

Small Scale Enterprises and Sustainable Growth in Nigeria: Lessons from African Countries

¹Auwal Jibo Samira & ²Ismail Yakubu

^{1&2}Department of Banking and Finance

Kaduna Polytechnic

Abstract

This paper x-rayed the nexus between small-scale enterprise and economic growth, and also examined the problems and prospect of small-scale enterprises in Nigeria. It observed that despite the importance of small-scale enterprise to the economic growth of all nations, Nigeria still needs to do a lot in order to meet up with the industrial world and the sustainable development goals (SDG). It utilizes literature comprising studies on the history, activities, challenges, and prospects of small-scale enterprise in Nigeria. Also, it examined Industrialization of other countries in relation to Nigeria's case. The methodology adopted in analyzing the paper is content analysis method. The paper examines the problems of small-scale enterprise in Nigeria which includes: inadequate basic infrastructure, strategic planning problem, financial problem and so on. Recommendations were made on the problem of which include the government should make priority stabilizing electricity in the country, construction of more road network, a creation of monitoring team to monitor the government policies and programs put in place to encourage small-scale enterprises in Nigeria and come up with periodic report.

Keywords: *Economic growth, Industrialization, Small scale enterprises*

Corresponding Author: Auwal Jibo Samira

Background to the Study

It is undisputable fact that Nigeria of the pre-independence period was predominately small scale in its productions and marketing activities. The industrial revolution brought about a shift from the orthodox trade by barter to a more sophisticated marketing system. The oil sector which Nigeria hoped will boost economic growth led to the negligence of the small-scale industries until economic depression set in during the oil boom period. This and other factors led to the quest for the private participation in the various economic sectors through the small-scale industries.

Small-scale industries being registered as the engine of economic growth and development are capable of creating a million jobs. They are also perceived as the key to Nigeria economic growth, poverty alleviation and employment generation. David (2005), observed that small firms are major sources of employment opportunities for a wide cross-section of the workforce, the young, old part-time workers and the cyclically unemployed.

Aliyu (1999) posited that the growth of Kenyan economic, accounting for 12- 14% of GDP created employment opportunities training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country. Thus, promotion of such enterprises in developing economies like Nigeria will enhance greater distribution of income, economic self- dependence, entrepreneurial development and so much more. SSEs are veritable engines for the achievement of a national objective in terms of employment generation at low investment cost, development of entrepreneurial capabilities, reduction in the flow of people from rural to urban areas, contributes to the country's GDP, export earnings, and development of employment opportunities.

But the unsatisfactory performance of this functions performed by SSEs recently has generated a lot of research interest in their challenges and prospects. Therefore, the paper seeks to identify ways more people are encouraged into small-scale enterprises. This is because the promotion of SSEs in developing economies like Nigeria will lead to sustainable growth and development.

Statement of Problems

A study conducted by Ariyo (2005) reveals that small-scale enterprises play important role in the economic growth and sustainable development of any economy. These can be achieved through contribution to the economy in terms of output of goods and services, a creation of jobs at relatively low capital cost, reduction in income disparity, development of a pool of skilled and semi-skilled worker as a basis for future industrial expansion among others. In view of this, the question of why Nigeria has not been able to achieve sustainable growth even with the existence of small-scale enterprises right from the pre-independence period still remains prominent.

The following problems necessitated the study.

1. Examine the problems of small-scale enterprises in Nigeria
2. Examine how some African countries achieved sustainable growth through small-scale enterprises?

3. To examine the reasons why small-scale enterprises have not help Nigeria achieve sustainable growth
4. What are the prospects of small-scale enterprises in Nigeria

Objectives of the Study

The main objective of this research work is to examine small-scale enterprises and sustainable growth in Nigeria, lessons from African countries. The specific objectives include:

1. Examine the problems of small-scale enterprises in Nigeria
2. Examine how some African countries achieved sustainable growth and became industrialized through SSEs
3. To suggest ways Nigeria can achieve economic growth through SSEs
4. Identify the prospects of small-scale enterprises in Nigeria

Methodology

The method of data collection used in this work involves interviews, visitation to libraries, journals, newspapers, textbooks, and articles from the internet. The method of analysis adopted is the content analysis which implies that it is more explanatory.

Empirical Literature

Small Scale Enterprises (SSE) in Nigeria

The United Nations Sustainable Development Goals (SDGs) are being pursued in Nigeria in line with the need to enhance the process of development in the country by making all basic amenities of life at the disposal of the masses. Small-scale enterprises play important role in the economic growth and sustainable development of any economy (Ariyo, 2005). They may look small but are actually the foundation of any economically stable nation. These are to be achieved through complementary assistance to small-scale enterprises to the economy include contribution to the economy in terms of output of goods and services, creation of job at relatively low capital cost, reduction in income disparity, development of a pool of skilled and semi-skilled worker as a basic for future industrial expansion among others.

