

# HETEROGENEITY IN THE DEFINITIONS AND CONCEPTS OF MSEs AND ITS ECONOMIC ROLE: A REVIEW OF LITERATURE

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**ABSTRACT**

*In most developing countries where poverty and unemployment are severe, and capital is scarce, development strategies seek on developing sound and appropriate SMEs development. To achieve this vision, nations issue national SMEs development strategies. Among the SMEs strategies, defining SMEs explicitly is crucial for support despite the definitions are heterogenous among different countries and within industry. Therefore, the objective of this review of literature was to assess the different concepts and definitions given to SMEs and its role in employment generation, and stimulating growth across selected Asian and African countries. The reviewed literature suggests that there are no uniform definitions of SMEs including the thresholds set for the criteria to define. SMEs contribute 33% Gross Domestic Product and 45% of total employment in developing countries. Hence the economic role of SMEs should not be underestimated. Thus, a holistic and comprehensive support to SMEs is required since it is an engine of economic growth in both developing countries. In addition, further study has to be conducted to devise a comprehensive and composite criterion in the definitions of SMEs that could be used uniformly across countries.*

**Keywords:** Employment, GDP, Heterogeneity, SMEs, Total asset, Turnover

**INTRODUCTION**

SMEs are a blood vessel in generating and supporting economic growth and equitable development around the globe. They are centres of employment for more labour, market base economic growth, combating poverty, and promoting democratization in developing countries (Anne, Gichuki, Njeru, & Tirimba, 2014). The role of SMEs to employment and Gross Domestic Product (GDP) varies across countries. In developing countries, for instance, they contribute below 10% of GDP whereas in the advanced countries their share is above 50 %. The SMEs offer about 45 % of total employment and 33% of GDP in developing countries (Amoah, 2018).

The concept of SME was introduced in 1940s to enhance the development process of the current advanced countries (Ufot, Reuben, & Michael, 2014). SMEs constitute 90% of businesses and employ 63% of the lobar force globally (Berisha & Pula, 2015). The concepts and definitions of SME's are generally developed from the national policies and programs of nations, the role SMEs play, and the agencies and

institutions authorized to develop SMEs. For example, a small enterprise in the developed country such as USA, Japan, Germany etc may be considered as medium or large in developing countries such as Nigeria, Ethiopia, Ghana, India.

In most developing countries, Micro and Small Enterprises (MSEs) are playing a significant role in the economy. Accordingly, most emerging countries have developed and implemented MSE development strategies so as to support the sector in-terms of generation of employment and for transformation of economies from agriculture to manufacturing sector. The strategies planned to accelerate MSE progress should be in line with enterprises definition as it helps to provide nonstop support of the sector. The supports delivered ought to confirm the recipients of MSE too. MSEs definitions and objectives are mostly articulated on the premises of a context that able to support MSE development autonomously. There are heterogeneities in the concepts and definitions of SMEs not only between developed and developing countries but also among emerging economies themselves based on the size and nature of their economies.

#### **OBJECTIVES OF THE STUDY**

The objective of this study was to examine the criteria used to define SMEs among and between some selected European Asian and African countries. In addition, the study also explores the roles of the SMEs in economic development and employment generation.

#### **METHODOLOGY**

This article is a review of existing literature based on published sources in the area of SMEs in some selected European, Asian and African countries in the context of the quantitative and qualitative cut-offs in SMEs definition. The definition of SMEs in these countries was examined with the intention of understanding its meaning and application in different sectors with in a country and differences across countries. The methodology adopted for this study was content analysis. The countries selected for this study were from Asian and African countries where the two continents are emerging and the majority of the economic sectors are dominated with agriculture and micro and small industries.

#### **DEFINITIONS AND CONCEPTS OF SMES**

The serious matter in SMEs literature is the terms used for the classification of businesses. One may view a large business as medium or small and others view small enterprises as medium or large. The definitions differ across business, institutions and countries because the concepts and definitions have been derived from the national development policies and programs of countries. Although referring to the same class of business, the definitions differ in the degree of involvement of these businesses in the

generic name. However, these concepts can be used interchangeably and can be understood if an author or an institution shows preference for any of them.

