Breaking the cycle of Penury: Prospects and Limitations of SMEs as Instrument of Poverty Alleviation in Nigeria

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Abstract

Management scholars and development experts throughout the world have learnt to accept entrepreneurship as one of the most efficacious implements of poverty alleviation and national development especially in the Third World nations. Scholars also generally agree that small and medium scale enterprises (SMEs) are among the most efficient instruments for achieving the developmental objectives of entrepreneurship. Nigeria has consequently, since the 1980s, put in place programmes and policies aimed at encouraging and fast-tracking the development of SMEs. These programmes have however barely scratched the surface of endemic poverty in the country. The paper examines the concepts of SME and poverty, reviews the dimension of poverty in Nigeria, assesses the national response to the poverty challenge, advocates the priming of SMEs and recommends strategies for making SMEs effective instrument of poverty alleviation.

Key words: Poverty, penury, SMEs, poverty alleviation, Nigeria

Introduction

The need to break the jinx of endemic poverty has been a primary challenge to statesmen and scholars of the developing world for several decades. Economists have long recognized small and medium scale enterprises as the ideal engine of national development and poverty alleviation. The economic history of developed nations also confirm SMEs as the pre-eminent implement of national development. Until the 1880s, for instance, virtually all businesses in the united states were SMEs (Oshorun, 2009). Even today about 90 per cent of all businesses in the USA are SMEs, contributing over 80 per cent of GDP.

Many countries have made deliberate efforts not only to promote SMEs but also to develop the interest of the youths in entrepreneurship. The rapid industrialization of the Asian tigers – Singapore, Malaysia, Taiwan, Hong Kong – has been partly attributed to the concerted efforts made to encourage and coordinate vocational education and small scale entrepreneurship development.

Concept of Small and Medium Scale Enterprises

In Nigeria, there is no universally adopted definition of small and medium scale entrepreneurship. The Nigerian Industrial Policy of 1989 defines SMEs as any enterprises whose investment in working capital is between N100,00 and 2million excluding the cost of land. CBN Monetary Policy Circular of no 22 of 1998 defines SME as any enterprises whose investment including land and working capital is less than #300,000 with annual turnover of N5million. The Nigerian Industrial Development Bank (NIDB) defines small scale industries as those with investment and working capital not exceeding N750,000 and N3million.

The Federal Ministry of Industry also defines SME as any business with a total cost of not exceeding N500,000 excluding cost of land but including working capital. The National Council of
Industry, cited in Udoh (2006) streamlined the various definitions. It sees small enterprises as enterprises with fixed assets above N1 million but not exceeding N10 million and a labour size of between 11 and 35 workers while a medium scale enterprise is one with fixed assets worth more than 40 million but less than 150 million (including working capital but excluding cost of land) and a labour size between 36 and 100 (Olorunshola 2003).

The National Council on Industry in 2001 offered the following definitions for micro, small, medium, and large scale enterprises in Nigeria.

a) Micro/cottage: An enterprise with a labour size of not more than 10 workers or a total cost of not more than N1.5 million naira including working capital but excluding cost of land.

b) Small Scale: An enterprise with a labour force if 11-150 worker or a total of not more than N50 million including working capital but excluding cost of land.

c) Medium Scale: An enterprise with a labour size of 101-300 workers or a total of more than N50 million but not more than N200 million (including working capital but excluding cost of land).

d) Large Scale: An organization with a labour size of 300 workers or a total cost of over N200 million including working capital but excluding cost of land. The definition can be compared with these from other nations:

