

Promotion of Small and Medium Scale Enterprises: A Pathway to Nigeria Economy Growth

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Abstract

Small scale business remains the most popular business sector in virtually all the economies all over the world. Numerous studies have asserted that SMEs act as stimulus for economic growth and development, however; to add to existing body of knowledge, this study investigated the SMEs and economic growth of Nigerian over the period of 35 years spanning from 1981-2015. This study adopted ex-post-facto research design and econometric method of data analysis. Time series data was obtained from the Central Bank of Nigeria (CBN) statistical Bulletin and Nigeria Bureau of statistics. The method engaged for the data analysis was error correction model using Johansson co-integration test which was complimented with Vector Auto Regression (VAR). The result portends a significantly positive co-integrating relationship between SMEs and economic growth in the short and the long run. Based on the findings, it was concluded that SMEs are essential for rapid and sustainable economic growth and development; and in line with this it was recommended that Government should provide enabling environment for SMEs to thrive and provide accessible funds for SMEs.

Keywords: Small and Medium Scale Enterprises, Economy Growth, Job creation

Citation

Ayo-Balogun, A.O. & Ogunsanwo, A.O. (2020). Promotion of Small and Medium Scale Enterprises: A Pathway to Nigeria Economy Growth. *Journal of Women in Technical Education and Employment (JOWITED), The Federal Polytechnic, Ilaro Chapter*, 1(1), 160-168

ARTICLE HISTORY

Received: May 9, 2020
Revised: June 11, 2020
Accepted: July 27, 2020

1. Introduction

It may be difficult to define SMEs because there is no specific criterion for classifying business enterprise as a small or medium or large globally. In a study carried out by the international labour organization (ILO, 2005) over 50 definitions were identified by 50 different countries for small scale industries. However, in defining small scale industries, references are usually made to quantitative measures such as number of people employed by the enterprise, investment outlay, the annual sales turnover (sales) and the assets value of the enterprise or combination of these measures. In addition, it is worthy of note that one common characteristics of all the definitions of this concept is that they describe it as being limited in some specific scope which differs from countries, profession, time period, the background of scholars given the definition and so on.

In recent time, small scale industrial sector is considered to be the backbone of modern-day economy. Its contributions to development of any economy have been widely recognized because of its capacity in enhancing industrial output and human welfare as well as its potential for diversification and growth of industrial production and the achievement of the basic objectives of developments. Small businesses account for a greater percentage of all businesses virtually in every economy and generate the majority of private sector output and employment opportunities; thereby reducing the rate of unemployment.

Though, numerous studies have shown that small and medium scale enterprises act as a driven force for the growth and development of national economy (Anthony & Arthur, 2008; Chinweuba & Sunday & Vijayakumar, 2013); but there have been contrary assertions on the relationship between SMEs and Economic Growth from previous researchers. For instance, Bello & Ahmed (2018), Micheal, Kassahvirginia & Andah (2017), Okhankhuele 2017 among others found a positive significant relationship between the variables, while Okpala (2015), Adelekan, Arogundade & Dansu (2016) among others portent a non-significant relationship between these variables. The above suggested that the past investigations were inconclusive and there is need for further study.

In a bid to overcome the shortcomings in the previous researches, this study relied on secondary data and engaged a robust econometric tools of data analysis to explore the inconclusiveness in the previous researches to add to the existing knowledge.

In some developing countries, small scale business enterprises are the center source of income, a breeding ground for entrepreneurs and a provider of employment (UNIDO report, 2003 as cited by Kehinde, Abiodun, Adegbuyi & Oladimeji, 2016). A cursory look at the standard practice of small-scale industries in economically developed countries like United Kingdom or United State of America, revealed that they depend largely on small scale industries to reach out to the people (Etebefia & Kinkumi, 2013)

In Nigeria, small scale industries represent about 90% of the industrial activities. Perhaps that explains why Nigerian government at different time formulated policies aimed at facilitating and empowering the growth and development of the small-scale enterprises. Nevertheless, despite the efforts and contributions of past and present government towards promoting Nigeria SMEs, the contribution of this sector to the economy still remain relatively small in terms of its impact on gross domestic product (GDP), unemployment and poverty reduction. The rate of unemployment in this country is still high and majority of the population still live in poverty (Ekezie, 1995; Bacdom, 2004; Iromaka, 2006). This is contrary to what obtains in other countries especially the developed nations where SMEs has been the source of alleviating poverty, employment generation, enhance human development, and improve social welfare of the people.

