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## The Role of Small-Scale Businesses in the Economic Development of Nigeria

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### **Abstract:**

*This study is on the role of small and medium scale enterprises (SMEs) in the economic development of the country. The objective of the study is to determine the role of SMEs on the economic development of a country. The study has a sample size of 78. A total number of 110 questionnaires were distributed, out of which 78 were returned. Data was tabulated and analyzed before recommendations were made. Findings show that financial and government institutions have performed below expectations in terms of contributions to SMEs, thereby resulting in their poor contribution to the growth of the economy. The recommendations made are that: government should encourage infant industries by granting them tax holidays, government via the Central Bank of Nigeria, should prevail on commercial banks to review downwards interest rates and the Federal Government of Nigeria should as a matter of urgency strengthen and improve agencies such as National Poverty Eradication Program (NAPEP), National Directorate of Employment (NDE), etc. The study concludes that SMEs are the catalyst for any nation's economic growth. Government should therefore do more to uplift the standard of SMEs which will, in turn, contribute to the economic growth and development of the nation's overall development.*

**Keywords:** *small and medium scale enterprises, economic growth, national development*

### **1. Introduction**

A business, whether small or big, simple or complex, private or public, is established or created to provide goods or services for consumption. It is true that any country that wants to attain economic growth and development needs to start by encouraging small scale businesses.

Small and Medium Scale Enterprises (SMEs) constitute essential ingredients in the lubrication and development of any economy (Adoyi, Agu, Adoli & Inalegwu, 2015). SMEs have also been recognized as the main substance of national development because of their capacity in enhancing economic output and human welfare (Akingunola, 2011).

Enhanced human welfare, no doubt, has a direct correlation with the quality of goods and services produced by SMEs, and their performance growth is a major driver and indices for the level of industrialization, modernization, urbanization, and gainful and meaningful employment for all those who are able and willing to work. It also leads to equitable distribution of income, improves welfare, income per capita and quality of life of the citizenry (Aremu & Adeyemi, 2011). This is mainly because SMEs contribute to the growth and employment more than larger firms (Farouk & Saleh).

The importance of SMEs in the development of the economy, reduction in poverty, increase in employment, industrial output, innovation in technology and uplifting social status and standard is globally recognized and acknowledged in developing as well as developed economies. Therefore, Small and Medium Scale Enterprises have been acknowledged to have a prodigious potential for sustainable development (Eniola, 2014). This development is glaring in the United States of America.

In the United States of America, as at 2016, there were 28.8 million small businesses (compared to 18,500 large companies, which accounted for 99.7% of US businesses. During the year ending December 2016, Private-Sector employment increased by 1.7% as the United States employed over 57.9 million people. 23 million of these businesses are self-employed and home-based; showing that small businesses are the biggest employers of labor, job creators, and contributors to the national Gross Domestic Product (SBA Gov, 2016).

SMEs contribute about 70% to Ghana's GDP (Cook and Nixon, 2000). SMEs also account for about 85% of the country's manufacturing employment (Aryeetey, 2001).

Although SMEs are seen as veritable and viable engines of economic development, as they contribute to gainful employment and the GDP, the growth and development of this sector in Nigeria has been slow, and in some cases even stunted (Adoyi, 2015), a situation which cannot be overlooked. In the light of the above therefore, the major objective of this study is to find out if SMEs contribute in any way to the economic growth and development of any nation, as well as suggest ways of making them better where it is discovered that they face certain problems in the process of performing

their developmental roles. This study is quite vital and timely. If Nigeria must advance economically, the government should seriously consider the recommendations of this study for possible implementation.

## 2. Literature Review

In this section, the works of different authors will be reviewed as it concerns the role of Small and Medium Scale Enterprises in the development of the Nigerian economy.

### 2.1. National Development

National development can be described as the overall development or collective socio-economic, political as well as religious advancement of a country or nation. (Adoyietal, 2015). For economic development to be achieved there has to be conscious and strategic development planning by government. When this is achieved, the country's GDP will grow progressively. This is because a country's GDP is a function of economic activities in that country.

