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Impact of Small Medium Scale Business on Economic Growth of Nigeria

OLATEJU Idowu Adegboyega[1] and IBIKUNLE, Oladipo Ibidokun [2]

[1]*Department of Management and Accounting, Lead City University, Ibadan, Nigeria*
Email: eolateju@gmail

[2]*Department of Management and Accounting, Lead City University, Ibadan Nigeria*

Abstract: *This study examined the impact of Small Medium Scale business on economic growth in Nigeria using secondary data of annual time series for a period of Twenty One (21) years (2000-2020). The data was collected from the World Bank Database and Central Bank of Nigeria Statistical Bulletin 2020 and National Survey of Micro Small and Medium Enterprises (MSMEs) 2020 conducted by the Small & Medium Enterprise Development Agency of Nigeria (SMEDAN). The study made use of an Expo Factor Research Design. The result of the correlation shows a positive significant between Aggregate SME and GDP ($r = .445, p<.05$). The result of the hypothesis showed that Aggregate SME and Capitalization of SME jointly significantly influenced GDP [($R^2 = .305$; $F (2,20) = 3.943$; $p < .05$)] accounting for about 30.5% of the variance observable in GDP. Furthermore, the coefficients of multiple determination for the model shows that the independent contribution of Aggregate SME was significant (($\beta = .806$; $t = 2.752$; $p< .000$), while the independent contribution of Capitalization of SME was not statistically significant. It was recommended that the federal government should put more effort to see that banks created for the resuscitation of the SME sector are always active as expected in order to produce the needed result and contribute positively to the growth of the economy.*

Keywords: Small Medium Scale businesses, Economy, GDP, Business growth

Introduction

Small and medium Enterprise drives their country's development as they create employment and contribute to the gross domestic product (GDP). There is the greater likelihood that SMEs will utilize labour-intensive technologies thereby reducing unemployment particularly in developing countries and thus have an immediate impact on employment generation (Sunday & Ehiejele, 2017). Small and Medium Scale enterprises varies with culture and peculiar circumstances of the person attempting the definition. Ilegbinosa and Jumbo (2015) posited that the creation, growth, advancement as well as development of Small and Medium Scale Enterprises (SMEs) have provided evidence essential to the growth and development of many countries; particularly the developed and some developing nations like United States of America, China and India. According to Ikpor, Nnabu and Itumo (2017), the prevailing economic condition of 1970s and early 1980s in Nigeria was responsible for the adoption of industrialization strategies based on large scale production. This derives from the fact that numerous large scale industries were set up during the rehabilitation programme of the post-war era of 1970s. These industries were capital intensive and required the importation of heavy machines and technical manpower to man these capitals. These unchecked importations asserted negative impact on foreign exchange earnings in Nigeria. However, due to the inherent problems associated to the poor performances of the large scale enterprises in Nigeria, it becomes imperative for government to device a means to promote and propagate small and medium scale enterprises (SMEs) as a panacea to achieve self-reliant and sustainable economic growth within the country. This was embedded in the third National development plan which clearly specified the development and promotion of small scale industries as a strategy for job creation. Small and medium enterprises have been identified to be pivotal for sustainable growth of the economies of many countries (Ariyo, 2005). Most of the developed economies have recognized the role of SMEs in industrial restructuring and went further to formulate and adopt national financial policies for the growth of SME (Ikpor et al, 2017). However, the relevance of SMEs in solving the macroeconomic problems is hampered by the absence of adequate capital, inability to access fund from financial agencies. More so, the high cost of borrowing and inaccessibility of funds have remained serious factors inhibiting availability of fund, thus resulting to the early death of small and medium scale enterprises. The unavailability of credit has been identified as a challenge bedeviling the performance of business enterprises particularly the SMEs in Nigeria. Previous studies on Nigeria have identified source of formal and informal finance available to SMEs (Aruwa, 2004). They posited that development banks as well as commercial banks are the major sources of formal funds for SMEs. The findings also identified loans from cooperative societies, relatives and friends as informal credit at the disposal of SMEs in Nigeria.

