INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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IMPACT OF GOVERNMENT INTERVENTION ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN IMO STATE

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ABSTRACT

SMEs occupy a strategic place in economic growth, equitable and sustainable development; constituting as high as 90 percent of enterprises in most countries worldwide. Prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe. The economic transformation and consistent growth in the Gross Domestic Product (GDP) of India in the 20th and 21st century was attributed to the success of its SMEs programme. In contrast, Nigeria has experienced massive unemployment and absolute poverty due to lack of recognition and proper implementation of sustainable development programme that promote SMEs. The study examined the impact of government intervention on SME growth and evaluated the role of Small and Medium scale Enterprises in socio-infrastructural development in Imo State. A sample of four hundred and fifty respondents was selected using stratified random sampling. Questionnaires were completed by respondents. Other techniques used in collecting the data include oral interview, participant observation and archival research. Regression analysis and coefficient of correlation was used as methods of data analysis. The findings show that in Imo State, despite several specialized institutions in charge of micro credit and policy instruments established to enhance development of Small scale enterprises, SMEs are being inhibited by the gap between policy and policy implementation in contributing effectively to sustainable development.

KEYWORDS
Entrepreneur, Growth, Intervention, Small and Medium Scale Enterprise.

INTRODUCTION

Small and Medium scale Enterprises (SMEs) have been acknowledged as veritable drivers of sustainable development. Historical facts show that prior to the late 19th century, cottage industries, mostly small and medium scale businesses controlled the economy of Europe (Akogu, 2003). The industrial revolution changed the status quo and introduced mass production. The twin oil shocks during the 1970's undermined the mass production model, which triggered an unexpected reappraisal of the role and importance of small and medium scale Enterprises in the global economy (IFC 2001). Empirical findings over the years show that small firms and entrepreneurships play a significant role in socio-economic growth and development. The American economy of the 1970's and 1980's owed its bubble and boom to the development of SMEs (Oboh, 2003). The economic transformation and consistent growth in the Gross Domestic Product (GDP) of India in the 20th and 21st century was attributed to the success of its SMEs programme (Dewett and Verma, 1981; Oboh, 2003; APEC, 2002).

In contrast, Nigeria has experienced massive unemployment and absolute poverty due to lack of recognition and proper implementation of sustainable development programmes such as the ones that encourage the growth of SMEs. The economic situation in our country breeds poverty, and the government through its attitude of apathy and indifference helps to service the machinery that manufactures poverty (Onwukwe, 2002). This has resulted into a situation whereby more than half of the Nigerian population has been immersed in vicious poverty followed by the shrinking of the per-capita income of the average man. Anya (1993) puts it clearly; "the per-capita income of the average Nigerian has shrunken from a figure equivalent of 1000 Dollars two decades ago to less than 300 hundred dollars today. Over 50% of our citizens live below the poverty line". According to the World Business Council on Sustainable Development (WBCSD), Global wealth has almost doubled since 1990, but nearly half the world's population subsists on less than US$ 2 per day. Nigeria falls within this category. This is even more worrisome considering the statement by the Vice president; African Region of the World Bank on September 11, 2008 that Nigeria is not among the countries in Africa that will meet the 1st target of the Millennium Development Goals (MDGs), which is halving poverty by 2015 (Onwualu, 2008). Going by the World Economic Outlook, (2000) "progress in alleviating poverty in Africa remains fragile and inadequate"

Perhaps the latest World Development Report could be more frightening in that Nigeria is reported as one of the poorest countries in the world despite her abundant natural resources. While Ghana recorded an improvement from 36.7 percent to 29.9 percent in poverty reduction, Nigeria witnessed an increase in poverty, from 42.8 percent to 65.5 . In addition, Nigeria's export earnings decreased from 14,500 million dollars in 1990 to 9,855 million dollars in 1998; at the time her import expenditure increased from 6,909 million dollars in 1990 to 133,77 million dollars in 1998 (World Development Report 2000/2001). The Central Bank Annual Report in 2004 reported a dwindling performance of the domestic economy. In 2003, the economy was characterized by problems as in the previous years. Monetary expansion was excessive, giving rise to high demand pressure on foreign exchange and persistent depreciation of the Naira in all segments of the market. Besides, the continued structural bottlenecks in the economy frustrated the high expectation of a quick economic recovery. Furthermore, the depressed economy has continued to worsen the problem of poverty and unemployment particularly among high school and university graduates (CBN, 2004). Poverty remains a major challenge to sustainable development, environmental security, global stability and a truly global market.