There is no universally accepted and specific definition of SMEs that may be used as a reference by all countries, statistical institutions and agencies, and researchers. The significance of SMEs definitions is unquestionable despite lack of generally accepted definition and lack of consistencies in the criteria's set. Defining SMEs in a clear and amenable manner is very important because it is useful in the preparation of statistics and the monitoring of the sector over time; it can be used as standard against other sectors, regions and economies; in helps to set thresholds for imposition of tax or other regulations; and identify sectors in order to provide government support (Berisha & Pula, 2015). Thus an attempt was done to assess the concepts, definitions and criteria used by some selected European, Asian, and African countries in order to examine whether there are variations among and between economies as follows:

#### **European Union Definitions of MSEs**

The SMEs definition given by European commission are used in policies, programs, states where there are no clear guidelines to the development of the sector. Determining whether or not a firm is an SME is not a simple task. Size isn't everything. Number of Employment, sales volume and balance sheet, access to additional resources, and type of ownership are the major factors that are considered in deciding whether or not an enterprise is an SME.

Market failures; in ability to access finance; lack of technical and management skills, labor market rigidities, and a limited information about international market and expansion are the fundamental challenges that SMEs are confronted with than large firms. Therefore, it is indispensable to classify which firms are SMEs and which are not in order to provide a compressive and independent support to SMES.

Before deciding which firm is SME and which are not, it is essential to define what an enterprise is. An enterprise is an entity involved in selling and buying of goods and services at a given market price regardless of its legal form. It is not the legal form that determines but the economic activity the enterprise is engaging. The next issue is to set the criteria's and thresholds. Staff headcount, annual turnover and annual balance sheet total are the criteria that need to be checked in defining SMEs while the thresholds in categorizing enterprises as micro if 10 and less persons are employed, and total revenue or annual capital less than 2 million EUR while Small enterprises are defined as those that employ fewer than 50 persons and total annual turnover or capital do not surpass 10 million EUR. On the other hand, Medium enterprises that employ fewer than 250 persons and either have annual capital not greater

than 43 million EUR or an annual revenue that is less than 50 million EUR. The third basic point that should be considered is to clearly identify the coverage of the set criteria. The number of employees is a required norm for determining whether a firm is an SME or not. The employment criteria include temporary and seasonal staff, full and part-time staff, owners or managers, and partners engaged in the enterprises' regular activity. The other criteria used in

SMEs definition of the European Commission is annual turnover which is the income that an enterprise received during the year from sale of goods and services after deducting any repayments. Fourth: How do I calculate these data? This step focuses on identification of data for assessment against the thresholds and the proportions and quantities to be considered (EU, 2015).

**Table 1: European union definitions of MSEs**

Enterprise Category	Employment	Annual Revenue	Annual Capital Total
Micro	<10	≤EUR2million (\$2.224million)	≤EUR2 million (\$2.224 million)
Small	<50	≤EUR10million (\$11.12 million)	≤EUR10million (\$11.12 million)
Medium	<250	≤EUR50million (\$55.60 million)	≤ EUR43 million (\$47.81 million)

Source: (EU, 2015)

**Definition of MSEs in some Selected Asian Countries**

**Japan’s definition of MSEs**

Capital and number of employees are the two basic criteria used in the Japanese definition of SMEs. SMEs in Japan are also categorized as micro in one

group, and Small and Medium enterprises in another group based on their sizes. Similarly, it can also be classified in to four based on the nature of industry as Manufacturing; Services; Wholesale; Retail. Agricultural industry is not legally included in the SME definition.

**Table 2: Definitions of Japan’s MSEs**

Sector	Small & Medium Enterprises		Micro
	Capital	No. of Employees	No. of Employees
Manufacturing	≤300million JYY (\$2,730,000)	≤300	≤20
Wholesale	≤100million JYY(\$910,00)	≤100	≤5
Services	≤50million JYY (\$455,00)	≤100	≤5
Retail	≤50million JYY(\$455,000)	≤50	≤5

Source: (Uchikawa, 2009)

**Definition of SMEs in China**

The type of industry and the number of employees,

total annual revenue, and total assets are the criteria used in the SME definition of China.

