and medium enterprises has been focused on the area of financing which covers the volume of loan to SMEs and the interest charged on that loan and advances. The development or the growth of Small and Medium Enterprises (SMEs) through effective financing options in Igbo land have generated a lot of debates among researchers, policy makers and entrepreneurs because of its immense contribution to the economic growth of the country (Akingunola, 2011).

National Council of Industries (2009) defined small and medium enterprises as the business enterprises whose total costs excluding land is not more than two hundred million naira (#200,000,000.00) only. Akingunola (2011) states that there exists no consensus among policy makers and researchers concerning the point at which a business firm is deemed to be micro, small or medium. USAID (2004) defined it as informal business employing five or fewer workers including unpaid family labour. Akingunola (2011) defined small enterprises as those enterprises operating in the formal sector with five to twenty employees and medium enterprises as those that normally employ 21 to 50 employees.

Since government desire to establish developmental financial institutions in Igbo land is to increase the size of loan to small and medium enterprises, as well as reduce the rate of interest and lend on long term basis which can increase the growth of SMEs and contribute positively to the growth of Igbo land economy. This is because, in 2013, CBN provide N220billion for micro, small and medium enterprises in Nigeria which 60% is for women, 2% is for disable and 38% is for other interest group. Accessing the funds, collateral repayment reduced from 75% to 50% which are still high. The effort by the CBN in term of reducing 75% to 50% is not enough to create an impact on SMEs. Evidence from available literature confirms that very few studies have been done to examine the factors that account for the persistence of slow contribution of micro, small and medium enterprises to the economic growth in South East. Thus, the extent to which small and medium enterprises relates with the development of South East Nigeria has remained undetermined and less

investigated because of inconsistency on the choice of variables, scope of the study and geographical areas covered.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Association of Enterprise Opportunity (AEO) (2011) defined a micro, small and medium enterprise as a business with five or more employees. They state that many of these businesses have no employees other than the self-employed owners. Additionally, such micro, small and medium enterprises generally need less than #500,000 in loan capital and do not have access to the conventional commercial banking sector. Most organizations in the field also focus their services on those micro entrepreneurs who, as defined by federal government standards, are low-to-moderate income. By definition, most of these entrepreneurs are minorities, recent immigrants, women, disabled or for other reasons have special challenges that reduce their ability to access traditional credit and other services.

The first directory, in 1992, listed 108 organizations that identified themselves as working in the field of micro, small and medium enterprises. By 2010 this number had grown to over 800 organizations that provide direct services to entrepreneurs through Developmental Financial Institutions and Central Bank of Nigeria (World Bank, 2013). Kayanula and Quartey (1999) in Akingunola (2011) defined small and medium enterprises as those enterprises operating in the formal sector with five to twenty employees and medium enterprises as those that normally employ 21 to 50 employees. USAID (2004) defined micro, small and medium enterprises as informal business employing five or more workers including unpaid family labour. National Council of Industries (2009) defined small and medium enterprises as the business enterprises whose total costs excluding land is not more than two hundred million naira (#200,000,000.00) only. Akingunola (2011) stated that there exists no consensus among policy makers and researchers concerning the point at which a business firm is deemed to be small or medium. The establishment of micro, small and medium enterprises development fund was a way to ensure that micro, small and medium enterprises in Nigeria achieve their aim in both long and short run.

Evbuomwan, Ikpi, Okoruwa and Akinyosoye (2013) opines that any enterprises is classified according to size, sector, organisation, technology and location where they operate. Micro enterprises are those enterprises with less than 10 employees with a total asset of less than N5million and it is been operated by sole proprietor. Small and medium enterprises (SMEs) are identify or seen as entities with assets based of N5million and not more than N500million with labour force between 11 and 200. SMEDAN (2007) define micro, small and medium enterprises as those companies whose headcount or turnover falls below certain limits. This is because what we consider small in developed country like USA may be considered big in developing country like Nigeria. Ojo (2010) stated that micro small and medium enterprises can play bigger role in ensuring growth in developing economies, alleviating poverty, participating in the global economy and partnering with larger corporations.

Empirical Review

There have been empirical studies to ascertain the sustainability of small and medium enterprises in south east Nigeria using several approaches. Onugu (2005) used Statistical

Package for Social Sciences (SPSS) which generated the frequency distributions, means, standard deviations, variances, analysis of variance, standard errors, chi-square statistics, correlations and t-statistics covering the period of 1990-2004 to investigate the problems and prospects of small and medium enterprises (SMEs) in Nigeria. The study found that SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies in the world. But SMEs have performed below expectation in Nigeria due to a combination of problems ranging from attitude and habits of SMEs themselves through environmental related factors, instability of governments and inconsistency government policies.