### 2.2. Definition of Small and Medium Scale Industry

The terms small scale business, small scale industries, small scale entrepreneurship are used interchangeably to mean one and the same thing in Nigeria and the world over. There seems to be no specific or universally accepted definition for small and medium scale Business. Different authors, scholars and schools of thought have different ideas about the concept in relation to capital outlay, number of employees, scale of turnover, capital investment, available plant and machinery, market shares and the level of development which equally vary from one country to other.

In the United States of America, the America Small Business Administration defines a small business as one that is independently owned and operated and is not dominate in its field and meets employment or sales standards developed by the agency.

In Nigeria,

- The Third National Development Plan defines a small-scale business as a manufacturing establishment employing less than ten people or whose investment in machinery and equipment does or exceed six hundred thousand naira (N600, 000.00) only.
- The Central Bank of Nigeria in its credit guideline classified small scale business as those businesses with an annual income/asset of less than half a million naira (N500, 000.00).
- The Federal Government Small Scale Industry Development Plan of 1980 defines a small-scale business in Nigeria as any manufacturing process or service industry with a capital not exceeding N150, 000.00 in manufacturing and equipment alone.
- The Small-Scale Industry Association of Nigeria (1973) defines small scale businesses as those having investment (i.e. capital, land, building and equipment) of up to N60, 000.00 (pre-SAP value) and employing not more than fifty (50) persons.
- The federal ministry of industries defines it as those enterprises that cost not more than N500, 000.00 (pre-SAP value, including working capital) to set up.
- The Centre for Management and Development (CMD) defines small scale industry in the policy proposal submitted to the Federal Government as manufacturing, processing or service industry involved in a factory or production types of operation employing up to 50 full/ time workers.

The Central Bank of Nigeria's brief, 2002-2003, defines a small scales and medium scale industry as any enterprise having a maximum asset based of N200 million, excluding land and working capital, with a staff of not less than 10 and not more than 300.

In whatever way it is defined, small and medium scale enterprises constitute the hub of industrial and other economic activities; the aggregate output of which significantly influences micro-economic indices for growth and, thus, the overall development of any society or nation.

### 2.3. Emergence of Small & Medium Scale Industries In Nigeria

In Nigeria, the evolution of small-scale industries dates back to the pre-colonial era. Thus, its orientation is part and parcel of the country. Evidence abounds all over our communities about what our great grand parents did in the areas of small-scale industries development. Even in the past, our communities and parents attained great successes in trading, iron-smelting, farming, cottage industries and like.

In Nigeria, successive government policies accorded and gave priority to the country's small-scale enterprises. Small scale businesses are believed to have constituted the fountain head of vitality for the revitalization of the economy. Therefore, their problems have been viewed as those of the nation by virtue of their number, diversity and penetration into all sectors of production and making great contributions to employment and the prosperity of the particular areas in which they operate.

In the real sense, small scale industries constitute a greater percentage of all registered businesses or companies in Nigeria. They have also been in existence for quite a long time and a majority of them developed from cottage industries and from small scale to medium and large-scale enterprises.

#### 2.4. *Government's Role in Promoting Small and Medium Scale Industries in Nigeria*

In Nigeria, there is a strong relationship between the government and small-scale businesses and even large-scale ones too; this relationship goes a long way in determining the existence, growth and development of those small-scale businesses.