**Table 3: Definition of SMEs in China**

Size Category	Industries	Employment	Total Asset	Annual Revenue
Small	Industry	<300	<¥40 million (\$5.8 mllion)	<¥30 million (\$4.35 million)
	Construction	<600	<¥40 million (\$5.8 million)	<¥30 million (\$4.35 million)
	Wholesale	<100		<¥30 million (\$4.35 million)
	Retail	<100		<¥10 million (\$1.45 million)
	Transport	<500		<¥30 million (\$4.35 million)
	Post	<400		<¥30 million (\$4.35 million)
	Hotel & restaurant	<400		<¥30 million (4.35\$)

Medium	Industry	300-2000	<¥40million-400million (5.8\$-58\$)	<¥30million-300 million (\$4.35-\$43.5) million
	Construction	600-3000	<¥40million-400 million (\$5.8-\$58) million	<¥30million-300 million (\$4.35-\$43.5) million
	Wholesale	100-200		<¥30million-300 million (\$4.35-\$43.5) million
	Retail	100-500		<¥10million-150Million (\$1.45-\$21.75) million
	Transport	500-3000		<¥30million-300 million (\$4.35-\$43.5) million
	Post	400-1000		<¥30million-300 million (\$4.35-\$43.5) million
	Hotel & restaurant	400-800		<¥30million-150 million (\$4.35-\$21.75) million

Source: China’s SME promotion law (2003)

An industrial SME in China employees up to 2,000 workers while a medium industry employee from 301 to 2,000 workers; and a small business has less than 300 workers. However, an enterprise which is small in china may be categorized as large in other countries (Bloem & College, 2012)

**Definition of SMEs in India**

India used the nature of industries to classify SMEs as manufacturing and service sector. The thresholds excluded the cost of land, building and other specified items (Das, 2017).

**Table 4: Definition of MSEs in India**

Enterprises	Micro	Small	Medium	Remarks
Manufacturing	≤Rs.25lakh	(Rs.25lakh-Rs.5crore]	(Rs.5crore-Rs.10crore]	Investment in plant & machinery
Service	≤Rs.10lakh	(Rs.10lakh-Rs.2crore]	(Rs.2crore-Rs.5crore]	Investment in equipment

Source: (Das, 2017)

The employment criterion was not included in the India’s definition of MSEs due to three reasons. First, employment is seasonal, second, enterprises may be incentivized to fix employment to remain with in SMEs so as to benefit from the government support, thirdly, another reason for dipping this standard is the possible discrimination between labor intensive and techno sophistication (Kersten, Harms, Liket, & Maas, 2017; Saini, 2014)

The Indian definition does not take into account annual turnover or variable costs because an enterprise will remain in micro level if it needs

despite the fact that it initially invested 20 lakhs but had a turnover of 20 crore and increased the number of people it employed by 50%. Therefore, micro, small and medium enterprises are generally defined according to investment ceiling for Plant, Machinery or Equipment (Saini, 2014)

**Definition of SMEs in Thailand**

Thailand definition of SMEs based on industry (manufacturing, wholesale, retailing and service) sector and as small and medium enterprise only. Micro enterprises are omitted from the definition.

**Table 5: Definition of SMEs in Thailand**

Industry	Small		Medium	
	Employment	Asset	Employment	Asset
Manufacturing	≤50	≤50 million bahts (1.65\$)	51-200	50 million – 200 million bahts (1.65\$-6.6\$)
Wholesale	≤25	≤50 million bahts (1.65\$)	26-200	50 million – 100 million bahts (1.65\$-3.3\$)
Retailing	≤15	≤30 million bahts (1\$million)	16-150	30 million – 60 million bahts (1\$-\$1.98) mill
Service	≤50	≤50 million bahts (\$1.65million)	51-200	50 million – 200 million baht (\$1.65-\$6.6) million

Source: OSMEP, 2007

**SMEs Definition in Philippines**

Enterprises in the Philippines are defined as micro, small and medium based on asset and employment size regardless of business ownership.

