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THE EFFECT OF POVERTY ON SMALL AND MEDIUM SCALE ENTERPRISES

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Abstract

The importance of small and medium scale enterprises has not been in doubt; unfortunately, classifying business into large and medium scale is subjective and premised on different value judgment. Such classification has followed different criteria such as employment, sales or investment for defining small and medium scale enterprises. Poverty includes inadequate income, shelter, public infrastructure, protection of poorer groups, voicelessness and powerlessness within the political system and bureaucratic structures leading to little or no possibility of receiving entitlements; organizing, making demands and getting a fair response. This research work shall conceptualize the effect of poverty on small and medium scale enterprises.

Introduction

In the face of globalization, the country's unemployment rate increased from 2.3% in 1980, to 18.1% in 2000, while in 2004 it dropped to 11.8% and later rose to 21.1% in 2010. In 2012, it went up to 25% (National Bureau of Statistics, 2006; UNDP, 2009; 2013). With this seemingly horrifying condition, the World Bank (2011) in 2011 puts Nigeria at 156th position, among 177 countries compared to the 151st position in 2002, on Human Poverty Index (HPI) for 2009 was only 36.2% placing Nigeria at the 114th position and among the 7 poorest nations in the world. In spite of Nigeria's oil, which would have been an advantage in alleviating poverty, sectors of the economy that are supposed to boost the economy are lying fallow, most of which are the small-scale enterprises and the agricultural sector, making Nigeria dependent on other countries particularly the industrialized countries of the world that are the drivers and pushers of globalization dynamics. It therefore seems that, the more emphasis on ICT products in Nigeria, the higher the level of poverty. In most countries, the SMEs through the help of ICT drive nations toward development.

This is one major reason why Rivers State embraced SMEs, which are perceived as a catalyst for poverty reduction, with the help of ICT to improve on their information and technology for production and employment generation. The latest United Nations Millennium Development Goals Report indicates that while the world has managed to slash the number of poor people by half in the last twenty (20) years, more people in sub-Saharan Africa now live in a state of extreme poverty and hunger than ever before. The number of people that live in extreme poverty in Sub-Saharan Africa (those living on less than $1.25 a day) increased to 414 million in 2010, from 290 million in 1990. Many pro-ICT scholars, such as Wosu (2014) opined that ICT is a mechanism or vehicle for poverty reduction.

His argument, using the Akpor women to buttress his idea, seems not to have a strong hold. As the women in Akpor and Rivers State in general still suffer an unprecedented rate of poverty. Thus, the presence of ICT facilities has not been felt positively, toward poverty alleviation. The various organizations made up of Small-Scale enterprises in Rivers State as highlighted in this study have not felt well, going by the recent poverty rating of Nigeria by the National Bureau of statistics, (2006). By this, the SMEs are also incapable due to lack of support from ICT.

According to Pandey (2015), it was recorded that the number of under-nourished and stunted children below the age of five fell to 25 percent of the world's population in 2010 from 40 percent in 1990, in sub-Saharan Africa, this number rose to 58 million from 44 million. The report warned that, owing to an increase in the poverty level in the region, sub-Saharan Africa is unlikely to meet any of its MDG targets. This as indicated by Pandey (2015), is the obvious result of globalization in Africa. It is these apparently adverse effects on Nigeria's economy that have necessitated this study to assess the extent to which it has affected the economy of this country, and whether poverty reduction in Nigeria is possible in the face of ICT. It is about the political domination and exploitation of one nation or group of nations by another to advance their economic interests, using economic instruments such as ICT and FDI. Therefore, the study will look at the effect of poverty on small and medium scale enterprises.

Meaning of Poverty

Poverty, as the word goes, is a phenomenon that is common to all countries of the world, not only the third world. As the World Bank states “pockets of poverty” are common in all countries. From Bangladesh to the United States, no matter how well-off some may be, there are those who struggle to have a roof over their heads. The World Bank report (2003), further indicates that about 57 percent of the world’s population lives on less than $2 per day... In the Philippines, one third of the population lives on less than $1 (US) per day...The richest 5% of the world’s people have incomes 114 times than the poorest 5%. No doubt, the above is true, obviously poverty is most severe in the third world countries, particularly in Africa. The World Bank indices reveal that Africa contains 34 of the 49 least developed countries in the world. And almost half of the continent's 811 million population currently live below the poverty line, which is less than one US dollar per day. All these in a continent whose 53 countries are known to host 20% of the world's reserves of oil and gas, 25% of its iron resources, 50% of its diamonds and 25% of the gold reserves, among others.

