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THE CONTRIBUTIONS OF SMALL SCALE ENTERPRISES TO THE ECONOMIC GROWTH OF NIGERIA

GODDY OSA IGBAEKEMEN (PhD)
Department of Sociology, Faculty of Social & Mgt. Sciences
Nigeria Police Academy, Wudil, Kano State
Email: drigbaekemengoddyosa@yahoo.com
Phone: +2348033380078, +2348059269778

Abstract

This study critically examined the contributions of small and medium scale enterprises to the economic growth of Nigeria and how SMEs can be promoted. Since SMEs are the backbone of the economy, it is essential to adequately promote and sustain their activities in order to enjoy a developed and stabilized economy. Concerning methodology, the researcher used both primary and secondary sources of data for the study. Primary source of data formed the basis for data analysis as questionnaires were issued to officials of Small and Medium Scale Development Agency of Nigeria (SMEDAN). Chi-square at a significance level of 0.05 was also used to test hypothesis developed for the study. Findings from the study revealed that in actual fact, SMEs contribute tremendously to the growth of the economy via increase in Gross Domestic Product (GDP). The production of goods and services, creation of jobs, innovation of newer products and revenue generation abilities of SMES have helped the economy of Nigeria since Nigeria gained her independence in 1960. The government should minimize tax burdens imposed on SMEs and provide adequate power supply to create enabling environment for SMEs to survive and be adequately promoted.

Keywords: Contributions, SMEs, Growth, Economy, Nigeria.

Introduction

The production of goods and services in the most efficient manner has continued to be the only viable and reliable option for development, growth and survival of any economy. SMEs have been fully recognized by government and development experts as the main engine of economic growth and a major factor by extension in promoting the realization of the financial systems strategy 2020. This is because the development of this sub-sector is an essential element in the growth strategy, not only in contributing to improved standard of living; they also bring substantial local capital formation and achieve high level of productivity and capacity.

From a planning stand point, SMEs are increasingly recognized as the principal catalysts for achieving equitable and sustainable industrial diversification and dispersal and in most countries SMEs account for well over half of the total share of employment, sales and value added (Udechukwu, 2003). This is not surprising because the industrial sector in Nigeria has no significant record of meaningful contribution to economic development since independence in 1960 because it has not experienced any notable growth, traceable to indigenous industrial entrepreneurship (Adewale, 2007). The Nigerian economy, since the

early seventies, has been dependent on oil products. As a result of the enormity of revenue generated from oil, very little attention has been paid to proper development of the industrial sector. The reason for the lackluster performance of the industrial sector is mostly associated with the poor attention paid to the promotion and development of the small and medium scale sub-sector, which is accepted worldwide to be the engine of economic growth and the basic foundation for the industrialization process of any nation that desires to experience solid development. This is more so because entrepreneurship development is a critical aspect of skills development and keystone for economic revival and growth.

Furthermore, the vital role of small and medium scale enterprise (SMEs) as the only authentic foundation for accelerated industrialization, growth and development, as witnessed in all the Newly Industrialized Countries of South East Asia, referred to as Asian Tigers, is recognized for its accelerative effect in achieving macro-economic objectives such as full employment, income distribution, development of local technology and 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.

Statement of the Problem

Several studies have identified financial constraint as the major obstacle to Small and Medium Scale Enterprises Development in developing countries including Nigeria. For instance, Adelaja (2003) argued that the access to institutional finance has always constituted a pandemic problem for SME development in Nigeria. He recalled that in the past, a number of schemes have been put in place to provide special credit lines/windows for SMEs but this achieved very limited impact The primary focus of this study emanates from the fact that small scale enterprises owners do not have sufficient finance to carry on their due to the low saving culture of the people in this part of the world. The reason for this is not far fetch: low level of income basically. While it is an established fact that Small and Medium Scale Enterprises face financial challenges, no research has been conducted to investigate the effect the financial problem on their contribution to economic development. Asaolu et al (2005) and many other authors and researchers have deduced that the financial challenges mar the developmental role of Small and Medium Scale Enterprises. But this may not be true especially in the case of Nigeria where the informal sector, which is constituted largely by the Small and Medium Scale Enterprises play a very important role in the development of the nation's economy. Therefore, this study seeks to evaluate the promotion of Small and Medium Scale Enterprises (SMEs) in Nigeria and their contribution to economic growth.