**Table 6: SMEs Definition in Philippines**

Type of Enterprise	No. of Employees	Asset Size
Micro Enterprise	1-9	≤ P3,000,000 (\$59,520)
Small Enterprise	10-99	P3,000,001to P15,000,000 (\$59,521to \$297,600)
Medium Enterprise	100-199	P15,000,001 to P100,000,000 (\$297,601 to \$1,984,000)

Source: Senate Economic Planning Office, 2012

**Definition of SMEs in Taiwan**

Taiwan’s definition of SMEs is based on size of employment, operating revenue and paid up capital

**Table 7: Definition of SMEs in Taiwan**

Industry/Sector	Employment Size	Operating Revenue	Paid up Capital
Manufacturing, construction, Mining and quarrying	Less than 200	<NT\$100 million (\$3.347)	<NT\$80 million (\$2.67)
Commerce, transport & other services	Less than 50		

Source: Harvie, 2003

**Definition of MSEs in some Selected African Countries**

**Definition of SMEs in Ghana**

In Ghana, Micro business enterprises are those their size of employment is up to five workers and have an assets not greater than \$10,000 excluding land, buildings and vehicles (Minilek & Chinnan, 2012) while small enterprises as those which have 6-29 workers or have assets not above \$100,000 excluding land and buildings (Kwamikorkor & Yeboah, 2016). There is no generally accepted SMEs definition. The classification of enterprises into small and large scale is an individual decision (Oppong, Owiredu, & Churchill, 2014, Egbuogu 2003 as cited by Oppong et al., 2014). Number of workers, strength of finance, volume of sales, relative size of enterprise, initial capital investment and nature or type of industry are the most widely used criteria to define SMEs. Enterprises that employ between 30 – 99 workers are categorized as medium enterprise in Ghana while those which employ more than 100 people are large enterprises (Oppong et al., 2014).

**Definition of SMEs in Tanzania**

In Tanzania those enterprises which employ up to 4 people including members of family or have a capital up to 5 million Tshs are defined as micro enterprises while Small enterprises are those that employ workers between 5 and 49 or have an investment capital between Tshs 5 million to Tshs 200 million. Enterprises that employ workers between 50 and 99 or have an investment capital between Tshs 200 million to Tshs 800 million are defined as medium enterprises in Tanzania (Kessy & Temu, 2010).

**Table 8: Tanzania’s SMEs Definition**

Enterprise	Employment Size	Capital Investment in Machinery (Tshs)
Micro	1-4	Up to 5 million (\$2,170)
Small	5-49	Above 5 million-200 million (\$2170-\$86,800)
Medium	50-99	Above 200 million-800 million (\$86800-\$347200)
Large	100+	Above 800 million (\$347,200)

Source: URT, 2002

**Definition of SMEs in South Africa**

South Africa uses employment; turnover and balance sheet to categorize enterprises as small and medium. In classifying enterprises as small and medium, south

Africa uses employment, turnover and balance sheet as criteria. Thus, small enterprises are defined those which have less than 50 workers and with a turnover and balance sheet of Maximum R13million and Maximum R5million respectively while medium enterprises are those that can employ 51-200 labor and have a turnover and balance sheet of Maximum R51million, and Maximum R19million respectively as shown in table-9

**Table 9: Definition of SMEs in South Africa**

Enterprise	Employment Size	Turnover	Balance Sheet
Small	1-49	Maximum R13million (\$897,000)	Maximum R5million (\$345,000)
Medium	51-200	Maximum R51million (\$3,519,000)	Maximum R19million (\$1,311,000)

**Definition of SMEs in Kenya**

SMEs definition in Kenya is in accordance with size of employment of the business. Accordingly, an enterprise is said to be micro if it has less than 10 workers, small enterprise which employ between 11-50 people, and if an enterprise employees more than 50 people, it is classified as medium/large enterprise. Thus, MSEs are those enterprises that employed 1-50 workers in farm and non-farm activities. Farm holdings are not included in this definition except those engaging some sort of value addition before marketing (Muturi, 2015).