According to Datong & Pwol (2003), the following are some of the ways in which the Federal Government of Nigeria has assisted in promoting Small and Medium Scale Enterprises in Nigeria:

- In 2001, the Federal Government of Nigeria set up the Bank of Industry Limited. This was one of the hallmarks of President Obasanjo's democratic government which merged the Nigerian Industrial Development Bank (NIDB) and the National Reconstruction Fund (NERFUND).
- The establishment of the Small and Medium Industries Equity Investment Scale (SMIESIS) on June 19<sup>th</sup> 2001. This is the bankers committee which requires banks to set aside 10% of their profit before tax for equity investment in small scale businesses. Its main focus is agro allied information technology and telecommunication, manufacturing, services, tourism, leisure and construction businesses.
- The provision of manpower training and development schemes such as the establishment of various institutions of learning like universities and polytechnics to provide skilled manpower for the small and medium scale entrepreneurs.
- The establishment of development and training centers like the Centre for Management and Development (CMD), Administrative Staff College of Nigeria (ASCON) and the Industrial Training Fund (I.T.F). The services and research findings of these institutes are mainly used by the small-scale businesses.
- The Federal Government, through the Central Bank, also established the Agricultural Credit Guarantee Scheme which guarantees small businesses to obtain financial facilities from commercial banks for investments.
- The establishment of Industrial Development Centers (IDCs) and the industrial development schemes which facilitate the industrialization process as well as the clustering of firms for planning and provision of facilities.
- According to Ayozie (2008), the Enterprises Promotion Decree of 1977 (as amended in 1987) has also contributed to the promotion of small-scale businesses through the following:
- Encouraging Nigerian indigenous participation in business through appropriate delineation of those areas that are exclusively reserved for Nigerians.
- Making it possible for Nigerian businesses to enjoy adequate control from foreign incursion as expertise and skills are abundant.
- The participation of foreign and indigenous investors has led to a beneficial dilution of business.
- Promoting the development and growth of businesses in Nigeria as most investors take advantage of the decree to re-launch their investments or business packages.

The Federal Government also provides infrastructural facilities that help in the growth of small-scale businesses.

These include:

- Provision of access roads.
- Increased improvement in communication facilities like telephone and postal services among others.
- Attempts in providing electricity and water expansion schemes to service industrial business sites.
- Construction of industrial layouts/estates.

#### 2.5. *The Contributions of Small and Medium Scale Industries to the Economic Development of Nigeria*

Where small and medium scale enterprises abound, they constitute the hub of industrial and other economic activities, the aggregate output of which significantly influence macro-economic indices for economic growth and development.

Essien and Obot (2008) state that small and medium scale enterprises are expected to play significant roles in the following areas:

- Creation of employment opportunities and hence check the real per capita income on a more sustainable basis.
- Facilitate technical skill acquisition and later provide the platform for various technical adaptation and innovation.
- The potential to generate foreign exchange will impact positively on the nation's balance of payment position, particularly where there is the urgent need to diversify the economy and position it for relevance in liberalization and globalization.

Ayozie (2008), while making reference in Shokan (1997), states that small scale industries have important contributions to make to the economic development of the country and outlines the following as some of the roles small scale industries can play in the economic development of Nigeria:

Employment: Youths, retired workers and out of school graduates are now gainfully employed, thereby reducing the unemployment rate and its attendant social vices of armed robbery and "white collar" crimes.

Small scale industries also produce new goods and service and supply the needs of large industries which must rely on the small businesses for their successes.

Small scale industries also promote the development of indigenous manpower as well as creating local participation in the manufacturing sector.

Small scale businesses also reduce the effects of polarization by a planned and systematic development of rural areas so that the much talked about rural-urban migration is reduced by the introduction of small-scale industries in the rural areas.

Other very noticeable impacts of small businesses are their contributions towards the development of indigenous entrepreneurship. Today in Nigeria, mention is made of indigenous entrepreneurs such as D. B Zang and Co., Dantata and sons. Dalibla enterprise, Tim-Tali, Dangote and sons, Tilly Gyado, Ekene Dili Chukwu, Plateau Express Services Limited, etc. Small scale businesses have also contributed in the mobilization of domestic savings and utilization of local resources.