The effect of SMEs on Economic growth has been examined from different perspectives from different researchers. Eze & Okpala (2015), conducted a quantitative analysis of the impact of small and medium scale enterprises on the growth of Nigerian economy by means of econometric technique with a sample period of 20 years spanning from 1993 to 2011. The result of the study revealed that SMEs output does not make any significant contribution to Nigeria's economic growth performance. Ilegbinosa & Jumbo (2015), examines Small and Medium Scale Enterprises and Economic Growth in Nigeria empirically with 84 sample of SMEs for primary data collection as well as statistical records for years 1975-2012 as secondary data. Econometric method of data analysis was use in the study and it was discovered that the SMEs play an important role in determining the economic growth in Nigeria.

Adelekan, Arogundade & Dansu (2016), made use of Econometric analysis to investigate the relationship between Entrepreneurship and Economic Growth in Nigeria with a focus on SMEs Financing. The paper lean on secondary sources of data which was generated from Central Bank of Nigeria Statistical Bulletin and World Development Indicators (WDI, 2015). The result of the Asymmetric auto-regressive distributed lag (AARDL) indicated an insignificant direct relationship between finance for SMEs and Real Gross Domestic Products. Michael, Kassahvirginia & Andah (2017), in their study, "Conceptualizing Small and Medium Scale Enterprises; It's Implications to the Economic Growth of Nigeria", revealed that effective funding of SMEs sector translates into the national economic growth and sustainable economic development of Nigeria.

Okhankhuele, (2017), investigated the effect of small and medium scale enterprises on economic growth in Nigeria. The study made use of secondary data which was analyzed by Pearson Product-Moment Correlation Coefficient (PPMCC) and it was revealed that there is a significant and positive relationship between SME's contribution to Nigeria's Gross Domestic Product (GDP) and Nigeria's GDP from 1982 to 2012. Acho & Abuh, (2018) assessed the contributions of small-scale enterprises to the development of the Nigerian economy; the study made use of simple percentages (%) and Chi-square (X^2) statistical tool with a Samples of twenty (20) respondents drawn from the staff of PEP Ventures, Federal Polytechnic Idah. The findings from the analysis of the study revealed that effective management of small-scale enterprises enhances the development of Nigerian economy.

Bello & Ahmed (2018) examined the impact of small and medium scale enterprises on economic growth of Nigeria using 30 years series retrieved from the statistical bulletin of Central Bank of Nigeria (CBN) spanning between 1986 and 2016. Regression analysis was employed in the study and the finding of the study revealed that small and medium scale enterprises in Nigeria make positive contribution towards the development of Nigerian economy. Otugo, & Ezeanolue (2018), modeled the effect of government expenditure in promoting SMEs, in an

attempt to examines the effect of small and medium enterprises on economic growth in Nigeria. The study utilized an econometric regression model of the Ordinary Least Square (OLS) for its analysis. It was observed from the findings that government expenditure to small and medium enterprises have a positive impact on economic growth in Nigeria.

Following from the above, it appears that the development of any economy depends largely on how well the small-scale industries are managed. In this light, this study examined the impact of SMEs on the economic development of Nigeria, economy and the trend of Small and Medium Enterprises (SMEs) and GDP in Nigeria national development and finally determine the extent to which SMEs has impacted on economic growth in Nigeria.

3. Methodology

This section presented the study area, the scope, research design, method of data collection, model specification as well as data analysis. The study was carried out in Nigeria with 35 years observation of event on the variables of interest (SMEs and GDP). The series (data) consisted of index on SMEs and Gross Domestic Product covering 35 years period spanning from 1981-2015. An ex-post - facto research design was engaged in the study, because the event had occurred before the commencement of the study.

Econometrics method of data analysis with the aid of E-view was adopted for this study. The analysis made use of ordinary least square (OLS) estimation technique. In order to ascertain the features of the series, a descriptive analysis was conducted to reveal: the average scores and their standard deviations, skewness, kurtosis, Jarque-Bera statistics and sum square. The trends of the adopted macroeconomic variables (Real Gross Domestic Product (RGDP) and Small and Medium Enterprises (SMEs) were also presented at this point.

Afterward preliminary tests were conducted; unit root through Augmented Dickey Fuller test for confirmation of stationarity of the series, and Johansson co-integration test for confirmation of both short-run and long-run relationship. Consequently, Vector Auto Regression (VAR) and diagnostics tests (stability, normally, and serial Correlation) were conducted to ensure that the result of the analysis is good enough to draw inferences.