**Definition of SMEs in Uganda**

Uganda is in the process of designing an inclusive policy for Micro, Small and Medium Enterprises (MSME) with support from the Commonwealth Secretariat. In the draft report on the Uganda MSMEs policy and strategy released by the Commonwealth secretariat the following definition of MSMEs has been recommended. MSMEs policy and strategy released by the Commonwealth secretariat the following definition of MSMEs has been suggested the following definitions: A Micro enterprise is defined as an enterprise employing at most 4 workers and annual sales/revenue turnover of at most 12 million Ugandan Shillings (US\$ 7,272) and total assets of at most 12 million Ugandan Shillings (US\$ 7,272) while Small Enterprises are those employing no more than 50 workers and have maximum 360 million Ugandan Shillings (US\$ 218,181) of annual

Sales or turnover/total assets. An Enterprise is defined as medium if its employees more than 50 workers; annual Sales/revenue turnover/total assets of greater than 360 million Ugandan Shillings (US\$ 218,181) (Lubwama, 2008).

**Definition of SMEs in Ethiopia**

The definitions of MSEs in Ethiopia are based on nature of the sector the enterprise engages, the level of employment and total asset as indicated in the table 10.

**Table 10: MSME Definitions in Ethiopia**

Level of Enterprise	Sector	Head Count Staff	Total Asset ETB	Total Asset USD
Micro enterprise	Industry	≤5	≤100,000	≤4,630
	Service	≤5	≤50,000	≤2,310
Small enterprise	Industry	6-30	101,000-1,500,000	4,630-69,500
	Service	6-30	50001-500,000	2,310=23,150

Source: (FeMSEDA, 2011)

Medium enterprises are not clearly defined in the national MSE Development Strategy. However, ADA asbl and First Consult PLC defined Medium Enterprises in Ethiopia in service and industry sector as those who have 31-100 employees and a total asset from 500,001 to 7,500,000 Ethiopian Birr.

**Definition of SMEs in Rwanda**

Enterprises are classified as micro, small, medium, and large in Rwanda on the basis of net capital investment, annual Turnover, and employment criteria. Cooperatives which are registered legally may also benefit from the support policy as far as they are under SMEs (Ministry of Trade and Industry, 2010)

**Table 11: Definition of SMEs in Rwanda**

Enterprises	Capital Investment (Million RwF)	Annual Turnover (Million RwF)	Employment
Micro Enterprises		Less than 0.3 (317\$)	1 to 3
Small Enterprises	Less than 0.5 (\$528.45)	0.3 to 12 (\$317-\$12682.8)	4 to 30
Medium Enterprises	15 to 75 (& 15853.5-79267.5)	12 to 50 (\$12682.5-\$52845)	31 to 100
Large Enterprises	More than 75 (\$79267.5)	More than 50 (\$52845)	More than 100

Source: Ministry of Trade and Industry, 2010

Table 12 reveals that the definition used by some of African and Asian countries reviewed in the literature uses different parameters in their definition of SMEs. All African countries in the literature reviewed used size of employment as a criterion to define SMEs which implies that their national SMEs policy and strategy centers about creating job opportunities and thereby reducing unemployment. Countries like china, Thailand, Uganda, and south Africa do not incorporate micro enterprises in their SMEs definition while others have clear micro, small and medium enterprises definition. Taiwan’s SMEs definition is totally based on business sectors that is there is no categorization of firms as micro, small and medium enterprises in Taiwan. The capital thresholds used in the SMEs definitions of different countries in the literature reviewed are quite heterogenous. Thus, developing countries use some common criteria’s in their definition of SMEs such as employment size, turnover, and asset despite the thresholds differ across countries.