Statement of the Problem

Small and Medium Enterprise (SME'S) are acknowledged having huge potential for employment generation and wealth creation in any economy besides other immeasurable virtues. The sector had been stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment in Nigeria. Although indicators show that the sector had improved significantly since

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1999, but it is still however far from meeting the targeted ideals as the sector is faced with a number of constraints such as the lack of credit availability which hampers the growth of small scale businesses in Nigeria. SMEs in Nigeria are encountering several challenges which adversely affect their growth and contribution to economic growth in Nigeria. Some of the challenges are inadequate finance, high interest rates of banks, harsh economic policy by government, high level of tax etc. However this study examines the impact of small medium scale business on economic growth of Nigeria (2000-2020).

Aim and Objectives of the Study

The primary aim of this study is to examine the impact of small medium scale business on economic growth of Nigeria from year 2000-2020. The specific objectives are to:

i. ascertain the extent of the relationship between SME and economic growth.
ii. determine significant impact of SME on economic growth of Nigeria.

Research Questions

The following research questions will be answered in this study:

i. To what extent does SME relate with economic growth of Nigeria?
ii. What is the significant impact of SME on economic growth of Nigeria?

Hypotheses

H_{01}: There is no significant impact of SME on economic growth of Nigeria.

Significance of the Study

The findings of this study will be of immense benefit to small medium scale businesses in Nigeria, the policy makers and the economy at large. It is expected that the outcome of this research will go a long way in trying to determine way that SMEs can contribute to the economic growth of Nigeria. Also, it will help in determining how to ensure that policies that favour business growth and survival of SMEs are put in place.

Concept of SME

The definitions of SME in use depend on the purposes and the policies which govern the SME sector in a particular country. However, the three parameters that is generally applied by most countries, singly or in combination are: capital investment, volume of production or turnover of business. Small and Medium Scale Enterprises is defined on the basis of employment, in micro/cottage industries (1-10 workers), small scale industries (11-100 workers), medium scale industries (101-300 workers) and large scale industries with (301 and above) (Jamodu, 2001). In Japan, small and medium firms secure capital up to one hundred million Japanese yen and less than 299 employees involve in manufacturing.

Efforts towards Developing SMEs in Nigeria

SMEs' development in Nigeria is not a one-man affair; all hands must be on deck; the government, individuals and organisations (each playing distinct role towards SMEs development). Accordingly, Etuk et al (2014) notes that for SMEs to thrive, favourable institutional frameworks are required. Unfortunately, their needs are often overlooked by policy-makers and legislators, who tend to target larger corporations. Also, they are usually left out when it comes to tax incentives or business subsidies. They suffer more than big companies from the large burden and cost of bureaucracy. Only few SMEs possess the necessary financial or human resources to deal with these. Therefore, according to Etuk et al (2014), government can assist SMEs by:

Implementing inclusive reforms: Governments need to create the necessary enabling frameworks and relax the burden of regulatory measures. Additionally, they can simplify business registration procedures and paperwork to make them cheaper, simpler and speedier.

Providing financial and tax incentives: To encourage SMEs to join the formal sector, governments need to provide tax incentives for SMEs and subsidies similar to those available to large corporations or micro-entrepreneurs, as well as make provisions for start-up funds for SMEs.

Encouraging friendly regulatory environments: Governments should promote public- private partnerships to attract venture capital funds and higher levels of investment, and put in place measures to create investor-friendly environments.

Involving business in identifying necessary reforms: Increasingly, the business voice is being listened to in decisions aimed at effecting change. In several countries, such as Mali and Mozambique, private businesses now participate in identifying the most needed reforms. The culture of bureaucrats telling bureaucrats what's good for business is gradually disappearing.

Export potential: SMEs contribute a large share of manufactured exports in most industrialized East Asian economies like China and India, ranging from 31-56%, than less developed African economies of less than 1% in Tanzania and Malawi, for instance. There is therefore the need to focus on policies that will promote the SMEs export potential to boost economic growth and development. Etuk et al (2014) also reiterate that apart from government, large corporations can also support the development of a strong and reliable SME sector by:

Building supply chain capacity: The many large corporations that source their supplies from developing countries require reliable suppliers. Large corporations can help SMEs become more viable business partners by providing training in basic skills such as management, bookkeeping, business planning, marketing, distribution, and quality control.

Rationalizing procurement procedures: Many global companies use intermediaries to identify local suppliers. This can add an extra layer of cost to the operation, a financial outlay that rarely goes to the originator of the goods.