The key to poverty alleviation is economic growth that is inclusive and reaches the majority of people. Improving the performance and sustainability of local entrepreneurs and small and medium enterprises (SMEs), which represent the backbone of global economic activity, can help achieve this type of growth. The problem with Nigeria is not shortage of laws rather the making of weak policies and programme which are left to die without reaching implementation level. According to Onwualu, (2008) for Nigeria to be able to compete at the global level, not only is sound policy formulation and implementation necessary, but a clear plan (vision) is required to take Nigeria to the top of the leading global economies.

Since the mid 1960's a new approach to SME development began to emerge due to a number of factors; first, there was a growing concern over low employment elasticity of modern large-scale production (Ekpenyong and Nyong, 1992). It was claimed that even with more optimal policies, this form of industrial organization was unable to absorb a significant proportion of the rapidly expanding labour force (Chinery et al 1974; ILO, 1973). Second, there was widespread recognition that the benefits of economic growth were not being fairly distributed, and that the use of large scale, capital- intensive techniques was partly to blame. Also the import substitution industrialization strategy turned out to have little sustainable development impact as the large industries promoted were not in tune with the relative factor of endowments of a developing economy like Nigeria. Third, empirical diagnosis showed that the causes of poverty were not confined to unemployment and that most of the poor were employed in a large variety of small-scale low-productivity activities. Thus, it was thought that one way to alleviate poverty could be to increase the productivity of those engaged in small-scale production (Afab and Rahim, 1989 in Ekpenyong & Nyong, 1992).

In the developed and the developing countries, there are excellent examples of initiatives to promote indigenous entrepreneurship in small and medium enterprises. The main purpose is usually to reduce youth unemployment through appropriate education and training and other complementary measures. Other underlying reasons for this type of initiative include the desire to establish an enterprise culture (Britain), a need to assist minorities (Canada), the need to develop alternatives to stagnant sector of the economy (Canada), desire to reduce national dependence on imported goods and foreign enterprises (e.g. Malawi), rural transformation (e.g. Sierra Leone) and encouraging independence and self employment (Nigeria). Rao, Wright and Mukherjeo, 1990).

Nigeria desired to promote SMEs to reduce unemployment and poverty. Consequent upon this, several specialized financial institutions in charge of micro credit and policy instruments were established to enhance development of small scale enterprises. They include; Nigeria Agricultural Co-operative and Rural Development Bank (NACRDB), National Economic and Reconstruction Fund (NERFUND), and other commercial banks which are now replaced by Micro Finance Institution (MFI). Other policy oriented institutions includes; Small and Medium Enterprise Development Agency (SMEDA), Entrepreneurship Development Policy (EDP) run by the National Directorate of Employment (NDE), National Association of Small Scale Industries (NASSI), Small and Medium Enterprise Equity Investment Scheme (SMEEIS) etc. these institutions were established to offer financial and technical support to SMEs.

Despite these, SMEs seem to have performed poorly in contributing effectively to sustainable development. It is the thrust of this research work to examine the impact of government intervention on SME growth and the potential contribution of SMEs towards socio-infrastructural development.

THE PROBLEM

SMEs occupy an important and strategic place in economic growth, equitable and sustainable development; Constituting as high as 90 percent of enterprises in most countries worldwide (Working group report 2007-2012). A major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile Small and Medium scale Enterprises sub-sector. Today, SMEs represent about 90 percent of the industrial sector in terms of the number of enterprises; however, they contribute a meagre 1 percent of the Gross Domestic Product (GDP), (N.I.P.C. 2004). Selected indictors on the Nigerian economy showed that the contribution of the industrial sector to economic growth is meagre, when compared to other sectors (CBN Half Year Report 2008).