**Definitions of SMEs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment Ceiling</th>
<th>Employment Ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>$730,000 (#102.2m)</td>
<td>300 employees</td>
</tr>
<tr>
<td>India</td>
<td>$170,000 (# 23.8m)</td>
<td>No restriction</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$ (106,000 (#14m)</td>
<td>No restriction</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$85,000 (#11.9m)</td>
<td>&lt;100 employees</td>
</tr>
<tr>
<td>Japan</td>
<td>$(800,000 (#112m)</td>
<td>&lt;300 employees</td>
</tr>
<tr>
<td>Philippines</td>
<td>$(45,000 (#6.3m)</td>
<td>&lt;99 employees</td>
</tr>
<tr>
<td>U.K</td>
<td>No restriction</td>
<td>&lt;199 employees</td>
</tr>
<tr>
<td>USA</td>
<td>No restriction</td>
<td>&lt;500 employees</td>
</tr>
<tr>
<td>Tanzania</td>
<td>$1,000 - $50,500</td>
<td>No restriction</td>
</tr>
</tbody>
</table>


**The Concept of Poverty**

Poverty is lack of means to satisfy a person’s basic needs for nutrition, housing, clothing and other essentials of life (Encyclopedia Britannica, 1981). Such needs may be defined as those necessary for survival. World Bank Dictionary, (1980), cited in Clark (2002) defines poverty as a very serious condition of lack of so many necessary things for human endeavor. In addition it is a state of inadequacy, deprivation, want, deficiency or not having enough for all the necessities of life; having little to live on. According to Idih (2001), poverty is a ravaging economic and social phenomenon that manifests in the inability to access the basic necessities of life needed for a decent living. To Adesanya (1998), poverty implies living with less than the smallest income necessary to provide the minimum necessary standard of living. Ekpenyong (2003) asserts that the word “poverty” immediately conjures a sense of lack or deprivation in all its ramifications.

Poverty is manifested in various forms such as joblessness, economic dependence, lack of freedom, inability to save or own assets, over-indebtedness, inability to provide the basic needs of life for self and family and lack of access to loan and credit. Lack of food is the most critical dimension of poverty, as evident in the popular saying: “when hunger is excised from poverty, the burden of poverty is light” (National Planning Commission, 2004). Speaking in the same vein Ekpenyong (2003) says that poverty is a multidimensional phenomenon encompassing inability to satisfy basic needs, lack of control over resources, lack of education and skills, poor health, malnutrition, lack of shelter, poor access to water and sanitation, vulnerability to economic shocks and violence.
Arising from the above definitions, it can safely be inferred that poverty is a state of living which manifests in one’s inability to meet the basic and essential necessities of life such as food, clothing, decent accommodation, good health and functional education. People are considered poor when their measured standard of living is below a minimum acceptable level known as the poverty line, which is largely based on income and consumption. Hence, those who live below poverty line, that is, below the standard of adequate subsistence, are classified as living in poverty.

**Dimension of Poverty in Nigeria**

Poverty is pervasive in Nigeria as in most other parts of the third world. The Food and Agriculture Organization (2012) estimates that nearly 870 million of about 9.2 billion people in the world or one in eight, suffered from undernourishment in 2010-2012. Almost all the hungry people, 852 million, live in developing countries, representing 15 percent of the population of the developing world. In Africa, the number grew from 175 million to 239 million in the last few years. According to the World Bank Poverty website, over 500 million subsist on less than a dollar a day, in spite of the fact that a sixth of the population of the world receives 80% of the world’s income, which on average, stands at $70 per day. The poverty rate is however falling very rapidly among the advanced and richest countries of North America and Europe as well as Japan in Asia.

