The role of smes on economic development

SME’s has an important role in the development of an economic of a country (both developing and developed countries). They bring lots of benefits like employment generation, exports, foreign currency, investment, income and wealth distribution. These benefits lead to an economics growth of a country and many countries has been encouraging the setting up of small and medium business.

Organization like World Bank Group approved more than $ 1. 5 billion to SME support program in 2002 as it is believed that SME play and contribute to future expansion of an economy.

SME” s is one of the most important economic pillars in Mauritius. The main role of SME’s in Mauritius is to create jobs so as to reduce unemployment rate. Not to forget that in early 1980’s, when there was economics recession in Mauritius result in big unemployment rate, it was specified that SME’s could create 10% of jobs. As this was proof of the importance of SME’s The Government of Mauritius have come and provide new facilities and help to these companies by making availability of finance at low interest rate and taxes lowered on export , machinery and parts also. A special organization has been found by the Government called SMEDA to assist the small and medium firm to grow and establish them self. Most of the SME’s generate fund internally or by taking loans. SME’s use a combination of long term sources of finance which is called capital structure.

Financial instrument SME’s usually use;

Micro Credit

Government loans and grants

Leasing

Loans from financial firms

Personal savings

There are some internal and external factor that affect small, micro and medium firm , namely:

Competition from bigger firm.

Financial resource constraint.

Access to research and development tool.

Assistance for new ideas and creativity.

Liability issues.

Fluctuation in the economy.

Difficult to obtain significant market share.

Government law and policy.

“ Narain, 2004”: SME’s are born out of individual initiatives and skills, offer low cost product, production flexibility and can adopt new technology and innovate and export, have high employment orientation, utilize locally available human and material resources and reduce regional imbalances.

SME distinction:

Autonomous firm(either a proprietor, partnership or linked enterprise)

Partner firm(which does not cause problem in ownership and decision making)

Linked firm (has a small share in the firm and few authority)

Micro firm

Definition:

Micro firms form part of small firm and are often unregistered. They usually single owner and have no employees and are generally young.

Micro firm produce and distribute goods in unregulated but competitive markets. These firms are usually independent, largely family owned, employ low level of skills and use low and affordable technology and are highly labor intensive.

Micro firm provide income and employment to a reasonable proportion of people in a country by producing goods and services for the population

Small firm

Definition:

Small firm are usually a business that is privately owned (corporations, partnership or sole proprietor) and have a low volume of sales.

One of the most used definition of small firms: “ one with a relatively small share of market, one that is managed by its owners in a personalized and independent way, i. e. free from outside control in decision making.

[Stanworth (1991)].

These small firms are not usually dominant in the market and are not a big threat to large and quoted firms

Medium firm

Definition:

Medium firm are normally engaged in industrial and more complex activities that small and micro firms and are registered companies. They usually import and export goods.

Small, Micro and Medium firm can begin or commerce activities on a low budget and can be managed easily on a full time or part time basis. Decisions are take freely and there is no interference in the work done.

Demarcate between Micro, Small and Medium firm.

According to OECD, Small and Medium firm are usually defines according to the number of employee, capital, asset, sales volume and production ability to produce adequate goods. The differentiation criterion varies from country to country like the employment criterion which is usually used to demarcate hem, for example a country may limit medium employee to 300 when others may limit it to 200 employees.

As per SMEDA Act, it definition include all Enterprise in the economic sector and they use turnover criterion to demarcate them.

Medium firm are define separately from small firm as they have different needs and objective. They usually are more sophisticate firms and well technology averse while small firm are usually in a developmental state.

Normally there are three criteria to differentiate Micro, Small and Medium firms from each other:

Staff headcount

Annual turnover

Annual Balance Sheet

Comparing these 3 criteria allow you to determined the type of the firm, i. e. Micro, Small or Medium.

Staff headcount.

The number of employee is an important factor to determine in which category SME the firm falls. It include full time, part time and seasonal employee.

The employees head count is expressed in annual work unit. Full time staff is count as 1unit whereas part time and seasonal worker are count as a fraction of 1 full time worker.

Annual turnover and Balance sheet.

The annual turnover is determined by calculating the income of the firm during its financial year after all debt has been paid.

Turnover should not include VAT or any indirect taxes and the Balance sheet should refer to the value of the form main assets

You are autonomous when no other people have participation in ur firm or you in other firm.

Classification of SME:

Mauritius

Micro firm Small Firm Medium

Turnover N. A Balance Sheet N. A < Rs 10 million < Rs 50 million

Employees N. A 0-10 0-250

Europe

Micro firm Small firm Medium

Turnover < 2 million <10 million <50 million

Balance Sheet <2 million <43 million <50million

Employees 0-10 10-50 50-250

To qualify as an SME, both staff and ownership criteria must be satisfied, and either the turnover or the balance sheet criteria, i. e any of these two criteria must be meet in order to qualify.