The little progress recorded from the courageous effort of the first generation of indigenous industrialists was almost completely wiped out by the massive dislocation and traumatic devaluation which took place under the Structural Adjustment Programme (SAP) (Udechukwu, 2003). With over 140million people, productive farmland, rich variety of mineral deposits, Nigeria should be a haven for SMEs. However like most developing countries, the country is witnessing high population growth, poverty and unemployment; and this contrasts with the less than average rate of development in communication, technology and social infrastructure (Udechukwu, 2003).

Economic and socio-political instability and high turnover have impacted negatively on the performance of primary institutions responsible for policy monitoring and implementation, resulting in distortion in the Macroeconomic structure and low productivity. These problems constitute a hindrance to the development of SMEs which is an important sector that will enhance the contribution of the private sector and provide the critical building blocks for industrialization and sustainable economic growth. Thus this study will examine the impacts of government intervention on the growth of SMEs and in the achievement of their target of sustainable development. It will also ascertain the contribution of SMEs to socio-infrastructural development.

CLARIFICATION OF CONCEPTS

SMALL AND MEDIUM SCALE ENTERPRISES

There is no generally accepted definition of a small business because the classification of businesses into large-scale or small-scale is a subjective and qualitative judgment (Ekpenyong & Nyong, 1992). In a global context, a general definition of small scale enterprise using size and scale of operation is not easy, but within the fixed coordinates of national boundaries, it might be easier (Olorunshola, 2001). Oyekanmi, (2006) confirms this when he opines that SMEs definition is individual country specific and is based on the size and level of development of each respective economy. Each country tends to derive its own definition based on the role small scale industries are expected to play in that country (Salami, 2003). In Nigeria, SMEs have been defined along a broad continuum, though they commonly use one or a combination of the following parameters; number of employees, turnover, invested capital and total assets. The Small and Medium scale Industries and Equity Investment Scheme (SMIEIS) defines SME as any enterprise with a maximum assets base of N120 million excluding land and working capital and with the number of staff employed not less than 10 or not more than 300 (IFC, 2001)

The Central Bank of Nigeria in its monetary policy circular No 22 of 1988, defined small scale enterprises as having an annual turnover not exceeding 500,000 Naira. In the 1990 budget of the federal government of Nigeria, small and medium scale enterprise for the purposes of commercial banks loans were defined as those with an annual turnover not exceeding 500,000 Naira, and for merchant bank loans, as those enterprises with capital investments not exceeding 2million Naira (excluding cost of land) (Ekpenyong & Nyong, 1992).

In line with the stipulations of the Committee for Economic Development Standard (1980 in Osuala, 2004) small scale businesses must meet the following criteria:

a) management is not independent
b) capital is supplied and ownership is held by an individual or small group of people
c) the area of operation is mainly local
d) the business is small when considered with the biggest unit in its field.

In terms of size, the measures used to classify SMEs include employment, assets and revenue. The Micro Small and Medium Scale Enterprise (MSME) policy of 2007 categorized them as follows:

TABLE 1: GENERAL CLASIFICATION

S/N	SIZE CATEGORY	EMPLOYMENT	ASSETS (N million) excluding land and building)
1	Micro Enterprises	Less than 10	Less than 5
2	Small Enterprises	10 – 49	5 less than 50
3	Medium Enterprises	50 -199	50 less than 500

Source: Adelaja, (2008) Overview of Micro, Small & Medium Enterprise Development process & opportunities

Small and Medium scale Enterprises (SMEs) in Nigeria share the following characteristics in common with its counterparts other less developed countries; sole proprietorship/partnership, labour intensive nature, sustainable and indigenous, High mortality rate and over dependence on imported raw materials (Udechukwu, 2003; Newberry, 2006; Chima, 2005; Omole, 2008; Onwualu, 2008).