The implication here is that while poverty is a world-wide phenomenon, its impact is more rigorous in the developing countries of Latin America, Asia and Africa. Writing about the pervasiveness of poverty in Nigeria, Alumanah (2000) explains that Nigeria ranked 17th out of the 206 nations in the world. Also, a study by Onibokun and Kumuyi (1996) reveals that the ratio of poverty in Ibadan, Kano, Port Harcourt and Onitsha were 63.7%, 62.1%, 35.02% and 87% respectively. Furthermore, Ogwumike (2001) says that the GNP per capita for Nigeria in 1996 was $260 compared to Ghana, Zambia and Indonesia which had $390, $400, and $980 respectively. Meanwhile, the Federal Office of Statistics (FOS) (1999) reports that 67.1m Nigerians live below the poverty line, while the National Planning Commission (2004) reveals that even though Nigeria is rich in natural and human resources, the population or people who live below $1 per day ranged from 27% in 1980, 66% in 1996 and by 1999 it was estimated to be more than 70%. While six of every ten Nigerians (60%) lived on less that $1 a day in 2004, recent reports show that about 70 percent are currently living in poverty even with a rebased GDP) which revealed Nigeria as the largest economy in Africa.

The scenario above depicts the menace of poverty in Nigeria. The situation has not improved but has rather been deteriorating each passing day even as a fraction of the population is getting very rich. The poverty figure is likely to rise higher in the foreseeable future. It, therefore, requires the concerted efforts of all men and women of good will to assist in the reduction or eradication of poverty in the country.

The causes of mass poverty in Nigeria are attributable to many factors, ranging from lack of employment, under-employment, the corruptive tendencies of some of the nation’s rulers, and other environmental factors.

**Factors associated with poverty spread**

According of the National Planning Commission (2004), the following factors are responsible, at least in part for poverty in Nigeria

- Lack of basic services such as clean water, education, and health care; lack of assets, such as land, tools, credit and supportive networks of friends and family; and lack of income, including food, shelter, clothing, and empowerment.

- Inadequate access, to employment opportunities for the poor due to the unfavorable economic activities.

- Inadequate access to assets such as land and capital. This is traceable to absence of land reforms and minimal opportunities for small-scale credit.
Lack of development efforts in the rural regions in preference to urban and high potential areas.

Inadequate access to market for goods and services in remote areas owing to poor road network.

Inadequate access to education, health, sanitation and water services. This is attributed to inequitable social service delivery which results in inability of the poor to live a healthy and active life and to take advantage of employment opportunities.

Constant depletion of the natural resource endowment which led to reduced productivity in agriculture, forestry and fisheries subsectors. This often results from desperate survival strategies of the poor as well as inadequate and ineffective public policy on natural resource management; and

Non-participation of the poor in the design of development programmes that are thought to be beneficial to them. If they took part in discussion, preparation, design and implementation of programmes, they will see it as their programmes and ensure their workability.

From the foregoing, it is pertinent to note that poverty is induced and reinforced by multifarious factors. For this reason, any effective poverty alleviation programme must address all the identified sources of poverty. Only in this way can a lasting panacea be found for iron grip of poverty in Nigeria.

Effect of Poverty on National Development

Many of Nigeria’s most severe social problems are attributable to debilitating effect of poverty on personal and nation psyche. Ekpenyong (2008) explains that poverty has led to economic backwardness, social instability occasioned by mass unemployment, crime, drug addition, robbery, illiteracy, diseases and high mortality rate, particularly among children. According to the National Planning Commission (2012), poverty in Nigeria has diverse manifestations and dimensions which include joblessness, over indebtedness, economic dependence, and lack of freedom. Others are inability to provide basic needs of life for self and family, lack of access to land and credit and inability to save or own assets. Furthermore, Anya (2005), explains that poverty leads to poor health with its associated costs and low productivity, poor education and wasted minds conducive to miserable lives and crime and often leads to unacceptable choices.