Strengthening local distribution networks: SMEs have local knowledge, understand domestic consumer demands, and have access to remote regions. By contracting local SMEs to sell and distribute their products in these markets, large corporations can help strengthen the sales capacity and income of local SMEs.

Improving standards: Global companies are frequently asked about the operations of their suppliers, and thus can offer transparency along their supply chains. Large corporations can help their SME suppliers to comply with international standards such as ISO 14001. Such compliance can enable SMEs to compete in international markets while at the same time improving the overall quality of suppliers to large corporations.

Improving environmental performance: Collectively SMEs have considerable environmental impact. However, given the various challenges with which they are confronted, and the perception that their individual impact is not significant, it is unlikely that environmental concerns will figure high on their business agenda. By engaging with SMEs, assisting them with capacity building, and aiding them with compliance, particularly with environmental standards, large corporations can help SMEs integrate sustainable development thinking into their production processes and operations.

Providing access to financial services: SMEs require greater access to financial services and investment capital. Large corporations have little difficulty securing sizeable bank loans and private investments. At the same time, microfinance, consisting of very small loans, tends to benefit individual entrepreneurs. SMEs fall in between and often struggle to obtain credit and loans, so that personal savings forms the major source of funding for most of them throughout much of the developing world. Many financial institutions in these developing societies are reluctant to fund SMEs because of perceived risks, high transaction costs and similar challenges. Thus loans to SMEs, when they are able to obtain them, tend to carry higher interest rates and shorter pay-back times. However, things may be changing. Many large banks are now partnering with development agencies and NGOs to serve the SME market.

Economy of Nigeria

Nigeria's revenue in the 1970s was majorly from Agricultural sector (Osuka, Otiwu & Makwe, 2018). The four regions that made up Nigeria (North, East, West and the Mid-West) were giants in exporting agricultural products. The North was known for its groundnuts, cotton, hides and skin; the East for its palm produce and coal; the West for its Cocoa and the MidWest for its rubber and timber. The individual regions made use of the revenues to develop their areas while the remaining balance is remitted to the Federal Government. Unfortunately, this rich source of IGR in the Nigerian regions providing unlimited economic development has been sacrificed at the dwindling 'altar of crude oil'. The undue dependence on statutory allocations has become a major constraint why most Nigeria States cannot perform basic functions. However Foreign Direct Investment is a viable source through which Nigeria can boost her revenue base.

The prevailing economic crises across the globe has informed the critical and fundamental role which foreign capital inflows play in the effective reintegration process of transition and developing economics in the structure of the global economic market, as foreign direct investment is constructed as a fundamental element of economic growth. During the fluctuations of capital flows especially in the 1990's, foreign direct investment was the major source of flows to developing countries. Undoubtedly, the Nigerian economy has consistently faced an economic crises situation resulting from inadequate resources availability for desired long-term development, high rate of poverty, low capital utilization, high level of unemployment, declining gross domestic product, and other related economic challenges which is manifesting in the inabilities of the government of Nigeria, to achieve the projected Millennium Development Goals (MDG's) by the year 2020. Most countries in Africa strives to attract foreign direct investment because of its advantages as a tool of economic development (Adelowokan, Adesoye & Balogun 2015). Thus, Nigeria has since joined the rest of the world in soliciting for sectoral inflows of foreign direct investment through her role in the constitution of the new partnership for Africa's development (NEPAD),whose major goal is the attraction of foreign direct investment into Africa.