The argument here given by the World Bank report is why are these countries still at the poverty level in spite of the large natural endowment? The problem could be channeled towards low investment, or the absence of investment creates low or lack of productivity. Most Third World countries are exporters of material resources, which in turn, are sent back as finished goods by the advance countries, on a higher price which impoverish them the more and even when the material resources to be used are in the industries for further production, the knowledge and skills are not totally transferred to the people, to enable them do this and save cost and also the capitalist (the owners of industries) are foreigners, indicating that profit accruing from such production are carried overseas to service their countries while the third world countries or Africa suffer from poverty. This is one aspect why the anti-globalization or ICT scholars are of the view that ICT is another imperialistic idea to exploit the weaker countries of the world.

From the forgoing the main understanding of the term poverty therefore includes:

- Description of material need, typically including the necessities of daily living (food, clothing, shelter and health care). Poverty in this sense may be understood as the deprivation of essential goods and services
- Description of social need, including social exclusion, dependency and the ability to participate in society. This would include education and information.
- Description of income and wealth; describing a lack of sufficient income and wealth (the meaning of “sufficient” varies widely across the different political and economic parts of the world).

The below conceptualization by Schaffer (1998) summarizes the main understanding of the term as follow;

- **Physical Deprivation:** Inadequate consumption of basic needs, goods, primarily food, inadequate basic need fulfillment, including nutrition, health and education.
- **Social Deprivation:** Lack of basic capacities to live a long healthy live with freedom – lack of resources required for participation in customary activities.
- **Human Freedom Deprivation:** Denial of rights and freedom –lack of dignity, self

respect, security, justice, health etc.

The various views of scholars and controversies show that the concept of poverty cannot be looked at from one direction as a result, giving rise to words like absolute poverty, relative and subject poverty.

Absolute poverty

Absolute poverty depicts a lack of resources to buy a bundle of goods and services. Such a bundle of goods and services may contain what could be considered as an objective minimum, which includes basic necessities such as food, shelter, clothing etc. Two basic problems arise from this classification; first, what do we include in this objective minimum? Second, how do we set minimum standards for basic necessities like clothing, transportation etc. which may depend on individual taste and the prevailing socio- economic conditions within a given society? Even if we agree on a certain minimum bundle of goods and services, such a minimum may not be relevant over time even if we adjust for price changes (Obadan et al 2003). Absolute poverty has also been defined by the approximate maximum, which refers to the maximum proportion of income that a family spends on a certain substance of goods. For example, if families or households spend more than the specified maximum share of their income or basic needs such as food, housing, health care etc. then they are considered poor.

Relative poverty

Relative poverty is defined as a situation when one cannot purchase a bundle of basic needs available to a reference social group as people within a median income level (World Bank 2003). Relative definitions of poverty compare the welfare of those with the lowest amount of resource with others in the society, for example a level of income below say 40, 50,60 percent of the average or median income of the population. Though, some scholars such as Constance and Robert, ed. (1995) Fisher (2003) used relative shares of expenditure/consumption instead of income. Relative poverty takes into consideration changes in living standards. It also poses serious problems, particularly policy implementation. Relative definitions of poverty have been criticized for being too much of a moving target. Not only is it difficult to reduce relative poverty, it is also almost impossible to assess the effectiveness of transfer programmes. In addition, establishing the cut off income/expenditure is quite arbitrary.

Subjective poverty

Subjective poverty definition requires individuals (including the poor) to define what they consider to be a decent or minimally adequate standard of living. However, such definitions are complex to apply because of the divergence in response, given the difference in individual utility functions and circumstances.

Small and Medium Scale Enterprises

Just like any other concept in social sciences, the concept of small and medium scale enterprise is indeed polemic and has no single universally accepted definition. However, scholars in the various fields have consented on the idea behind such business to mean small business set up.

From the words of Omisakin (1999:10 in Atube, 2011:41)

... Even if it is possible to arrive at an acceptable definition of small-scale enterprise, such an exact definition might not be appropriate for all purposes because of continuity and dynamism that exist in size and characteristics of firms.

This idea put forward by Omisakin, actually ignites some scholars to categorize SMEs in relative terms rather than absolute. Though, such classifications are similar and subjected to size and financial ability. In spite of its small nature, its importance and effectiveness in terms of economic growth and development in Nigeria and other developing countries of the world have been applauded. Though, that is not to say they are 100 percent efficient and effective in the economic growth of a nation. Scholars like Fatai (2010) and Ihua (2009) categorically demonstrated the scrutiny against the low performance that has characterized small and medium scale enterprises in the examination of its role on economic growth and development. Particularly in Nigeria, small and medium scale enterprises have performed at a very abysmal level, which has further exacerbated poverty, hunger, unemployment and low standard of living of people in a country whose economy is ailing.