Objectives of the Study

The main purpose of this study is to identify and consequently analyze the most effective and efficient way through which Small and Medium Scale Enterprises could be financed and promoted.

In view of the above, the researcher intends to find out the following:
The role played by government towards promotion and development of Small and Medium scale Enterprises (SMEs).

1. To examine the contribution of Small and Medium scale Enterprises (SMEs) to the economy growth of Nigeria.

2. To identify the various challenges militating against the promotion of Small and Medium scale Enterprises (SMEs) in Nigeria.

3. To find suitable strategies that will improve the development, growth and survival of Small and Medium scale Enterprises (SMEs).

Research Questions

The study would examine the following questions:

1. What is the trend of financial support given to SMEs in Nigeria?
2. What impact do Small and Medium Scale Enterprises make to Nigeria's economic growth?
3. What contribution has the financial system made to the growth of SMEs in Nigeria?

Hypothesis of the Study

1. Ho: The activities of Small and Medium Scale enterprises have not contributed to the economic growth of Nigeria**.**

Hi: The activities of Small and Medium Scale Enterprises have contributed to the economic growth of Nigeria.

2. Ho: Small and Medium Scale Enterprises are not adequately promoted by the government of Nigeria.

Hi: Small and Medium Scale Enterprises are adequately promoted by the government.

3. Ho: SMEDAN officials have not effectively and efficiently promoted SMEs in Nigeria

Hi: SMEDAN officials have effectively and efficiently promoted SMEs in Nigeria.

Literature Review

In every economies small and medium scale enterprises has been seen has a pivotal instrument of economic growth and development either in developed or developing economies. Several studies have confirmed this. (Ogujiuba; et. al 2004, Onugu; 2005, Ihua; 2009) Data from the federal office of statistics in Nigeria affirmed this importance when it reveal that about 97percent of the entire enterprises in the country are SMEs and they employed an average of 50% of the working population as well as contributing to50 percent of the country industrial output. As Ariyo (1999) and Ihua (2009) averred, SMEs in Nigeria are not only catalyst of economic growth and development, but are also the bedrock of the nation.

Although small business activities had existed since the period of independence in Nigeria, however, conscious effort on small and medium scale enterprise as instrument of economic and national development started in 1970-1979 when Nigeria adopted the policy of indigenization through its national development plan programme. The development plan articulated the need for the Nigerian economy to be self reliant though industrialization, entrepreneurial development employment generation and development through increasing export trade.

(NDP, 1970)The federal government singled out small and medium scale enterprises as the key area of intervention. This was premised on the government desire of giving support to small scale industries in the country as a measure of meeting up with its commitment to the development plan and the indigenization policy. The intention was that it would be a reaction against the dominance of the economy by the international capitalist entrepreneur and on the account that revitalizing small and medium scale enterprise would enhance the capacity of the indigenous capitalist class, as a potential player in economic growth and national development. The federal government singled out small and medium scale enterprises as the key area of intervention. This was premised on the government desire of giving support to small scale industries in the country as a measure of meeting up with its commitment to the development plan and the indigenization policy. The intention was that it would be a reaction against the dominance of the economy by the international capitalist entrepreneur and on the account that revitalizing small and medium scale enterprise would enhance the capacity of the indigenous capitalist class, as a potential player in economic growth and national development. In its intervention effort, government promulgates different regulation for the basis of protecting the small scale industries. Some of the regulations include Nigeria Enterprises Promotion No. 3 of 1977, Patent Right and Design Act No 60 of 1979 Custom Duties (dumped and subsided goods Act No. 9 of 1959, Industrial Promotions act No. 40 of 1979, Industrial development Tax Act No. 2 of 1971among others (Alawe, 2004). Apart from the promulgated act government supported SMEs through favorable investment policies, institutional and fiscal policies, protective business law and financial incentives to encourage the national development and indigenization policy which small and medium scale are very central to. Several micro lending institutions were established to enhance the capacity and development of small and medium scale enterprises. Such microcredit institutions include Nigeria Bank for commerce and industry (NBCI) National Economic Reconstruction Funds (NERF) People`s Bank of Nigeria(PBN) Community Bank (CB) National Export and Import Bank (NEIB) and the liberalization of the banking sector to enhance the banking institutions for effective participation in the growth and capacity building of small and medium scale enterprises. (Ogujiuba; *et al* 2004)