Small and Medium Enterprises (SMEs) Development and Economic Growth in Nigeria Small and Medium Enterprises (SMEs) are common features of the Nigerian market. Being a developing economy, SMEs are so numerous that even getting the accurate data on them becomes herculean yet, they are the major drivers of the economy as it is easily entered into but its sustainability is always a challenge. According to Etuk et al (2014), SMEs account for a large proportion of the total employment growth in many countries. In such countries, SMEs produce a significant share of their increases in Gross Domestic Product (GDP), while the contributions of larger enterprises tend to remain stable. For instance, in the Organisation for Economic Co-operation and Development (OECD) economies, SMEs and micro enterprises account for over 95% of firms, 60-70% of employment, 55% of GDP and generate the lion's share of new employment. In the case of developing economies, the situation is not very different. For instance, in Morocco, 93% of firms are SMEs and account for 38% of production, 33% investment, 30% export and 46% employment. Similarly, in Bangladesh, enterprises of less than 100 employees account for 99% of all firms and 58% employment. Also, in Ecuador, 99% of all private companies have less than 50 employees and account for 55% of employment. According to Tom, Glory and Alfred (2016), SMEs play vital role in the economic development of Nigeria and are known to be the main engine of economic growth and a key factor in promoting private sector development and partnership. SMEs are generally responsible for the availability of goods and services, credits, motivating entrepreneurial spirit and repairs of second handed products. Also, Etuk et al (2014) argued that well-managed and healthy SMEs constitute significant sources of employment opportunities and wealth creation in Nigeria. While the citizens benefit in terms of employment and income, Government also benefits by generating revenue in form of taxes. This can be a strong factor to social stability. It is noteworthy that not all SMEs and microenterprises are in the formal sector; some of them occupy the unofficial labour market, which varies in size from an estimated 4-6% in developed countries to over 50% in developing nations. According to the International Finance Corporation (IFC, 2006), there is a positive relationship between a country's overall level of income and the number of SMEs per 1,000 people. The World Bank's Doing Business reports indicate that a healthy SME sector corresponds with a reduced level of informal or "black market" activities. Thus, managing SME sector to reduce the number of informal business is essential in the Nigerian development project.

SMEs development have far reaching economic developmental impact on the Nigerian economy and leads to increase industrialization of the economy. Accordingly, Etuk et al (2014) argued that SMEs are regarded as the bedrock of industrialization. Because a number of them possess extensive knowledge of resources, as well as demand and supply trends, they constitute the chief supplier of input to larger firms. They also serve as the main customers to the larger firms; provide all sorts of products ranging from food, clothing, recreation, entertainment, healthcare, education, and so forth. They help in economic development through industrial disposal and production of primary and intermediate products. They can also supply the material needs of the larger enterprises. In addition, they provide specialized, and many times, personal services. In summary, SMEs constitute important sources of local supply and service provision to larger corporations. Developing countries represent a huge, largely untapped market for large corporations. By working closely with SMEs, large corporations can develop new customer base that may not be accessible to the traditional distribution networks of these corporations.

Pecking Order Theory

Pecking order theory predicts that due to the information asymmetry between a firm and outside investors regarding the real value of both current operations and prospects, external capital (debt and equity) will always be relatively costly compared to internal capital (retained earnings). Pecking order theory suggests that firms first prefer internal sources of finance . When it is necessary to take funds from outside, firms prefer debt to equity because of lower information costs associated with debt issues. Equity is scarcely used (Shyam-Sunder & Myers, 1999). If there are three sources of funding available to firms: retained earnings, debts, and equity. Retained earnings have no adverse selection problem. Equity is subject to serious adverse selection problems, while debt has only a minor adverse selection problem. Pecking order theory proposes that cost associated with the funding of institutions will increase with asymmetric information.

Research Methodology

The study made use of an Expo Factor Research Design. An Expost facto design is a quasi-experimental study that examines the effect of an independent variable on dependent variables within an experiment. The data used for this study was collected from secondary sources. The study made use of annual time series data which was collected for

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a period of Twenty One (21) years (2000-2020). The data was collected from the World Bank Database and Central Bank of Nigeria Statistical Bulletin 2020 and National Survey of Micro Small and Medium Enterprises (MSMEs) 2020 conducted by the Small & Medium Enterprise Development Agency of Nigeria (SMEDAN).
Data collected was analyzed using SPSS version 21.0

The functional relationship between the dependent and the independent variables in this studyare stated as follows:
GDP = f (AggSME, CapSME)

The above model was translated into a mathematical equation as given below:

$$GDP = a_0 + a_1 AggSME + a_2 CapSME + U \quad (1)$$

Specifying equation 2 in log form, the equation now becomes,

$$Log\ GDP = Log\ a_0 + a_1 Log\ AggSME + a_2 Log\ CapSME + U \quad (2)$$

Where: GDP = Gross Domestic Product;

Agg SME = Aggregate Asset base of Small and Medium CapSME = Aggregate Capitalization of Small and Medium EnterprisesU = Stochastic or error term.
a_0 = Constant or intercept

Data Analysis

Table 1: Descriptive Statistics

Variables	Mean	Std. Deviation	N
GDP	5.3073	3.8191	21
Aggregate Asset base of SMEs	5.5790	0.4742	21
Capitalization of SMEs	5.256	0.4227	21

The result of the descriptive statistics showed that Aggregate SME had the highest mean score of 5.579 with standard deviation of 0.474 followed by GDP with mean score of 5.307 and standard deviation of 3.8191.