**Table 12: Summary of Definitions of SMEs by Country**

Asia	No. Employees	Turnover	Asset	Investment / Capital	Industry	Micro, Small and Medium Enterprises are clearly identified by the Definition
Japan	X			X	X	Distinction between Micro and small medium enterprises but not between small and medium enterprises
China	X	X	X	X	X	No micro in the definition but there is clear division between Small& Medium enterprises
India				X	X	X
Thailand	X		X		X	Micro enterprises not included
Philippines	X		X			X
Taiwan	X	X		X	X	No clear distinction
Ghana	X		X			X
Tanzania	X			X		X
South Africa	X	X	X			No micro enterprise
Kenya	X				X	
Uganda	X	X	X			X
Ethiopia	X		X		X	No medium enterprise
Rwanda	X	X		X		X

Source: Own computation from review, 2019

### Gaps Identified and Lessons from the Literature

Developing and executing a generally accepted, multidimensional definition of SMEs is very challenging and technical. The concepts and definitions of MSEs differ between countries based on size and scope of the nation's economy and/between multilateral institutions such as the World Bank and United Nations Development Program. However, it is imperative to have standardized definitions of SMEs that can be applied to all economies and institutions in order to compare economies across the world, to devise strategies that need government support, and to enable the sector to play its fair share in the development process of nations. Thus, the reviewed literatures were critically examined based on the criteria that statistical agencies, institutions, countries used to define SMEs. All economies used quantitative criteria to define SMEs. These criteria are size of labor force (employment), annual sales revenue, total assets, industry.

#### Number of employees

From the literatures reviewed, all countries except India used number of employees as a criterion to define SMEs. The criterion is used because of the intention that MSEs should create jobs to unemployed particularly in emerging economies where reducing unemployment is national agenda. This criterion is stronger than others since it is an objective measure. However, it has limitations. A simple measurement of size of workers within an enterprise does not indicate productivity of the labor force employed. SMEs employ more labor as far as the marginal benefit is greater than the marginal cost of hiring additional labor. For instance, the employment criterion set by Rwanda for micro enterprise is 1 to 3 workers and for small enterprise 4 to 30 workers while for South Africa, there is no micro enterprise in the national definitions but the number of workers required for small enterprises is 1 to 49. Similarly, there is no micro enterprises in China's SMEs definition indicates. Small industry enterprises employ up to 300 workers while small construction enterprises hire less than 600 workers in China. In addition, medium industries can hire from 300 to 2000 workers while medium construction enterprises employ from 600 to 3000 workers in China. This indicates that even if countries use level of employment to define SMEs, they differ significantly in the thresholds set for micro, small and medium enterprise. Despite difficult to estimate the efficiency of labor, all nations did not consider the productivity of labor in the definition of SMEs. Thus, from the literature it is identified that no country used the efficiency of labor to define SMEs. Thus, further research shall be conducted to incorporate labor efficiency in addition with other criteria to define SMEs.

#### Total assets

The majority of countries in this study used total asset as a criterion to categorize and define SMEs. However, using assets as a measuring index for defining SMEs has some difficulties. For instance, the definition of asset itself is not commonly and uniformly understood. Second, inflation may result in understatement of the actual value of an enterprise asset. Most SMEs do not report the actual asset size for tax purposes.

#### Annual turn over

Countries such as South Africa, Uganda, China, Rwanda and Taiwan used annual turn over of enterprise to categorize SMEs. This criterion may be the best and accurate measure relative to employment and total asset in defining and measuring the growth of SMEs. If SMEs report their actual turnover, this method can show the performance of the enterprise. The transformation of enterprises from micro to small, from small to medium and from medium to large can apparently and objectively be measured using this criterion. Thus, this criterion can be used not only for categorizing enterprise into micro, small and medium but also to evaluate the graduation process of enterprises from one level to another.

#### Capital investment

From table 12 it was witnessed that countries like Rwanda, Tanzania, Japan, China, India and Taiwan used investment capital as one of the benchmarking criteria to define and categorize enterprises as micro, small and medium. This criterion perhaps has its own limitations. First, the enterprises may not disclose their actual capital investment for tax and related reasons. Second, the investment capital may depend on the cost of capital and labor in the production process. If capital is scarce relative to labor, the enterprise may spend much of its investment capital for purchasing machineries. Enterprise that do have large capital investment may not be necessarily regarded as large or medium enterprise. It depends on the efficiency of capital.

Generally, the criteria used to categorize enterprises as micro, small and medium was not uniform not only across countries and international institutions but it was also different and not standardized for objective and accurate comparison and measurement of SMEs.