Ngehnevu and Nembo (2010) investigated the impact of Microfinance Institutions (MFIs) on the Development of Small and Medium Size Business (SMES) in Cameroon, A Study of Camccul, using descriptive survey method. The study revealed that there is significant impact of microfinance institutions on the development of small and medium size businesses in Cameroon. The study suggest that the mode of repayment should be such that the very poor can borrow without asset based collateral and that group based lending should be encouraged so as to increase access to micro services to the very poor.

Emmanuel and Daniya (2012) examined the development of small and medium scale enterprises: the role of government and other financial institutions using the variables of small and medium enterprises by employing Spearman's Rho correlation and descriptive statistics. It was discovered that financial institutions such as Central Bank of Nigeria (CBN) provide the necessary financial lubricant that facilitate the development of SMEs in Nigeria.

Agu, Ojimadu and Ogu (2013) used ordinary least square and co-integration test to investigate the impact of small and medium enterprises on economic growth in Nigeria. It was observed that there is a robust long run relationship between small and medium enterprises and economic growth in Nigeria. In a recent study done by Gbandi and Amisshah (2014), using descriptive survey to determine the financing options of small and medium enterprises in Nigeria. The study revealed that funding of SMEs in Nigeria is very critical if they are to perform their role of growth and development of the nation's economy.

Theoretical Framework

There are many theories which seek to explain the sustainability of financing micro, small and medium enterprises by Central Bank of Nigeria (CBN) in Nigeria. For the purpose of this study, the theory that is considered relevant is financial growth theory.

Financial Growth Theory

Financial Growth Theory was developed by Berger and Udell (1998) and was used by Babajide (2011); Akande, (2012). This theory was anchored on the small businesses where the financial needs and financing options change as the business grows and it becomes more experienced and less informative. They further suggest that firms that are still in infant stage must rely on initial insider finance, trade credit and/or developmental financial institutions. This theory predicts that as firm grows, it will gain more access to investment capital as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth theory, as the firm becomes older, more experienced and more informative transparent, it will likely gain access to long-term debt.

This study anchored on financial growth theory because the theory predicts that as firm grows, it will gain more access to investment capital (IC) as a source of intermediate equity. The implications of this theory is that sustainability of financing small and medium enterprises need internal source of finance before looking for the external fund from the Central Bank of Nigeria.

METHODOLOGY

The research design that was used for this study is the descriptive survey design. The survey approach studies a given population of the study and the data generated from the respondents through structured questionnaire and interviews. The theoretical side deals with already existing data or studies carried out by other researchers. The data generated from this study were analyzed and the hypotheses were tested using descriptive and inferential statistical tool such as tables, percentages and frequencies to analyze the data collected for this work. Ukonu (2007) method of data analysis is the process of organizing, presenting and summarizing data in order to provide solutions to the research problems that generated the research questions or hypothesis state in the study it brings out strategies and procedures for summarizing and exploring existing relationships amongst variables of interest in the study.

Also, Pearman Product Moment co-relation co-efficient were used to analyze the data.

$$r = \frac{n\sum xy - \sum x - \sum y}{\sqrt{n\sum x^2 - (\sum x)^2 - (\sum y)^2}}$$

N = number of pairs of scores

$\sum xy^2$ = sum of the products of paired scores

$\sum x$ = sum of x scores

$\sum y$ = sum of y scores

$\sum x^2$ = sum of squared x scores

$\sum y^2$ = sum of squared y scores

This can be used to compute correlation co-efficient, if the variables X and Y have a linear relationship after plotting in a scatter diagram, then a quantitative measure of the degree of correlation between the two variables is the product moment correlation which is normally denoted by letter r (Iyiogwe 2002) it measures the degree of relationship existing between variables the correlation coefficient (r) lies between -1 and 1 (ie-1 < r < 1).

Result

The data gathered from the questionnaire is tabulated into one separate sheet for the general public. This data was analyzed by using a statistical software package known as Statistical Package for Social Sciences (SPSS 15 version). Similarly, correlation analysis was performed to check the intensity of association between the variables of the study.