Classification of Small and Medium Scale Enterprises

Fatai (2010) further stressed that, while the importance of small and medium scale enterprises has not been in doubt, unfortunately classifying business into large and medium scale is subjective and premised on different value judgment. Such classification he said has followed different criteria such as employment, sales or investment for defining small and medium scale enterprises. This boils down to the issue of size in terms of employment size, size of their sales, the investment size etc. determines which is to be classified as small and medium scale enterprises. These classifications are the framework to which variation of the concept is notified, and differently defined by economies with the same idea. Similarly, Ayaggari et.al (2003) in Fatai (2010) argued that the definition of small and medium scale enterprises varies according to context, author, countries. In countries such as the USA, Britain and Canada small scale business is defined in terms of annual turnover and the number of paid employers. Also, Ekpeyong and Nyang, 1992 in Fatai (2010) posit that in Britain for example small scale business is conceived as that industry with annual turnover of 2 million pounds or less with fewer than 200 paid employees. In the case of Japan, it is defined in terms of the type of industry, paid up capital and number of employees. They further sum it up, by defining small and medium scale enterprises as those manufacturing with 100 million yen paid up capital and 300 employees. Those in wholesale trade with 300 million paid up capital with 100 employees while those in retail trade with 100 million paid up capital with 50 employees.

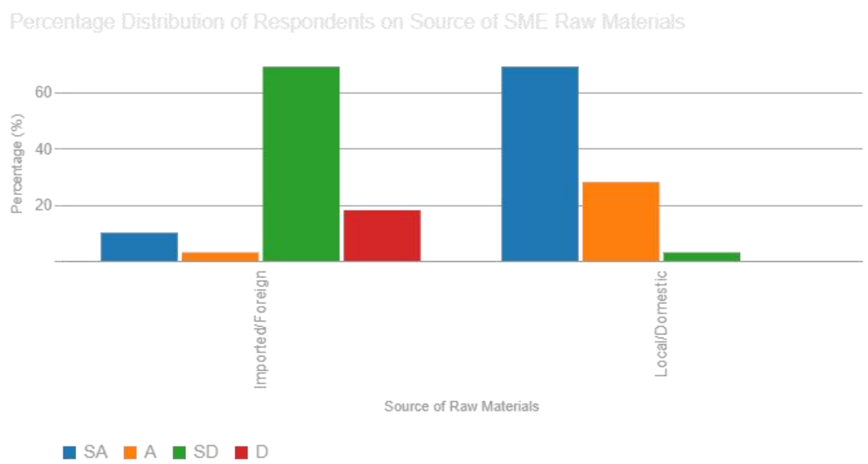
Small and medium scale enterprises in Nigeria

Coming back to Nigeria, the definition of small and medium scale enterprises took a different method, which distinguishes between small and medium scale enterprises. This Atube (2011) put forward by looking at various variables such as; the number, financial strength, relative size, initial capital outlay, independent ownership and type of industry. Considerably, the Central Bank of Nigeria viewed small scale industry, as those enterprises which have annual turnover not exceeding 500,000 naira (CBN; 1988, in Ogbuabor et. al, 2013). This to a considerable length indicates that businesses like medicine stores, provision stores, etc that may employ two or more employees could be attributed to be classified under such, as small and medium scale businesses. It has also been defined by the Federal Ministry of Industries (1973) in Ogbuabor et-al (2003) as businesses that have total capital (land, building machinery equipment and working capital) of up to #60,000 and employ up to 50 persons. This definition cannot match with present reality, considering the worth of 60,000 naira in the present day Nigeria. But however, there are still businesses within the same amount that can thrive for success, and can equally employ workers, but not up to 50 persons, such as the restaurant and Drinking Bar businesses.

Ifechukwu (2000, in Ogbuabor et-al 2003) also made an input, in the conceptualization of small and medium scale enterprises, for him it is a business operated mainly with hired labour usually not exceeding 50 workers if no motive power is used. Such businesses according to Ifechukwu (2000) and Ali, (2003) in Ogbuabor et-al (2003) are characterized by labour intensive mode of production, flexible operation as they adjust quickly to various factors, use indigenous raw materials, localized operations, low gestation period, and low level of education/skills. This conceptual input, made by Ifechukwu (2000) and Ali (2003) clarifies the reason why the study of Atube (2011) went out to ascertain the sources of small and medium scale enterprises raw materials.