They also serve as a base for the development of appropriate technology which provide veritable grounds for skilled, unskilled and semi-skilled man-power or labour as well as providing productive self-employment to a large number of educated and less educated youth who are out of schools/colleges, polytechnics, universities and so on. They also have assisted in improving the revenue base of the government as they pay various forms of taxes (Datong & Pwol, 2003. 11). Small scale industries have also contributed in the infrastructural development of the country as the government puts them in place with the intention of creating the enabling environment for the functioning of small-scale enterprises.

Small and Medium Scale Enterprises reduce regional differences, brain drain, and rural-urban migration. There is a universal conformity that the usual pattern of growth in many less developed countries in Africa has in previous years. This resulted in dualistic structure as macroeconomic policy makers are likely to prefer urban cities at the cost of rural areas with the resultant outcomes of glaring regional differences in the level of income (Hegbinosa and Jumbo 2015). It is natural for SMEs to be situated at rural areas where their raw materials are found so that their effective support will act as a measure of industries decentralization, accelerating rural growth and development, stemming urban migration and the resulting difficulties of overcrowding in the cities, among others. This in no small way reduces the temptation of job mobility of the country's "egg heads" to other nations.

### 2.6. Problems of Small and Medium Scale Businesses in Nigeria

Nigerian small and medium scale industries are facing a lot of constraints which, to some extent, limit their development.

According to Agbani for et al, (1999), the problems of Nigerian small-scale industries are:

- Capital shortage: There is always lack of capital or inadequate capital to start a business. This is based on the fact that securing loans from banks and other financial institutions takes too long or might not be possible for lack of collateral securities.
- Manpower problem: One of the impediments hampering the growth and development of small-scale businesses is their inability to recruit and retain competent personnel, especially in the technology and managerial cadres.
- Organizational problem: Small scale businesses in Nigeria face the problem of low level of efficiency. This is as a result of poor planning and control system; inadequate structural arrangements to accomplish tasks, lack of delegation, poor compensation system and so on.
- Technological problem: Nigeria's small and medium scale industries glibly assume that the acquisition of modern technology will automatically raise their level of operation as observed elsewhere. Regrettably however, Nigeria's small businesses face difficult problems in selecting and purchasing technology that are adequate for providing the needs of the small and medium scale businesses.

Datong & Pwol (2003) have also outlined the following as some of the problems of small and medium scale industries (which are equally attributable to the above reasons) which explains why small businesses fail in Nigeria:

- Plunging into business without first testing the concept on a small scale.
- Starting with too small capital.
- Going into business with little or no experience, and without first learning the needed skills.
- Starting a business without feasibility studies.
- Borrowing money without planning just how and when to pay back.
- Failing to keep accurate records, hence proprietors drift into trouble without realizing early enough to make amends.

The financial institutions are more interested attending to blue chips Limited Liability companies. The lack of capital perhaps explains why most SMEs in Nigeria fold up within the first to three years of operations.

Unstable and unreliable supply of electricity is one of the major problems of SMEs in Nigeria. Osoba (2003), posited that it is estimated that the cost of providing basic infrastructure at 5% is 20% of the total cost of setting up a manufacturing and processing industry in Nigeria.

This cost at the end of the day, adds to the overall cost of the product thereby making the product less attractive to the customers. No wonder, some productive companies that were in Nigeria have re-located to Ghana due to this infrastructural deficiency

### 3. Method and Material

The study was carried out using descriptive survey design. The collection of primary and secondary data was obtained through the use of interviews, questionnaire, observations, books, journals and the internet.

The primary data was obtained by randomly distributing questionnaires to one hundred and ten SMEs in manufacturing industries, agro-allied industries, distribution and service industries in Jos and Bukuru metropolis. However, only seventy-eight of the distributed questionnaires were returned. The collected questionnaires were tabulated and analyzed and recommendations made.

Secondary data was obtained through textbooks and publications of National Bureau of Statistics (NBS) and Central Bank of Nigeria statistical bulletin. The internet was also a source of secondary data.