#### SMEs Role in Employment Creation and Economic Growth

Small firms create more than 50% of employment opportunities with fewer than 100 employees in developing countries, provide two thirds of jobs in all countries and consisting of over 90% of the private sector among developing countries. In addition to their significant contribution to employment creation, the vitality of SMEs is important for comprehensive,

innovation, diversification and economic growth (Kwaku Amoah, 2018).

The welfare, standard of living, income levels and social stability of people across the world can be improved by the employments opportunities created by the SMEs (Kwaku Amoah, 2018). The SMEs are accredited with generating huge employment and takes the greatest share of manufactured goods and exports (Katua, 2014).

The economic role of SMEs should not be undervalued. The sector has been given due attention by governments, policy makers, research scholars, academicians, and multilateral companies because of the fact that SMEs utilize local raw materials, provide employment opportunity, stimulates rural and urban development, promotes entrepreneurship, uses optimum capital, provides inputs to large industries, act center of skill and knowledge development (Taiwo, Ayodeji, & Yusuf, 2013). Thus, SMEs are highly acknowledged in catalyzing economic development, create employment opportunities and becomes center of innovation and invention in both developing and developed countries even if the role they played differs from country to country.

The role of SMEs to employment and Gross Domestic Product (GDP) varies between countries. SMEs constitute less than 10% of GDP in emerging countries while more than 50% of GDP in developed countries. In developing countries. SMEs contribute 33% Gross Domestic Product and 45% of total employment (R.Kumar, 2017).

SMEs share common features and encounter similar challenges but differ in terms of their role in the economy globally (Ayandibu & Houghton, 2017). SMEs augment competition and enhances the efficiency of the economy (Migiro, 2005). SMEs are the dominant sectors in the economy in terms of employment and number of businesses, however, they are not optimally utilized (Sawaya, 2017). This underutilization of the sector is due to a number of reasons such as legal, institutional, socio-cultural. It is this heterogeneity which make the contribution of SMEs in employment creation and economic growth different across nations.

## CONCLUSION

It is apparent that SMEs are blood vessels of developing countries in creating employment opportunities and stimulating economic growth. The concepts and definitions of SMEs are quite different in content and size let alone in developing countries but also in advanced ones. There is no universally accepted definition of SMEs. Developing countries used some common criteria's in their definition of SMEs such as employment size, turnover, and asset despite the thresholds differ. From the quantitative criteria used by countries to define SMEs, annual turnover perhaps the better since it shows the trends, performances and graduating progress of SMEs from

one level to another. However, there is no single criteria used by countries to define SMEs except India that uses capital. In addition, countries did not use the efficiency of capital and workers while using in defining SMEs in their national strategy. Some countries such as India and Kenya used single criteria to define SMEs. This seems not sufficient to accurately measure the nature and size of firms. Thus, a combination of criteria is required.

The economic role of SMEs should not be undervalued. Small firms create more than 50% of employment opportunities with fewer than 100 employees in developing countries, provide two thirds of jobs in all countries and consisting of over 90% of the private sector among developing countries. The role played by SMEs to employment generation and contribution to Gross Domestic Product (GDP) differs across countries. SMEs constitute less than 10% of GDP in emerging countries while more than 50% of GDP in developed countries. In developing countries. SMEs contribute 33% Gross Domestic Product and 45% of total employment. Supporting SMEs by formulating sound SMEs development strategy is crucial so as to achieve the socio-economic targets set in respective countries and policy makers, governments, multinational companies, research scholars should strive to design standardized definitions of SMEs across countries since the sector is an engine to growth.

## FUTURE RESEARCH DIRECTIONS

SMEs play vital role in catalyzing the development process of both developed and developing countries. However, the sector faced many obstacles such as funding, market linkage, technology, working premises, clear definition of SMEs in the national polices, and no generally accepted standardized definition of SMEs. Thus, a comprehensive study shall be conducted for narrowing down the heterogeneity in the definitions of SMEs at least for countries that have similar economic status. In addition, further research needs to incorporate the efficiency of labor and capital in the working definitions of SMEs by countries because the current definition employed only the number of workers, capital investment, annual turnover and total assets. Thus, additional study is required to develop a composite criteria or index in categorizing and measuring the size and performance of SMEs across and within countries.

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