INTERVENTION

This refers to several efforts made by the government in diverse ways in order to encourage the growth, survival and full participation of small scale enterprises in the socio-economic development of the country. They include NERFUND, NBCI, NERCRDB, SMEDA, SMIEIS, MFI, Etc.

GROWTH

Increase in capital base and performance of SMEs

ENTREPRENEUR
The person who perceives investment opportunities and organizes resources to sustain the growth of SMEs (Lawal, 1993)

SMALL AND MEDIUM SCALE ENTERPRISES AND THE PROBLEM OF INTERVENTION
It is clear that a vibrant SME sector holds much for an emerging economy, though these impacts are often overlooked due to what Kauffmann (2005) called the SMEs' "missing middle" status. A lot of problems have been identified as posing serious challenges to SME growth in Nigeria. Among these factors are- limited access to funds and higher interest rates, inimical government rules and regulation, lack of technical know-how, poor marketing strategy/development, lack of planning and isolation (Aftab and Rahim, 1989; Ekpenyong and Nyong, 1992; Akamokor, 1983; Sengenberger and Pyke 1992)

Funding is the most worrisome among the monumental challenges facing SMEs in Imo State. They lack easy access to credit facilities despite the various financial sources open to them which includes; micro finance institutions, federal and state governments, banks under the auspices of the SMEEIS and other informal/personal sources. The literature is rich with anecdotal and empirical studies describing inadequate financial resources as a primary cause of SME failure (Coleman 2000; Van Auken and Neeley 1996; Gaskill and Van Auken 1993; Welsch and White 1981; Jones 1979; and Wucinich 1979 in Gregory et al 2005). Wattanapruttipaisan, (2003) in his study of south East Asian countries reports that only 3-8 percent of SMEs could obtain financing from banks. In the same vein, the Inter-American Development Bank (IDB) estimates that in Latin America, 90 percent of entrepreneurs are forced to source much of their financing from personal savings (Smith, 2003). This is because of the logistical difficulties inherent in lending money to small businesses; banks tend to offer loans to SMEs on unfavourable terms because of the high fixed cost associated with these transactions. The result is that some SMEs secure financing only by agreeing to high amount of collateral and shorter pay-back periods while the rest must either rely on personal networks or high interest, illegal loans to generate start-up capital (Newberry 2006). The problem is typified in SME operator inability to satisfy lending rules. As a result, working capital is still a major constraint on production, as most small scale enterprise are restricted to funds from family members and friends and are therefore unable to respond timely to unanticipated challenges.(Odigbo, 2001; Olorunshola, 2001, Osuala, 2004).

Government policies that are harsh and inconsistent pose a serious problem to SME growth and sustainable development. Ekpenyong and Nyong, (1992) traced the beginning of harsh government policies to the 1982 introduction of "stabilization measure" which resulted in import control and drastic budget cuts. In his words "they in turn, adversely affect the subvention to the financial institutions established to provide financial assistance to the SME. For example in 1983, out of a total of 8,380 applications for loans received from SMEs a total of 559 million naira, only 18 percent (1,470 projects) for a total of 4666 million naira was disbursed". Njoku, (2002) identifies inconsistency in government policies and their inability to execute budgets on time as a major restriction on the ability of manufacturing firms to factor tariff measure into their trade decision. The second policy inconsistency is the sudden reversal of the backward integration policy that requires firms to source raw materials locally. Olorunshola (2001), is also of the view that poor implementation of policies, including administration of incentive and measure aimed at facilitating the growth and development of small scale enterprises have had unintended effects on the sub-sector. This has resulted, for instance into confusion and uncertainty in business decision and planning as well as weakened the confidence by the SME, on the government's capacity to faithfully execute its programme.

Inadequate provision of essential services such as telecommunication, access roads, electricity and water supply constitutes one of the greatest constraints to SME development, most SME resort to the private provisioning of these at huge cost. A World Bank study (1989) estimates that such cost accounts for 15-20 percent of the cost of establishing a manufacturing enterprise in Nigeria. Contemporary evidence has shown that the relative burden of the compensatory provision of infrastructural facilities is much heavier on small scale enterprises than large enterprise. In our study, 80 percent of the owner/managers interviewed reported that the lack of essential services as a major constraint. They complained of using more than two times their total labour cost on running generators due to epileptic electricity supply.