#### 4. Data Presentation and Analysis

The instruments used for the collection of primary data are the questionnaires and interviews. A total of 110 questionnaires were distributed and only 87 were returned. Data was tabulated and analyzed.

- Question One: How would you rate the performance of financial institutions towards the development of SMES in Nigeria?

Rating	Response	Percentage %
Above Average	2	2.6
Average	17	21.8
Below Average	5.4	57.6
Total	78	100

Table 1

From table 1, it can be deduced that 59 respondents, representing 75.6 %, were of the view that financial institutions have performed below average towards the development of SMEs in Nigeria, while 17 respondents, representing 21.8%, opined that financial institutions have performed averagely. However, 2 respondents, representing 2.6%, were of the view that financial institutions have performed above average. The import of this analysis is that financial institutions have performed below par in the development of SMES in Nigeria.

- Question Two: How would you rate the contributions of government institutions in the development of SMEs in Nigeria?

Rating	Response	Percentage %
Above average	21	26.9
Average	12	15.4
Below Average	45	57.9
Total	78	100

Table 2

Table 2 shows that 21 respondents, representing 26.9%, felt that government institutions have performed above average in term of helping SMEs while 12 respondents, representing 15.4%, were of the opinion that government has performed averagely. On the other hand, 45 respondents, representing 57.9%, felt otherwise. They were of the view that government has performed below average in terms of its contribution to the development of SMEs. This analysis implies that the contribution of government towards the development of SMEs is below standard.

- Question Three: How will you rate the taxes being levied on SMEs, by government agencies in Nigeria?

Rating	Response	Percentage%
Too High	69	88.5
Fair	9	11.5
Very Good	0	0
Total	78	100

Table 3

Table3 shows that 69 respondents, representing 88.5%, opined that the taxes being charged are on the high side while 9 respondents, representing 11.5%, felt that the taxes charged were fair. None of the respondents agreed that taxes were very good. This analysis clearly shows that the taxes charged the SMEs are a major setback to the sub-sector.

- Question Four: How would rate the state of infrastructure in Nigeria as they relate to SMEs?

Rating	Response	Percentage %
Very Good	5	6.41
Good	9	11.5
Bad	78	79.5

Table 4

Table 4 shows that 5 respondents, representing 6.41%, adduced that the infrastructure is very good while 9 respondents, representing 11.5%, were of the view that the state of infrastructure in Nigeria is good. However, 78 respondents, representing 79.5%, shared an entirely different opinion. They asserted that the infrastructure in Nigeria is in bad shape. By implication, this analysis clearly shows that the infrastructure in Nigeria is in a state of decay.

- Question Five: How would you rate government policy towards SMEs in Nigeria?

Rating	Response	Percentage %
Above Average	16	20.5
Average	19	24.4
Below Average	43	55.1
Total	78	100

Table 5

Table 5 shows that 16 respondents, representing 20.5%, were of the view that government policy thrust towards SMES is above average while 19 respondents representing 24.4%, opined that it was average. However, 43 respondents, representing 55.1%, saw things differently. They were of the view that the policy thrust of government was below average. This table shows that government policy towards SMEs is below average.

- Question Six: Do you think SMEs have contributed significantly to the GDP of Nigeria? If no, answer the next question.

Rating	Response	Percentage %
Yes	2	2.6
No	71	91.0
Not Sure	5	6.4
TOTAL	78	100

Table 6

Table 6 shows that 2 respondents (2.6%) are of the view that SMEs have contributed significantly to Nigeria's GDP. 71 respondents, representing 91%, opined that SMEs do not contribute significantly to the GDP of Nigeria while 5 respondents (6.4%) were not sure.

- Question Seven: What then do you think are the factors responsible for the SME's poor contribution to the country's GDP?