Sources of Raw material	Strongly Agree (SA)	Agree (A)	Strongly Disagree (SD)	Disagree (D)
Local/Domestic	298 (69%)	121 (28%)	11 (3%)	0 (0%)
Imported/Foreign	42 (10%)	12 (3%)	298 (69%)	78 (18%)
Total	340 (79%)	133 (31%)	309 (72%)	78 (18%)

Table 1: Percentage distribution of respondents on source of the SME's raw materials.
Source: Atube, (2011)



The above data, (Table 1) presented by Atube (2011) shows that respondents are of the opinion that the raw materials for the SME's are locally sourced. This data confirms the above concept of small and medium scale enterprises, as demonstrated by Ifechukwu (2000) and Ali (2003). This further implies that, in the present day, it is impossible with the use of information and communication technology facilities, for the SMEs to source for materials outside that country, in their productive venture.

Conceptualization of small and medium scale enterprises

Today, with the aid of information and communication technology, the world is gradually acquiring one village look, where it is easy to reach one another without stress. This definition therefore, does not hold much fact, and could be ignored based on the recent development in globalization to which ICT is one of the features. Most small and medium scale enterprises, if not attributed to Nigeria, but in other countries, source for raw materials outside their countries to satisfy their industries. To further illustrate the ongoing conceptualization of small and medium scale enterprises, the Federal Ministry of Industry, making its second appearance on the same issue.

Categorized the SMEs as follows:

1. Micro/cottage industry: An industry with total capital employed of not more than N1.5

million, including working capital but excluding cost of land and a workforce of 10 workers.

2. Small scale industry: An industry with a total capital base of over N15 million but not more than N50 million, including working capital, but excluding cost of land and a workforce of 11-100 workers.
3. Medium scale industry: An industry with total capital base of over N150 million but not more than N200 million, including working capital but excluding cost of land and a workforce of 101-300. (Federal Ministry of Industry, 2001 in Atube, 2011).

This conceptual difference is a clear indication that small and medium scale enterprises as a concept does not have one single or generally acceptable definition. This however, is due to the differences in the background of the scholars, the socio-economic situation, the level of technology and awareness. As a result of this definitional differences and total lack of universal definition, the United Nations Industrial Development Organization (UNIDO) defined SMEs as industries carried on by the group of small manufacturing enterprises which produce components and parts required by large enterprises (Omisakin, 1999, in Atube; 2011) From the above definition, one can vividly picture the difference between big and small companies or firms. It also shows that small and medium scale enterprises are limited to particular products or components that are parts of a whole product. For instance, in the manufacturing of a car, the SME could just produce the wheel. In other words, small and medium enterprises cannot produce or manufacture the entire machine or car.

Small and medium scale enterprises and Poverty

The United States Small Business Administration defines a small business as one that is independently owned and operated, and meets employment standards developed by the agency. These standards are as follows:

a) Manufacturing: Number of employees of up to 1500, depending on the industry.

b) Retailing: Small, if annual sales or receipts range from 2 million to 7.5 million dollars.

c) Wholesaling: Small, if yearly sales range from 9.5 to 22 million dollars.

d) Services: Annual receipts ranging from 2 million to 8 million dollars.

Thus in general, the specific characteristics/criteria used in describing small scale business are:

1. The number of people/persons employed. It is usually a small business, because small numbers of people are employed.
2. Annual Business Turnover: Because initial capital is low, then annual turnover will also be low.
3. Local operations: For most small firms, the area of operation is local. The employee lives in the community in which the business is located.
4. The sales volume is minimal
5. Financial strength is relatively minimal
6. Managers are independent, and they are responsible only to themselves or to the owners.
7. The managers are also the owners.

8. The owners of the business actually participate in all aspects of the management (i.e the management of the enterprise is personalized).
9. They have a relatively small market when compared to their industries.
10. The numbers of employees are relatively small, when compared to the biggest companies in a similar venture.
11. The capital is mainly supplied by an individual or small group of individuals/persons or shareholders.
12. They usually have one, but many have several shop locations all in the same city or metropolitan areas. (Ayozie, et-al; 2013).

From the definitions given above on small and medium scale enterprises, it is clear that the sector is highly distinguished, these are in the area of ease of entrance, large informal activities, farm ownership enterprises, reliance on indigenous resources and small scale of operations; labour intensive, adaption technology, skills acquired outside the formal school system, and unregulated and uncompetitive markets (International Labour Organization, 1975 in Egbide, et-al, 2013) It is also notified, going by the various definitions that, SMEs covers a wide range of activities established for economic purposes. These include: Hotels, Drinking Bar, Carpentry shops, medical stores, shoe making, fabricating industries, etc. could be said to be under the small and medium scale enterprises. To this end, the study therefore defines small and medium scale enterprises as a personalized and small business venture carried out within the local area within which they depend or source for capital, for production.

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