Poverty has led people to indulge in a number of vices in Nigeria such as political thuggery and the menace of the so called “area boys” who constantly harass people in the cities, forcing them to part with their hard earned money and materials. Poverty also breeds the juvenile beggars called the “almajiris: who are mostly seen in the northern part of the country. Generally, poverty has brought about other social vices such as armed robbery, motor park touts, and tribally motivated militant groups who constantly hold oil firms and communities to ransom. Poverty has also been associated with inter ethnic clashes especially in Plateau state. Furthermore, some parents, in order to make ends meet, often give their consent to sending their children (young girls) to major cities and foreign countries by human traffickers, who engage the innocent girls in illicit sex trade and other illegal business such as drug peddling. Poverty has also led many youth to engage in fraudulent and unlawful economic ventures and cyber crimes. Finally, poverty has been justifiably blamed for the Boko Haram Insurgency which has not only retarded the economy of Northern Nigeria, but is actually threatening to dismantle Nigeria. Evidently therefore, poverty has assumed a dimension such that both young and old, male and female, constantly feel the pangs of its torment.
National Response to the Poverty Challenge

Nigeria’s democratic government has since 1999 made concerted efforts to embark on some poverty alleviation programmes. In the year 2000, the National Poverty Eradication Programme (NAPEP) scheme was inaugurated. The immediate objectives of the poverty alleviation programme were outlined in the guidelines for its implementation by the Federal Government of Nigeria (2000). These are:

- Stimulate economic growth through the engagement of semi skilled labor in productive activities.
- Ensure immediate reduction of social vices and tension in the society by removing idle hands from the streets.
- Engage the unemployed in direct activities as veritable means of reflecting the economy.
- Improve the environment/arrest environmental degradation.
- Minimize rural-urban drift through the improvement of rural communities.
- Commit funds for the direct benefit of the participants rather than on services or overheads.

Another poverty reduction strategy adopted in Nigeria is the National Economic Empowerment and Development Strategy(NEEDS) which was introduced in 2004. It is an all-embracing programme which addressed issues such as value re-orientation, wealth creation, poverty reduction and employment generation. NEEDS provided a framework for a nationally coordinated programme of action which cut across the three levels of government – the Federal, State and Local Government levels. While NEEDS is operated within the ambit of the Federal government, the State governments in turn were encouraged to develop the state Economic Empowerment and Development Strategies (SEEDS).

Different Nigerian governments have hitherto also come up with various policies. These include:

1. The setting up of the Nigeria Bank for Commerce and Industry Government and the Central Bank of Nigeria in 1978 for financing small scale industries. It also administers the Federal Ministry of Industries special fund for small scale industries soft loans.

2. The National Directorate of Employment (NDE). Among others, the NDE introduced and sponsored the graduate employment programme in which participants are trained to acquire certain skills or learn certain trades. Loans are also provided by the NDE to such graduated at a low interest rate.

3. The skill acquisition programme in the states was also established to train young people in skills for self employment and self-reliance. Various skills being taught include Fashion Designing, Soap Making, Tie and Dye, food processing, Catering, Weaving etc.

4. The creation of industrial Development Centres to provide extension services to SMEs in such areas as project appraisal development, production planning and controls, as well as other extension services.

5. The small scale Industries Credit Scheme (SSICS) which was set up to provide technical and financial support for SMEs.
vi. The National Economic Reconstruction Fund (NERFUND) was established to provide medium and long term loans to SMEs at concessionary rates of interest. The NERFUND was, however, merged with two other Development Financial Institutions in 2001 to form the Bank of Industry.

vii. The introduction of Community Banks and later Micro Finance Banks which helped the needy to garner seed funds for entrepreneurial ventures.

Good as these programmes appear to be, they have not been too effective in reducing poverty in the country. Recent studies indicate that the various schemes of the government were hijacked by people with corrupt officials and political jobbers who connived with government officials to thwart the effort of the government (Oluosola & Babalola, 2009). Hence, despite the introduction of various intervention programmes, few holes have been drilled in the armour of poverty in Nigeria.

These programmes, though well-intentioned were also, in most respects, poorly executed. For instance, the Small Scale Industries Credit Scheme failed because the loans fell into wrong hands at the expense of the small and medium businessmen. Other policies were jettisoned by successive governments for political exigency.