The model specification is given as;

Vector Auto-Regression, the model appears thus:

$$\lnrgdp_t = a + \sum_{i=1}^k \beta_i \lnrgdp_{t-i} + \sum_{j=1}^k \theta_j \lnSME_{t-j} + U_{it} \dots \dots \dots (i)$$

$$\lnSME_t = a + \sum_{i=1}^k \beta_i \lnrgdp_{t-i} + \sum_{j=1}^k \theta_j \lnSME_{t-j} + U_{it} \dots \dots \dots (ii)$$

4. Presentation of Result and Discussion

Table 1: Descriptive Statistics of sample variables used in the estimation

Date:	06/29/20	
Time:	10:37	
Sample:	1981 2015	
	LNRGDP	LNT
Mean	8.268007	6.339185
Median	8.431415	6.756737
Maximum	11.45259	9.799731
Minimum	4.975561	2.525244
Std. Dev.	2.239233	2.440946
Skewness	-0.108820	-0.210499
Kurtosis	1.589490	1.667298

Jarque-Bera	2.970488	2.848611
Probability	0.226447	0.240676
Sum	289.3802	221.8715
Sum Sq. Dev.	170.4817	202.5794
Observations	35	35

Table 1 showed the description of sample of the variables used in the estimation. LNCRDP averages 8.268007 and varied from 4.975561 to 11.45259 with a standard deviation of 2.239233. The range of data indicated the absence of outrageous values from the series, while the standard deviation indicated that the individual values in the series did not varied significantly (not move far apart) from the mean value of the samples; these implied that the tendency of the superiority of the estimate was low. The mean of SMEs was 6.339185 and it varied from 2.525244 to 9.79973 with a standard deviation of 2.440946. The range of the data suggested that outrageous value was lacking in the series, while the standard deviation revealed that individual values in the series move reasonably close to the mean of the sample; these implied that the final analysis might be fit for inferential predictions. The skewness which measures symmetry of the variables indicated that both variables are negatively skewed (skewed to left i.e. show negative value) this indicated that there were more lower values than the sample mean in the series. The kurtosis of both variables indicated that they were platykurtic (negative kurtosis i.e. flatted-curved) because the values are well below the threshold of 3 which is the rule of thumb, and this confirmed that there are more lower values than the sample mean in the series. While the probability value of the jarque-Bera statistic, which combines skewness and kurtosis indicated that the series were normally distributed, given the corresponding p-values. The p-values are higher than 0.05 significant level and this implied that the null hypothesis that the samples were normally distributed was accepted.

Table 2: Unit Root Tests

AUGMENTED DICKEY FULLER (ADF) TESTS STATISTICS						
Series	ADF Statistics	1%	5%	10%	Prob. Val.	Decision
At Levels						
LNRGDP	-0.961241	-3.646342	-2.954021	-2.615817	0.7553	I(O)
LNSME	-1.181527	-3.646342	-2.954021	-2.615817	0.6705	I(O)
At First Difference						
LNRGDP	-3.078419	-3.646342	-2.954021	-2.615817	0.0381	I(I)
LNSME	-3.706932	-3.646342	-2.954021	-2.615817	0.0086	I(I)

The variables involved in the unit root tests were real GDP (LNRGDP) and SMEs (LNSME) over the period of 1981 – 2015. The results of Augmented Dickey Fuller (ADF) Tests Statistics were reported in Table 2. Both tests indicated that the variables were not stationary at levels. However, they were stationary at first difference (integrated of order one I (1)) and that necessitated the use of Johanssen Co-integration test for detection of long-run relationship between the dependent and the independent variables

Table 3: Johansen Cointegration Test

Date: 06/29/20 Time: 10:47
Sample (adjusted): 1984 2015
Included observations: 32 after adjustments
Trend assumption: Linear deterministic trend
Series: LNSME LNRGDP
Lags interval (in first differences): 1 to 2
Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.338311	15.44616	15.49471	0.0509
At most 1	0.067356	2.231431	3.841466	0.1352

Trace test indicates no cointegration at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Table 3 provided the result for the Johansen test and this clearly indicated that the p-value was greater than 5 percent ($p > .05$) and this implied that the null hypothesis of no cointegration should be accepted, since the variables were integrated of order 1 and not co-integrated. Vector Auto Regression (VAR) model was employed to investigate the linear regression relationship to ascertain the short-run relationship between the variables.

Table 4: VECTOR Auto Regression (VAR) Model

	Coefficient	Std. Error	t-Statistic	Prob.
Estimation Method: Least Squares				
Date: 07/01/20 Time: 12:34				
Sample: 1983 2015				
Included observations: 33				
Total system (balanced) observations 66				
C(1)	1.197048	0.300035	3.989689	0.0002
C(2)	-0.335582	0.252305	-1.330067	0.1889
C(3)	0.226387	0.193463	1.170183	0.2469
C(4)	-0.104282	0.184017	-0.566698	0.5732
C(5)	0.476870	0.356348	1.338215	0.1862
C(6)	0.787142	0.427247	1.842360	0.0707
C(7)	-0.549758	0.359279	-1.530172	0.1316
C(8)	0.972408	0.275489	3.529756	0.0008
C(9)	-0.205306	0.262038	-0.783498	0.4366
C(10)	-0.416259	0.507435	-0.820320	0.4155
Determinant residual covariance		4.73E-05		

Equation: $LNRGDP = C(1)*LNRGDP(-1) + C(2)*LNRGDP(-2) + C(3)*LNT(-1) + C(4)*LNT(-2) + C(5)$			
Observations: 33			
R-squared	0.998330	Mean dependent var	8.465497
Adjusted R-squared	0.998092	S.D. dependent var	2.150259
S.E. of regression	0.093935	Sum squared resid	0.247065
Durbin-Watson stat	2.024606		

In table 4, the Durbin-Watson statistic revealed that the model is not suffering from serial correlation and that it was reasonably fit for prediction; this was indicated by the value (2.024606) exhibited which was within the threshold of the prescribed rule of thumb.

