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REVIEW OF LITERATURE

ROLE OF MSME'S IN DEVELOPMENT OF ECONOMY OF NATION

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ABSTRACT

Small and Medium scale Enterprises (SMEs) are important for successful economic growth and social development. SMEs, properly supported, foster Entrepreneurship - a proven pre-requisite for national economic success. Public and private policy support of SMEs is most effective when SMEs are part of the formal sector. One key objective therefore is to encourage migration of SMEs from informal to formal sector. Nigerian SMEs in informal sector are beyond the reach/help of public or private policy .Policies do not provide sufficient support. Difficult access to finance. To use SMEs to stimulate economic growth and encourage businesses requires SMEs to move from informal sector to formal sector.

KEYWORDS : *Small and Medium scale Enterprises (SMEs) , foster Entrepreneurship .*

INTRODUCTION :

SMEs are particularly important nowadays in any economy. They are the source of a significant share of job creation in any modern day economy. ... These companies also contribute significantly to GDP growth around the world and also ensure that there is proper flow of money across the economy. What is SME in development? The European definition of SME follows: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro." Why is it important to have small business? According to the U.S. Small Business Administration (SBA), small businesses represent 99.7 percent of all employer firms. Since 1995, small businesses have generated 64 percent of new jobs, and paid 44 percent of the total United States private payroll, according to the SBA. What is the meaning of small and medium enterprises. Definition: Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. How many jobs are created by small businesses? Small firms accounted for 64 percent of the net new jobs created between 1993 and 2011 (or 11.8 million of the 18.5 million net new jobs). Since the latest recession, from mid-2009 to 2011, small firms, led by the larger ones in the cat- egory (20-499 employees), accounted for 67 percent of the net new jobs.

IMPACT OF MSME'S AND ECONOMY

Many economies, developed and developing have come to appreciate the value of small businesses. This is because small businesses are characterised by dynamism, innovations, efficiency, and their small size allows for faster decision-making process. The benefits of SME's to any economy are easily apparent, they include: contribution to the economy in terms of output of goods and services; creation of jobs at relatively low capital cost, especially in the fast growing service sector; provide a vehicle for reducing income disparities; develop a pool of skilled and semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy; provide opportunities for developing and adapting appropriate technological approaches; offer an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development, among others. SMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like that of Nigeria.

ROLE OF MSME'S ON ECONOMY

Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state. Because of their (SMEs) significant roles in the development and growth of various economies, they (SMEs) have aptly been referred to as "the engine of growth" and "catalysts for socio-economic transformation of any country." SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Other intrinsic benefits of vibrant SMEs include access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them. Generation of Employment, Studies show that SMEs account for a large proportion of employment in many countries. In Nigeria, SMEs contribution is about 30% to global GDP. SMEs play a critical role of principal safety net for the bulk of the population in developing economies. Their labour intensity structure accounts for their recognition as a job creating avenue. The employment opportunities provided reduces rural-urban migration and allows for even development. Utilization of local resources: This promotes the use of local raw materials requiring simple technology. Income generation: SMEs constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services.

The benefits of SMEs cannot be overemphasized they include; contributions to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost, especially in the fast growing service sector; It's a vehicle for the reduction of income inequality thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, Socially and geographically diverse sectors of the economy provide opportunities for developing and adapting appropriate technological approaches; offer an excellent breeding ground for entrepreneurial and managerial talent, the critical shortage of which is often a great handicap to economic development among others. Stiglitz and Weis (1981) observe that small and medium scale firms with opportunities to invest in positive net present value projects may be blocked from doing so because of adverse selection and moral hazard problems. Adverse selection problems arise when potential providers of external finance cannot readily verify whether the firms have access to quality projects. Nonetheless, the liquidity ratio of the financiers plays a major role. Moral hazard problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to take excessive risks due to some pervasive incentive structure in the system. (Ogujiuba, Ohuche, & Adenuga, 2004)

On the other hand, because SMEs do not have access to public capital markets they naturally depend on banks for funding. Dependence on banks makes them even more vulnerable for the simple reason that shocks in the banking system can have significant impact on the supply of credit to SMEs. Thus, SMEs are subject to funding problems in equilibrium and these problems are worsening during periods of financial instability. Berger and Udell (2001) further note that shocks to the economic environment in which both banks and SMEs exist can significantly affect the willingness and capability of banks to lend to small and medium scale firms.