Rating	Response	Percentage %
Lack of enough capital only	3	4.2
Poor infrastructure only	7	9.9
Poor government policy only	9	12.7
High taxes only	5	7.0
All of the above	47	66.2
Total	71	100

Table 7

Table 7 shows that 3 respondents (4.2%) opined that it is lack of capital that prevents SMEs from significantly contributing to Nigeria's GDP. 7 respondents (9.9%) said that it is infrastructure. 9 respondents (12.7%) felt its poor government policy. 5 respondents (7.0%) are of the view that it is high taxes while 47 (66.2%) respondents said that all of the above-mentioned factors contribute to SMEs low contribution to the country's GDP. This analysis shows that SMEs contribution to the country's GDP is low.

## 5. Discussion of Findings

The finding on table 1 has to do with the performance of financial institutions in the development of small and medium scale enterprises. 59 respondents, making up 57.6%, affirmed that the performance is below average. This can be the reason why SMEs fail to raise the requisite capital for proper taking off thereby leading to early closure of their businesses.

On the issue of contribution of government institutions, the study showed that 45 respondents representing 57.9% attested that the contribution is below average. This could be as a result of poor performance of government institutions such as NAPEP, NDE, ICDS etc.

On the taxes levied by government agencies, 69 respondents, representing 88.5%, are strongly of the opinion that the taxes are too high. This can be attributed to the inability of SMEs to import good machinery and quality raw materials. The multiple taxes could also have informed such views.

The decayed state of infrastructure reflected in the opinions of 62 respondents representing 79.5%. The poor state of electricity supply could have been the reason why industries are relocating from Nigeria to Ghana. Bad roads could have also been the reason for such responses.

The study showed that the policy thrust of government regarding SMEs need to be strengthened. This is because 43 respondents, representing 55.1%, opined that the policies are below average. This could be as a result of constant policy summersaults by successive governments. And even when such policies are steady, they are sometimes very harsh.

Table 6 shows that 71 respondents (91%) asserted that SME's in Nigeria have not contributed significantly to the Gross Domestic Product (GDP) of Nigeria. This is a clear manifestation of the fact that there is a lot of work to be done by both the private and public sectors.

Table 7 shows that 47 respondents (66.2%) shared the same view on why SMEs' contribution to the economy is low. The factors, according to the table, include lack of enough capital, poor infrastructure, poor government policies and high taxes.

## 6. Conclusion and Recommendations

In view of the importance attached to small and medium scale industries, especially in Third World countries, and the roles they play in economic development, the Author wishes to make the following recommendations:

- The government, via the Central Bank of Nigeria, should prevail on commercial banks to review downwards their interest rates on lending to small scale industrialist to enable them gain access to facilities for investment purposes.
- The Federal Government of Nigeria should as a matter of urgency strengthen and improve agencies and programmes such as the Industrial Development Centres (ICDs), National Poverty Eradication Programme (NAPEP), National Directorate of Employment (NDE), etc., to enable them provide adequate training and financial assistance to Nigerians with a view to embarking on one form of small business or the other.
- The government should also encourage these infant firms by granting them tax holidays so that they can use it to procure more machines, expand and, if possible, diversify.
- A good percentage of government budgets at all the three tiers should be committed to capital projects like road construction and water supply which are cardinal to the successes of small and medium scale industries.
- If our small-scale industries must occupy their right place in nation building, the Federal Government must take such policies like placing embargo on importation of products of similar industries very seriously.
- Government should ensure that her plans and programmes are geared towards increasing the country's GDP via the SMEs.
- Both the public and private sector should make deliberate effort in addressing the issue of capital, infrastructure, taxes and government policies should be SMEs driven.

In conclusion, small and medium scale industries are the catalyst for any nation's economic growth and, thus, overall development. Great nations like Japan, USA, France, etc., rode to development on the back of small-scale businesses. In like manner, the Third World countries, Nigeria inclusive, can also attain their economic growth and development giving the primacy of place to Small and Medium Scale Enterprises. Government should do more to uplift their standards which will, in turn, greatly contribute to the economic growth and development of the nation.

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