The coefficient of determination R-squared 0.998330 measured the size of effect of SMEs on RGDP. This portend that 99 percent of total variation in the dependent variable real gross domestic product (LNRGDP) was attributed to the explanatory variable SME (LNSME) in Nigeria spanning the period 1981- 2015. This also implied that SMEs performance was a very potent factor in economic development in Nigeria.

Table 5: Wald Test

Test Statistic	Value	Df	Probability
Chi-square	16739.88	4	0.0000
Null Hypothesis: $C(1)=C(2)=C(3)=C(4)=0$			
Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(1)	1.197048	0.300035	
C(2)	-0.335582	0.252305	
C(3)	0.226387	0.193463	
C(4)	-0.104282	0.184017	
Restrictions are linear in coefficients.			

Table 5 showed that the associated probability value of the t=statistics was less than 1 percent ($t=16739$; $P < .01$). This implied that the null hypothesis of no significant relationship between GDP and SMEs will be rejected

at 1 percent significant level and the alternative hypothesis (there is a significant relationship between SMEs and GDP) exhibited accepted at 99 percent confidence interval.

Table 6: Stability Test

VAR Residual Serial Correlation LM Tests
Null Hypothesis: no serial correlation at lag order h
Date: 07/16/20 Time: 05:12
Sample: 1981 2015
Included observations: 33

Lags	LM-Stat	Prob
1	4.761867	0.3126
2	4.300764	0.3668

Probs from chi-square with 4 df.

Table 6 showed the auto correlation LM test probability value of 0.3126 and 0.3668, which were greater than 5 percent significant level ($P > 0.05$) and this mean that the null hypothesis that no serial correlation with corresponding p-value was accepted; this implies that the series were free from serial correlation.

Table 7: Normality Test

Component	Skewness	Chi-sq	df	Prob.
1	0.685715	2.586125	1	0.1078
2	-0.098143	0.052977	1	0.8180
Joint		2.639102	2	0.2673

Component	Kurtosis	Chi-sq	df	Prob.
1	3.263663	0.095588	1	0.7572
2	2.300542	0.672708	1	0.4121
Joint		0.768295	2	0.6810

Component	Jarque-Bera	df	Prob.
1	2.681713	2	0.2616
2	0.725684	2	0.6957
Joint	3.407397	4	0.4921

Table 7 revealed a jaque-bera probability statistics value of 0.4921, which was higher than 5 percent significant level ($p > 0.05$). Therefore, the null hypothesis that the series are normally distributed was accepted; this implies that the series are normally distributed.

Table 8: Heteroskedasticity Tests

VAR Residual Heteroskedasticity Tests: No Cross Terms (only levels and squares)					
Date: 07/16/20 Time: 05:17					
Sample: 1981 2015					
Included observations: 33					
Joint test:					
Chi-sq	Df	Prob.			
29.58500	24	0.1989			
Individual components:					
Dependent	R-squared	F(8,24)	Prob.	Chi-sq(8)	Prob.
res1*res1	0.211470	0.804550	0.6049	6.978524	0.5390
res2*res2	0.325354	1.446775	0.2285	10.73668	0.2171
res2*res1	0.239305	0.943764	0.5003	7.897077	0.4436

Table 8 revealed a probability statistics value of 0.1989, which was higher than 5 percent significant level ($p > 0.05$). The null hypothesis that the series has no heteroscedasticity was accepted; this implies that the model is free from heteroscedasticity.

5. Conclusion

There is no doubt that small scale enterprises are essential for rapid and sustainable economy growth and development because they create employment, enhance capacity building for manpower and skills development, promote growth, reduce poverty, and facilitate industrial development among others. Several efforts had been made by successive governments to promote human and materials resources. These efforts have made small and medium scale businesses to contribute significantly to the development of Nigeria economy. In spite of government policies aimed at providing financial and technical support for the promotion of small business enterprises in Nigeria, they have performed less satisfactorily largely because of operational bottlenecks including lack of depth of the financial system, inadequate infrastructural facilities, poor management practices and low entrepreneurial skills to mention but a few. Banks which are supposed to provide adequate credit facilities in compliance to government policies usually place exorbitant interest rates alongside huge collateral securities that scare away investors. Despite all these bottlenecks, small scale businesses have contributed significantly to economic, social and development of the country.

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