Overbearing regulatory and operational environment is part of the broad continuum of challenges. The plethora of regulatory agencies multiple tax, cumbersome importation procedure and high port charges has continued to exert serious burden on operation of SMEs. (Olorunshola, 2003). Others includes; poor capacity building, lack of institutional credit, dependence on imported materials/inputs, weak competitive advantage, vulnerability to foreign goods, poor governance, poor business history and knowledge of the risk facing their enterprise.(Osuala, 2004; Onuoha, 1985).

THEORETICAL ORIENTATION
The study uses Practical theory and dependency theory as theoretical framework. Practical theories are discursive approaches to entrepreneurial learning. They are derived from life story accounts of entrepreneurs which are "implicit, intuitive, tacit and situated resource of practice" as opposed to theory which is "abstract, generalized, explicit and seek to be provable"(Rae, 2003). In line with above, Rae (2003) defined it as a living body of learning, which emerges from the intuitive and tacit resource of practice, combining thinking and acting in personal praxis. For Shotter (1995), they are analytic tools that make people see links and create meaning between aspects of their lives and practices and account for their actions. They are practical theories of action which originates from social constructionism that enable entrepreneurs to find connection between "what we do" and abstract generalisable principles (Bruner 1990, Shotter 1993; 1995, Weick 1995, Wenger 1998, and Watson & Harris 1999 in Rae 2003). This theory is relevant to this study because most SMEs are entrepreneurship based. Rae (2003) observes that practice based theory governs such issues as decision making, dealing with recurrent situations, problem solving and the routing of managing relationships with others.

The dependency theory arose as a rebuttal to the Western Filter Model of development- a school of thought which argues that the backwardness of Africa is as a result of its traditional pattern of life and activity. It takes the Marxian perspective and argues that the underdevelopment of the third world exists in a dialectical relationship development of the 'west'. The thesis of this perspective is that imperialism with all its arsenals is the cause of African backwardness. This model agreeably explains the African situation as the macrocosm and that of Nigeria as a microcosm. The paradigm is appropriate even in the face of arguments that our leaders with their rudderless mismanagement of men and resources contribute significantly to the problem. It preaches independence both political and economic. Most SMEs are independent both in the decision making process and in the use of their finances. This economic independence according to Cbinweizu (1978) is what Africa needs most. He says; "what needs to be created is an integrated African economy oriented not to the needs of the west, but to the needs of Africa as defined politically by the African people. Anything short of that will prove incompatible with our aspirations for political and cultural autonomy."This is what the Nigerian economy needs- to be private sector driven and free from government/state control though there is need for government intervention in the area of funds and policies.

METHODS AND RESULTS
A cross sectional survey was carried out in Imo state using stratified random sampling technique. This study made use of four hundred and fifty (450) respondents drawn from the three senatorial zones in Imo state (Orlu, Owerri, Okigwe zones). The questionnaire method was used. In each zone, two industries were selected, making it a total of 6 SMEs. The population is divided into Owner-manager, Worker, non workers within the area. From the sample, 6 Owner or top management of SMEs were selected, (one from each SME) and interviewed.

The distribution covered the following sub-sectors:

Manufacturing: Chemicals and Allied products, Agro-based industries and Furniture making; Under these sub-sectors, Argon chemical and allied products Ltd (Villa Paints) Amaifeke (Orlu zone), Seamaster Nig. Ltd Amaifeke (Orlu zone), and Melody Furniture Anahara (Okigwe Zone) were chosen respectively.

Services: Information and Communication Technology (ICT), General goods importers and merchant trading; here two enterprises were selected; Expert Institute of Technology Ofekata Mbaitoli LGA (Owerri zone). Iyke International Ventures Owerri (Owerri zone).

Agriculture: Farming: C Six Farms Nzerem Isiala Mbano (Okigwe zone).