Government also established Raw Materials and Research Development Council (RMRDC) of finance and research institutions in 2001, the research report of this institution is useful to SMEs and business organization in their product choice decision, product development delivery strategies to increase SMEs business effectiveness and efficiency. To complement this effort, government also created some polytechnics and university to provide manpower scheme and also set up some manpower training institutions. Such as Centre for Management Studies, (CMD) Administrative Staff College of Nigeria (ASCON) Industrial Training Institute (ITI) etc. (Ogechukwu, 2006) A number of recommendations and findings of these institutes and centre were geared towards developing small and medium scale enterprises In addition to this, the government through the bankers' forum at the initiative of CBN as an interventionist strategy also established small and medium industry equity investment scheme (SMIEIS) in 2001. This scheme requires bank to set aside 10 percent of their profit before tax to fund SME in an equity participation framework. In 2002, government further intervened to enhance the capacity of SMEs through direct policy as consisting of direct investment and the establishment of more SMEs, promotion institution agencies (technological development institutions, credit lending institutions, technical and management institutions and the provisioning of infrastructures such as industrial estate,

nationalization of foreign firms and provision of incentives and subsidies for the promotion of small and medium scale companies (Alawe 2004). The establishment of anti-corruption bodies such as Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practices Commission (ICPC), investment in power generation, road maintenance and construction and pension funds were addition effort geared towards improving the SMEs sector.

The federal government must have small business policy at the top of its agenda; it has to put concrete steps in place to ensure they are able to grow and prosper. In for instance one of the ways of doing this, will be set up a national small business (NSBO) along the line of the small business agency in the United State and Medium Business Services. The national small business office (NSBO) will be an independent body and will have overall responsibility nationwide for all policies and programme relating to small and medium business including micro business, will have its own budget, and will be closely monitored by and answerable to the National Assembly. The national small business office (NSBO) can be replicated at the state level. The state small and medium office will have responsibility for running national policies and programme set up by national small business office (NSBO) at the state level and will also be directly answerable to state Assemblies. The task which will be appropriate to national small business office (NSBO) will be the promotion of exporting activities amongst small businesses to make them more outward looking and more able to participate in the global market place. Another important way of developing small and medium scale enterprise is by establishment of a small Business Development Bank (SBDB) to concentrate solely on the funding to indigenous businesses. The small Business Development Bank (SBDB) will help to combat the problem of undercapitalization by providing the necessary cost effective and easily accessible funding for business. Moreover, it should not be the sole responsibility of government to provide financial assistance to business. The national small business office (NEBO) will then have to seriously took into how it can is largely practiced in both the U.S and U.K equity funding, or venture capitals as it is widely known, has been the secret behind the growth of silicon valley, and the mass number of fast growing high technology companies that abound in developed countries. With high number of billionaires originated from developing countries like Nigeria, the national small business office (NSBO) has to find a way of encouraging them to invest their wealth in small and medium enterprise, thereby helping them and the country to grow. Lastly, small and medium scale enterprises should from time to time organize training programme for their employees on how to use some modern equipment like computer and other machines to tenable them cope with the changing technology. Employees should equally times be granted study leaves by their employers; this will go along way producing skilled workers in small and medium enterprise.

Research Methodology

The research design used for this study was the descriptive research design. Since data characteristics were described using frequencies and percentages, and no manipulations of data or variables were necessary, the researcher chose this research design. The researcher discarded other alternatives such as the causal and explanatory research designs, because accurate findings and data analysis may not be achieved. Having gathered the data through the administration of questionnaire, the collected data will be coded, tabulated, and analyzed according to the research question and hypothesis.

In order to analyze the data collected effectively and efficiently for easy management and accuracy, the simple percentage method was the analytical tools used for this research project and a sample size of fifteen (15) will be represented by 100% for easy analysis of the responses. Also, Chi-square statistical analytical method will be used in the research work chi-square as a statistical technique is used in testing of hypothesis so as to predict what the relationship between two variables should be. It is used in drawing and reaching conclusion by collecting the observed values from the questionnaire administered to respondents, testing the degree of freedom and carrying out a decision in determining the critical value of the hypothesis. The formula being

$$X^2 = \frac{(F0-FE)^2}{FE}$$

Where O = Observed Frequency
E = Expected Frequency

The X^2 value obtained from the formula is compared with the value of tabulated X^2 for a given significance level and degree of freedom.