**Priming SMEs for Poverty Alleviation**

The contributions of Small and Medium Enterprises have been noticeable in the area of employment generation in many nations and have been recognized as the engine of growth in developing economics. According to Adelaj (2006) the SMEs account for about 30% of the global Gross Domestic Product (GDP) and 58% of the world’s working population. Furthermore, Adeloye argues that SMEs are recognized for their accelerative effect in achieving macro-economic objectives like full employment, income distribution, development of local technology, stimulation of indigenous entrepreneurship, mitigation of rural – urban migration, support and linkage of the entire industrial sector by training of semi-skilled and non-skilled manpower, as well as the manufacturing and supply of spare parts and raw materials to large scale industries.

For SMEs to fulfill the role of unemployment mitigation, efforts must be made to solve the problem confronting them. In this connection, Ndukho (1994), Lewis (1982), Mayo (1989) and Ademiluyi (2012) list the various problems confronting SMEs to include the following:

- Lack of capital as well as finance to start and operate the business. Market problem i.e. lack of knowledge of marketing programmes.
- Poor personnel management.
- Irregular electric power supply.
- Poor infrastructures e.g. impossible network of roads.
- Multiplicity of taxes, etc.
- To all these, Nigerians can add:
  - Inadequate entrepreneurship orientation and training
  - Political instability
  - Political interference
  - Policy inconsistency

There is no gain-saying the fact that the efficacy of SMEs as poverty-alleviation agents depends on an enabling environment which is germane to the creation and development of a virile SMEs sub-sector. It also goes without saying that all the problems hitherto identified have to be effectively addressed if SMEs are to contribute optimally to poverty alleviation efforts. In addition, governments, civil society and charity organizations have to address the problems of quality of education and pay greater attention to vocational education, skill development and entrepreneurship education.

Furthermore, credible business must be encouraged to access capital. To achieve this end, the banking system has to be re-oriented and re-invigorated. Banks must be recapitalized and induced to support budding businesses. Banks and similar agencies must also have technical support machinery to assist young entrepreneurs technically and administratively.
SMEs often evolve from cottage businesses. Government should recapitalize, encourage and support grass-root cooperative societies, for their loans often serve as the seeds for cottage businesses. SMEs also need to be encouraged with tax incentives. There is furthermore the need to re-orientate our youth from a culture of seeking access to easy money to one of enterprise. There is also the need to wean the society away from a culture of consumption to that of saving and investment. Less money should be spent on funerals and chieftaincy ceremonies and more on investments.

**Conclusion and Recommendations**

Poverty is a world wide phenomenon; however, its impact is felt more in the developing countries of Latin America, Asia and Africa. The incidence of poverty has reached a critical state in Nigeria where a significant proportion of her population is living below the poverty line. In spite of the various measures taken by the government of the country to reduce poverty, it has no abated; rather poverty continues to ravage the land.

Small and Medium Enterprises (SMEs) have made significant contribution towards poverty eradication in most parts of the world. However, SMEs in Nigeria are handicapped by financial and non-financial constraints which have hindered them from stemming the tide of unemployment and poverty. In spite of the multiplicity of intervention programmes by the Federal and State Government to assist SMEs to achieve their laudable programmes, most of the programmes have failed to achieve the objectives for which they were set up. Many of the intervention schemes initiated to assists the SMEs are now moribund. This has ultimately exacerbated the scourge of poverty in the country.

To ameliorate this situation, this paper recommends the establishment of a virile credit scheme to encourage small and medium enterprises to have unfettered access to loans funds and other credit facilities. It is also recommended that a public-private partnership initiative should be established to provide infrastructural facilities for proper functioning of SMEs. If these and similar programmes are pursued faithfully and consistently, the development of SMEs would be easily achieved and poverty would be severely reduced.

Finally a lot can be achieved with the instrumentation of education. Vocational education entrepreneurship education, functional general education: all these pedagogic implements, if optimally harnessed can have enduring influence on the ability of SMEs to alleviate poverty in Nigeria.

**References**