RESULTS OF NULL HYPOTHESIS

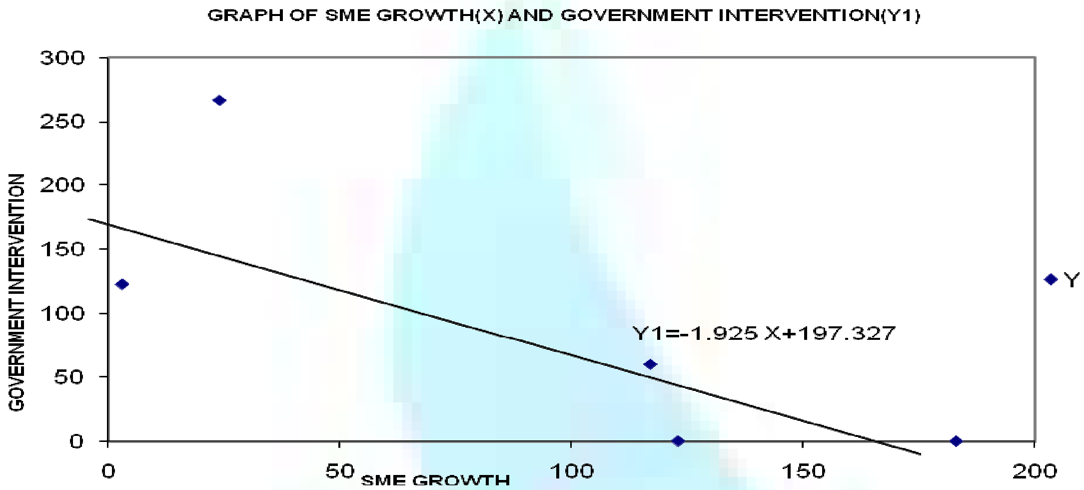
Hypothesis I

Ho There is no significant relationship between the growth of SMEs and government intervention.

TABLE 1: REGRESSION OF GOVERNMENT INTERVENTION (Y1) ON SMEs GROWTH (X) Coefficient of correlation = -0.8019 > 0.05

SOURCE	Df	S.S	MS	F	SIGNIFICANCE F
REGRESSION	1	10614.6573	10614.6573	5.4052	0.1026
RESIDUAL	3	5891.3427	1963.7809		
TOTAL	4	16506.0000			

From table 1, F-calculated is 5.4052, the significance F is 0.1026. Since the significance F=O.1026 is greater than 0.05 (0.1026 > 0.05) we accept the null hypothesis and reject the alternative. Thus our decision is that there is no significant positive relationship between the growth of SMEs and government intervention. The coefficient of correlation has a value of 0.8019. This indicates a negative relationship. The graphical representation is shown in figure 1