Governments all over the world have realised the importance of this category of companies and have formulated comprehensive public policies to encourage, support and fund the establishment of SME's. Developments in small and medium enterprise are a plus for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. Since its independence, the Nigerian government has supported many entrepreneurial and small business development programs, few of which have yielded impressive results. The challenge is to identify the factors that influence the development and performance of small and medium-sized enterprises (SMEs) in Nigeria, as well as the implications of these factors for policy. In less developed countries where there is a deficiency of information on the operations of SMEs, the situation degenerates into total risk-aversion by financial institutions in funding SMEs. Such risk-averse behaviour can ultimately affect the performance of monetary policy through the credit channel of policy transmission and perhaps snowball into financial instability in the system.

FUNDING OF MSME'S

Because of their special nature, small obscure firms may be adversely affected by changes in the structure of the banking industry. The issue of availability of credit to these borrowers is relevant not only from a theoretical point of view but also for policy purposes. In many countries deregulation and financial and technological innovation have stimulated extensive restructuring in the financial sector. Commercial banks have engaged in mergers and acquisitions, leading to the disappearance of many small credit institutions and the emergence of complex financial conglomerates. The lifting of barriers to geographic expansion has allowed entry in previously isolated local markets, reducing segmentation. To fund a business idea, you have two major sources to access; internal and external finance. Internal finance is concerned with sourcing funds through personal savings, and those of friends and relatives. However, as the firm grows its financing requirements may go beyond personal savings. The next source is external finance. External funding is based on merit according to the evaluation of financial institutions. There are two notable variants of external finance: debt financing and equity financing. Debt financing involves the procurement of interest bearing instruments such as loans, overdrafts, letters of credit and accounts receivable etc. They are secured by asset-based collateral and have term structures, that is, either short or long term. The equity component of external finance gives the financier the right of ownership in the business and as such may not require collateral since the equity participant will be part of the management of the business. (Ogujiuba et all, 2004)

In 2001, a study identified poor access to finance as the most critical constraint on small and medium scale enterprises in Nigeria. In fact, 50 percent of the surveyed enterprises received external finance while 79 percent indicated lack of financial resources as a major .

CAPITAL OF MSME'S

"Most small firms will never be able to put together all the funding they would like from banks and other institutions. In this crude sense there will always be a deficiency in the funding of the sector equal to the difference between the total demand for funding and that part of this demand which qualifies for funding support" (Hamilton and Mark, 1998). As a result, a clear and present challenge for operating and intending small business is sourcing of funds. Levy in 1993 reported that smaller enterprises have limited access to financial resources compare to larger organisations and he discussed the impact of his findings in economic growth. According to Cork and Nisxon, (2000) poor management and accounting practices have hampered the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run. However, there is reason to hope because according to Liedholm et al. (1994), a large number of small enterprises fail because of non-financial reasons. Remmers et al. (1974) reported the debt/total assets ratio to be independent of firm size while Peterson and Schulman (1987) reported that debt/total assets ratio to first rise and then fall with size of firm. Irrespective of which side of the divide one is, the behaviour of loan granting institutions can be obviously predicted when they have a choice of granting loan

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facilities to either a big business with a good balance sheet or a small business with an equally good balance sheet. Funds can be sourced by the following methods.

SMALL AND MEDIUM ENTERPRISES INVESTMENT SCHEME

The Small and Medium Enterprises Equity Investment scheme is a voluntary initiative of the Bankers' Committee approved at its 246th Meeting held on 21st December, 1999. The initiative was in response to the Federal Government's concerns and policy measures for the promotion of Small and Medium Enterprises (SMEs) as vehicles for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation. The Scheme requires all banks in Nigeria to set aside ten (10) percent of their Profit After Tax (PAT) for equity investment and promotion of small and medium enterprises. The 10% of the Profit After Tax (PAT) to be set aside annually shall be invested in small and medium enterprises as the banking industry's contribution to the Federal Government's efforts towards stimulating economic growth, developing local technology and generating employment. The funding to be provided under the scheme shall be in the form of equity investment in eligible enterprises and or loans at single digit interest rate in order to reduce the burden of interest and other financial charges under normal bank lending, as well as provide financial, advisory, technical and managerial support from the banking industry. Every legal business activity is covered under the Scheme with the exception of trading/merchandising and financial services. Ten percent (10%) of the funds set aside has been earmarked for lending to microfinance enterprises.

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