Hypothesis One
Ho: The activities of Small and Medium Scale enterprises have not contributed to the economic growth of Nigeria.

Hi: The activities of Small and Medium Scale Enterprises have contributed to the economic growth of Nigeria.

Question
In your opinion have the activities of SMEs contributed to the economic growth of Nigeria?

VARIABLES	0	E	0-E	$(0-E)^2$	$(0-E^2)/E$
STRONGLY AGREE	10	3	7	49	16.3
AGREE	4	3	1	1	0.3
UNDECIDED	1	3	-2	4	1.3
DISAGREE	0	3	-3	6	2
STRONGLY DISAGREE	0	3	-3	6	2
TOTAL	15				21.9

From the value, X^2C= 21.9, X^2T at 0.05 with df=4 is 9.49

Decision
Since the test statistics X^2C=21.9 is greater than the actual value X^2T = 9.49, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted which states that SMEs have contributed to the economic growth of Nigeria.

Hypothesis Two
Ho: Small and Medium Scale Enterprises are not adequately promoted by the government of Nigeria.

Hi: Small and Medium Scale Enterprises are adequately promoted by the government.

Question

In view of the numerous contributions of SMEs to the economic growth of Nigeria, have SMEs been adequately promoted by the government?

VARIABLES	0	E	0-E	$(0-E)^2$	$(0-E^2)/E$
STRONGLY AGREE	1	3	-2	4	1.3
AGREE	1	3	-2	4	1.3
UNDECIDED	2	3	-1	1	0.3
DISAGREE	6	3	3	9	3
STRONGLY DISAGREE	5	3	2	4	1.3
TOTAL	15				7.2

From the value, $X^2C = 7.2$, X^2T at 0.05 with df=4 is 9.49

Decision

Since the test statistics $X^2C=7.2$ is less than the actual value $X^2T = 9.49$, the alternate hypothesis (H_i) is rejected and the null hypothesis (H_o) is accepted which states that SMEs have not been adequately promoted by the government despite their contributions to the economic growth of Nigeria.

Hypothesis Three

Ho: SMEDAN officials have not effectively and efficiently promoted SMEs in Nigeria

Hi: SMEDAN officials have effectively and efficiently promoted SMEs in Nigeria.

Question

Considering your available logistics do you think your office have done its best in promoting SMEs in Nigeria?

VARIABLES	0	E	0-E	$(0-E)^2$	$(0-E^2)/E$
STRONGLY AGREE	3	3	0	0	0
AGREE	2	3	-1	1	0.3
UNDECIDED	1	3	-2	4	1.3
DISAGREE	4	3	1	1	0.3
STRONGLY DISAGREE	5	3	2	4	1.3
TOTAL	15				3.2

From the value, $X^2C = 3.2$, X^2T at 0.05 with df=4 is 9.49

Decision

Since the test statistics $X^2C=3.2$ is less than the actual value $X^2T = 9.49$, the alternate hypothesis (H_i) is rejected and the null hypothesis (H_o) is accepted which states that SMEDAN have not effectively and efficiently promoted small and medium scale businesses in Nigeria.

Conclusion

The study focused on identifying the various contributions small and medium scale enterprises have on the economic growth of Nigeria as well as suggesting promotional strategies that will benefit SMEs in Nigeria. The researcher developed various objectives that will guide her in achieving the aim of the researcher as well as tested various hypotheses with relation to the objectives and research questions of the study. Hypothesis tested with the chi-

square at a 0.05 significance level indicated that small and medium scale enterprises have a positive impact on the economic growth of Nigeria, but they are not adequately encouraged and promoted. All responses gotten were from issued questionnaires to the officials of Small and Medium Enterprises in Nigeria. After analyzing the major challenges small and medium enterprises face in Nigeria, the researcher found out that in-adequate business capital and financial grants from the government was a major problem, the researcher came up with the following recommendations to help small businesses access more business credit:

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