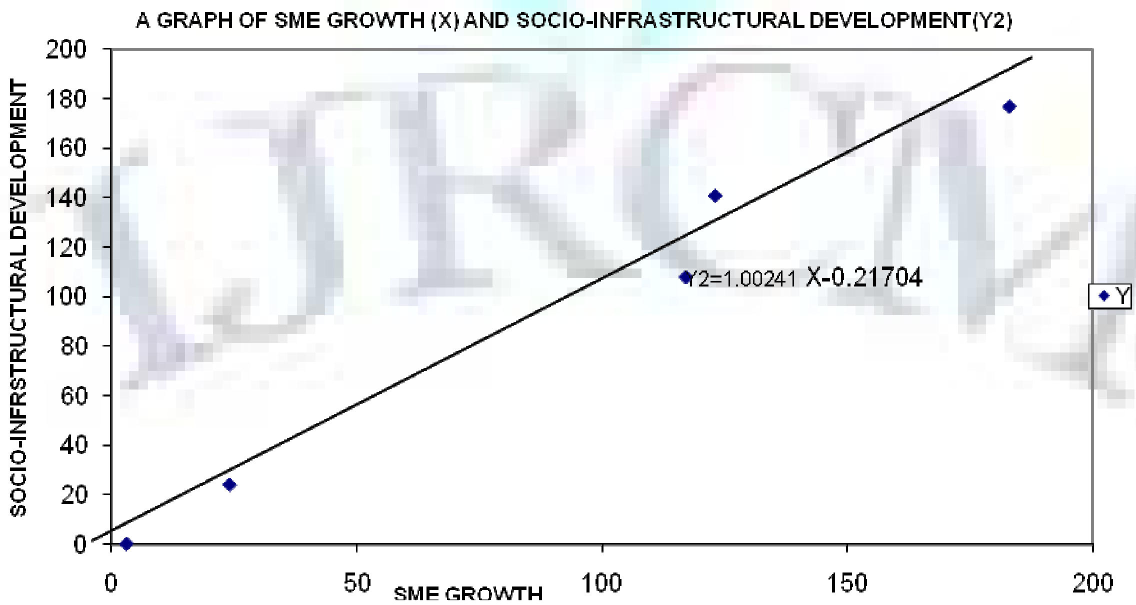
Hypothesis II

Ho There is no significant relationship between SMEs growth and socio-infrastructural development.

TABLE 2: REGRESSION OF SOCIO-INFRASTRUCTURAL DEVELOPMENT (Y2) ON SME GROWTH(X2) Coefficient of correlation =0.9902 > 0.05

SOURCE	Df	S.S	MS	F	SIGNIFICANCE F
REGRESSION	1	7500.0435	7500.0435	150.0443	0.0012
RESIDUAL	3	149.9565	49.9855		
TOTAL	4	7650.0000			

From table 2, F- calculated is 150.0443 and F- tabulated (significance F) is 0.0012. Since 0.0012 is less than 0.05 we reject the null hypothesis (Ho). This means that there is a significant positive relationship between SME growth and socio-infrastructural development. Furthermore, the coefficient of correlation yielded a high value of 0.9902 > 0.05. This means that as SME growth increases sustainable development increases. The graphical representation is shown in figure 2



DISCUSSION OF FINDINGS

The first which states that there is no significant relationship between the growth of SMEs and government intervention was accepted. The reason for this outcome may be as a result of the following reasons: although most of the SMEs studied agreed to the fact that government intervention can boost their businesses but the intervention programme only existed on paper and does not reach the target SMEs. Olorunshola (2001) supports this finding by stating that the poor implementation of government policies has weakened the confidence of the SMEs, on the government's capacity to faithfully execute its programme. As such the little growth recorded by them is achieved outside government's support.

The second hypothesis which proposes that there is no significant relationship between SMEs growth and socio-infrastructural development was rejected. This is plausible because Small and Medium scale Enterprises contribute to socioeconomic development of the state. This finding is in consonance with the work of Hu and Liu (2003) who found that small business is conducive to economic prosperity. Furthermore, Medina and Medina (2001) maintain that, by being socially responsible, SMEs contribute to sustainable development. Other studies that confirm this finding are; Cohen and Klepper's (1992), Acs, Carlsson, and Karlsson (1999), Ekpenyong and Nyong (1992).

RECOMMENDATIONS

Small and Medium scale Enterprises hold enormous prospects for sustainable development. In order to strengthen their workability in the light of our findings, the following recommendations are made; The government and the private sector should join hands in the development, upgrading and expansion of infrastructural facilities such as rural/urban roads, electricity and telecommunication.

The government should guarantee SMEs access to funds by providing fiscal incentive and support through the establishment of credit guarantee scheme, resolution of collateral issue and the provision of tax rebate for young SMEs and those who source local raw materials.

Technological, industrial development centers like the Industrial Development Center (IDC) which was established in 1962 in Imo state, and Raw Material Research and Development Council (RMRDC) should be revitalized. These bodies will provide extension services to small businesses.

CONCLUSION

In this study we examined the impact of government intervention on the growth of Small and Medium scale Enterprises and their contributions to development. Employing regression analysis and coefficient of correlation on the influence of government intervention on SME growth, our study indicated a negative relationship between these conjectures. This is as a result of the gap between policy and policy implementation.

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