Presentations of Personal Characteristics of the Study Sample

The personal characteristics of the study sample are presented in this section in tables 1 to 5 as follows:

Table 1: Frequency % Distribution of the Sex of the Respondents

Sex	Frequency	Percent	Cumulative Percent
Male	66	66	66
Female	34		100
Total	100	100	

Source: Field Survey 2015.

From table 1: 66% of the respondents were male, while 34% were female.

Table 2: Frequency % Distribution of the Age of the Respondents

Age	Frequency	Percent	Cumulative Percent
18-20	6	6	6
21-30	28	28	34
31-40	52	52	86
50 & above	14	14	100
Total	100	100	

Source: Field Survey 2015.

Judging from table 2 above, 6% of the respondents were between the ages of 18-20years, 28% of the respondents were between 21-30years, 52% were between 31-40years, while 14% were between 50years and above.

Table 3: Frequency % Distribution of the Education Qualification of the Respondents

Level	Frequency	Percent	Cumulative Percent
FSLC-WAEC	14	14	14
OND/HND	16	16	30
B.Sc & above	70	70	100
Total	100	100	

Source: Field Survey 2015.

From table 3 above, 14% of the respondent have between First School Certificate and West African Examination Council, 16% have between Ordinary National Diploma and Higher National Diploma certificates, while 70% have Bachelor of Science or its equivalents and Masters of Science/Masters of Business Administration and Ph.D.

Table 4: Frequency % Distribution of the Job Position of the Respondents

Occupation	Frequency	Percent	Cumulative Percent
Director	4	4	4
Secretary	8	8	12
Senior Staff	66	66	78
Junior Staff	22	22	100
Total	100	100	

Field Survey 2015

Table 4, indicated that 4% of the respondents were directors, 8% were secretary, 66% were senior staff, while 22% of them were junior staff.

Table 5: Frequency % Distribution of the Year in Service of the Respondents

Occupation	Frequency	Percent	Cumulative Percent
1 Year	10	10	10
3 Years	4	4	14
5 Years	26	26	40
10 Years	60	60	100
Total	100	100	

Field Survey 2015

Table 4, indicated that 4% of the respondents were directors, 8% were secretary, 66% were senior staff, while 22% of them were junior staff.

Correlation Matrix

	GDP	MLS	CMC	AMC
GDP	1.000000	-0.134806	0.874990	0.620874
MLS	0.134806	1.000000	-0.231896	0.108915
CMC	0.874990	-0.231896	1.000000	0.548457
AMC	-0.620874	0.108915	0.548457	1.000000

Source: Author's Calculation 2015 (Extracted from SPSS 15.0 output)

Correlation is significant at the 0.05 level.

Analysis of the correlation matrix indicates that independent variables have a significant positive relationship with gross domestic product (GDP) except availability of micro credit (AMC) (-0.620874). The positive result implies that changes in the independent variables (MLS(0.134806) and CMC(0.874990)) will result in an identical change in the dependent variable (GDP) while the negative correlation of AMC means that changes in the independent variables (AMC) will result in identical change in the dependent variable (GDP) but in a negative direction.

CONCLUSION

The study focuses on the relationship between small and medium enterprises and Igbo development in Nigeria. a focus on South East Nigeria. Igbo development were motivated by the level of financing of small and medium enterprises in the zone. We observed in this study that Igbo land development through proper financing small and medium enterprises by developmental financial institutions such as Bank of Industry (BOI) will improve the performance of SMEs in South East Nigeria. The development of Igbo land can be seen as the primary aim of small and medium enterprises by providing long term financing to the industrial sector of the zone. The study made use of descriptive survey design and correlation analysis. We conclude that there is long run relationship between small and medium enterprises and Igbo development in Nigeria through proper financing of SMEs in the zone. We also observed that interest rate is still high if the government wants SMEs to contribute more to economic growth of the zone. This is an indication that low interest rate on loan will

help the development of Igbo land through small and medium enterprises output and as well reduce the level of poverty in South East Nigeria while increase in the size of loan and advances to small and medium enterprises will enhance the growth of small and medium Enterprises and ensure the development of Igbo land. This is because, if all the SMEs in South East Nigeria are well energised, they can employ all the roaming unemployed graduate in zone and improve the development of Igbo States.

RECOMMENDATIONS

On the basis of the findings of the study, the following recommendations are proffered.