Table 2: Pearson Correlations

		GDP	CapSME	AggSME
GDP	Pearson Correlation	1	.110	.445*
	Sig. (2-tailed)		.634	.043
	N	21	21	21
CapSME	Pearson Correlation	.110	1	.741**
	Sig. (2-tailed)	.634		.000
	N	21	21	21
AggSME	Pearson Correlation	.445*	.741**	1
	Sig. (2-tailed)	.043	.000	
	N	21	21	21

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The result of the correlation shows a positive significant between Aggregate SME and GDP ($r = .445, p<.05$) while there was no significant correlation between Capitalization of SME and GDP. Also, there was a positive significant correlation between Capitalization of SME and Aggregate SME. This implies that Aggregate SME significantly impact GDP which implies that Aggregate SME will contribute significantly to the positive growth of the economy of Nigeria.

Hypothesis Testing

H_{01}: There is no significant impact of SME on economic growth of Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.552[a]	.305	.227	3.35702059

a. Predictors: (Constant), AggSME, CapSME

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	88.872	2	44.436	3.943	.038[b]
	Residual	202.853	18	11.270		
	Total	291.724	20			

a. Dependent Variable: GDP
b. Predictors: (Constant), AggSME, CapSME

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.382	9.786		1.878	.077
	CapSME	4.403	2.646	.487	1.664	.113
	AggSME	6.492	2.359	.806	2.752	.013

a. Dependent Variable: GDP

The result of the hypothesis shows that Aggregate SME and Capitalization of SME jointly significantly influenced GDP [($R^2 = .305$; $F (2,20) = 3.943$; $p < .05$)]. This infers that Aggregate SME and Capitalization of SME jointly accounted for about 30.5% of the variance observable in GDP.

In addition, the result of the coefficients of multiple determination for the model shows that the independent contribution of Aggregate SME was significant (($\beta = .806$; $t = 2.752$; $p< .000$), while the independent contribution of Capitalization of SME was not statistically significant.

Conclusion

This study examined the impact of Small Medium Scale business on economic growth in Nigeria using secondary data of annual time series for a period of Twenty One (21) years (2000-2020). The data was collected from the World Bank Database and Central Bank of Nigeria Statistical Bulletin 2020 and National Survey of Micro Small and Medium Enterprises (MSMEs) 2020 conducted by the Small & Medium Enterprise Development Agency of Nigeria (SMEDAN). The study made use of an Expo Factor Research Design. The result of the correlation shows a positive significant between Aggregate SME and GDP ($r = .445$, $p<.05$) while there was no significant correlation between Capitalization of SME and GDP. In addition, the hypothesis showed that Aggregate SME and Capitalization of SME jointly significantly influenced GDP [($R^2 = .305$; $F (2,20) = 3.943$; $p < .05$)] accounting for about 30.5% of the variance observable in GDP. In addition, the result of the coefficients of multiple determination for the model shows that the independent contribution of Aggregate SME was significant (($\beta = .806$; $t = 2.752$; $p< .000$), while the independent contribution of Capitalization of SME was not statistically significant. This finding agrees with the study of Etuk et al (2014) who reported that SMEs account for a large proportion of the total employment growth in many countries and SMEs produce a significant share of their increases in Gross Domestic Product (GDP).

Recommendation

i. The Federal/State Ministries of Industry in collaboration with SMEDAN should work out strategies for an annual report of SMEs operating in Nigeria highlighting the capitalization and assets of the sector;
ii. The federal government should put more effort to see that banks (e.g. NIRSAL) created for the resuscitation of the SME sector are always active as expected in order to produce the needed result;

iii. The government (both federal and states) should adopt policies towards maintaining a favourably low commercial and micro-finance banks' lending rate to SMEs as this will help improve the level of investments in SMEs which is expected on the long run

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