1. The operators of small and medium enterprises in South East (Igbo Land) Nigeria should make maintain their level of social corporate responsibility.
2. That there is also need to strengthen policies that will enhance rapid growth and development in Igbo land through small and medium enterprises in Nigeria.
3. Developmental financial institutions in South East Nigeria should provide soft loan and advances to the small and medium enterprises in the zone. This is because of its positive effect of interest rate on the development of South East in Nigeria.
4. There is need to redirect SMEs focus towards making South East Nigeria a producer nation through small and medium enterprises which in turn would lead to economic growth and development of Igbo land.
5. There is need to strengthen policies that will enhance rapid growth and development of micro, small and medium enterprises in South East Nigeria.
6. Government of eastern zone economic policies should be on diversification of the economy to enhance the performance of small and medium enterprises, so as to create more employment opportunities.

REFERENCES

- Abiola, B. (2012), Effect of Microfinance on Micro and Small Enterprises (MSEs) growth in Nigeria. *Asian Economic and Financial Review*, 2(4): 2-14
- Adnan, A. (2010). Role and Performance of Microcredit in Pakistan, Department of Economice, University West. Pp26-35.
- Agu, A., Ogimadu, K. P. and Ogu, C. (2013). The impact of Small and Medium Scale Enterprises on Economic Growth in Nigeria. Available online at www.ircabfoundation.org. Retrieved on 19th February, 2014.
- Akande, O. O. (2012). Performance Analysis of Microfinance Banks on Woman Enterprises in Oyo State Nigeria. *Research Journal in Organisational Psychology and Educational Studies*, 1(3): 168-173.
- Akingunola, R. O. (2011). "Small and Medium Scale Enterprises and Economic Growth in Nigeria: An Assessment of Financing Options". *Pakistan Journal of Business and Economic Review*, 2(1), 78-97.

- Akingunola, R.O. (2011). Small and Medium Scale Enterprises and Economic Growth in Nigeria: An assessment of Financing Options. *Pakistan Journal of Business and Economic Review*, 2(1): 77-97
- Association of Enterprise Opportunity (AEO) (2011). AEO release report on impact of microenterprises solutions. A paper present at the 20th anniversary “Main Street Matters” conference. Monday, May 2, 2011 at the Omni Shorehan Hotel, Washington, D.C.
- Babajide, A (2011). Effects of Microfinance on Micro and Small Enterprises (MSEs) Growth in Nigeria. *Asian Economic and Financial Review*, 2(4): 1-14.
- Berger, A. and Udell, G. (1998). The economics of small business finance: the roles of private equity and debt. *Journal of Banking and Finance*, 3(6): 34-42.
- CBN (2013). Transforming Nigeria Economy through the establishment of Development Financial Institution. *A paper presented at the international economic summit at United State of America.*
- CBN (2014), Microfinance for small and medium enterprises (SMEs). *Annual Micro, Small and Medium Enterprises (MSMEs) Finance Conference.*
- Central Bank of Nigeria (CBN) (2010). CBN Economic and Financial Report, 52(3): 52-60
- Central Bank of Nigeria (CBN) (2012). N200 Billion Intervention Fund for Re-financing and Restructuring of Bank’s loan to the Manufacturing Sectors. CBN Annual Publication
- Emmanuel, O. O. and Daniya, A. A. (2012). Development of Small and Medium Scale Enterprises: The role of government and other financial institutions. *Arabian Journal of Business and Management Review*, 1(7): 16-29
- Evbuomwan, G. O., Ikpi, A. E., Okoruwa, V. O. and Akinyosoye, V. O. (2013), Source of finance for micro, small and medium enterprises in Nigeria. *19th International Farm Management Congress, SGGW, Warsaw, Poland, 1-17.*
- Gbandi, E. C. and Amisah G. (2014). Financing options for small and medium enterprises (SMEs) in Nigeria. *European Scientific Journal*, 10(1): 327-340.
- Idowu, K. O. (2010). “A Preliminary Investigation into the Causal Relationship between Microfinance banks and Economic Growth in Nigeria”. *CBN Economic and Financial Review*, 43(3): 29-50.
- Onugu, B.A.N. (2005). Small and medium enterprises (SMEs) in Nigeria: Problems and Prospects. Being a dissertation presented to the St. Clements University in partial fulfilment of the requirements for the award of the degree of Doctors of Philosophy in Management. Extracted on 5/6/2013 through www.google.com
- Ukonu, S. (2007) Hand Book on Research Project Writing, Aba, Ker Experts, 189 P
- World Bank (2013). Finance for All: Policies and Pitfalls in Expanding Access. *A World Bank Policy Research Report.* The World Bank Washington. www.worldbank.org Extracted 5/7/2013