According to Nigeria Commerce and Industry (NCI) (2003), a small-scale industry is an enterprise with total cost (including working capital but excluding the cost of land) above N1.5million but not exceeding N50million with a labor size of between 11 and 100 workers. Kpelai (2001) asserts that SSEs are the engine room for the growth of any developing economy because they form the bulk of business activities in developed and developing economies like Nigeria.

The small and medium scale enterprise is responsible for about 70% of the total industrial employment in Nigeria and between 10-15% of the total manufacturing output. The agricultural sector which comprises of mainly small and medium scale enterprise have promoted indigenous technology and increased utilization of local raw materials (Ogbuanu, 2014). The 2012 enterprise baseline survey revealed that there are 17million small and medium scale enterprises in Nigeria employing about 32.41 million persons. The survey conducted by the Pro-Poor Growth and Promotion of Employment Programme in collaboration with Small

and Medium Enterprises Development Agency of Nigeria, SMEDAN, with support from the German development agency reports that SMEs make up the overwhelming majority of private business concerns in Nigeria which is in excess of 17million registered enterprises.

Therefore for any country to grow, small scales enterprises have to be made strong and supported by the government of such a country (Oba 2013). Nigeria has since the 1970s shown increased interest in the financing and promoting small-scale enterprises for three main reasons, these include:

Transformation of indigenous industry, increase in job creation and redistribution of income. Governments at all levels (local, state, and federal) have formulated policies aimed at facilitating and empowering the growth, development, and performance of small-scale enterprises. Others have focused on assisting the SSE, to grow through soft loans and other fiscal incentive. International agencies like the World Bank, United Nations (UN) International Finance Corporation (IFC), European Investment Bank (EIB) etc are making SSEs robust by investing heavily in them. Locally, the non-governmental organizations like the Nigerian Investment Promotion Commission (NIPC) Development Finance Institutions (DFI) have been promoting SSEs through capacity building.

SMEs represent a veritable vehicle for the achievement of national economic objective and attainment of Sustainable Development Goals (SDGs).

This includes employment generation and poverty reduction at low investment cost, developing entrepreneurial capabilities including indigenous technology.

In recognition of the enormous roles of SSEs, various programs have been designed by the present administration to encourage development these include:

- i. Fiscal incentives and protective fiscal policies
- ii. Specialized financial institutions and funding schemes
- iii. Favorable tariff structure
- iv. Selective exemption and preferential treatment in excise duties
- v. Establishment of export processing zone
- vi. Selective reservation of items for exclusive manufacture in the SME subsector.

It has been worrisome that despite the incentives, policies, programs, and support aimed at encouraging SMEs, they have performed below expectation.

An Overview of Small Scale Enterprises in Ghana and South Africa

African is still a continent yet to develop to the standard acclaimed in the world of industrialization. It has experimented with various types of the framework of industrialization. African is seen as the producer of most raw materials used by the developed countries. A continent regarded as rich in raw materials used in developed countries. A continent regarded as rich in raw material resources but very poor economically when compared with the countries of the developing world like U.K USA, France, Germany, and so on, yet their state of growth is still far beyond some of the African countries like South African is on the road to industrialization. The countries adopted import substitution as a strategy for

industrialization, today South African is regarded the best-developed economy in African and one of the fast developed economies of the world. Ghana another African country is one of the many nations undergoing industrialization.

Steel (1992) in his work posits that Ghana on the realization of the importance of industrialization, introduced economic recovery program (ERP) way back in 1983 to redress some of the causes of his long economic decline. He went further to state that the key element of the program supported by adjustment lending, import liberalization increased access to previously restricted inputs especially for small firms and broadened competition from imported products with the massive realignment of the highly overvalued exchange rate which created now export substitution. Oba (2013) in his their work say that those import dependant firms were though, due to price rise and imported inputs and cost of financing them. In the light of this problem, the alternative was to look into small-scale enterprises development. These small-scale enterprises employed technology transfer as well as the development of their indigenous technology where necessary. This means that the nations are using a combinational strategy to pursue industrialization process. Parker, Riopelle, and Steel (1995), says that in Ghana the small and medium scale enterprises contributed to the economic growth immensely. The sector had absorbed the labor by 15.5% when compared to large-scale firms that had employed only 5% of the labor forces.

They also gave their respective reasons for the support of the development of small and medium enterprises in Nigeria which will be embodied in the industrialization framework of Nigeria. Musa, Daniel, and Joseph (2015) stated that due to the low level of capital required for the establishment of small-scale enterprises, it helps in industrialization process of the country. Adeloja (2002) is of the view that due to a large number of establishment and the labor-intensive nature of their operation it will guarantee employment of large members of the society while inversions adaption and general technological development will also be there as it is common with the enterprises. A more equitable distribution of income eis usually achieved in this sector considering the fact that the small firms are large in number and employs larger population. Parker et al (1995).

Zecheus and Moseni, (2014) stated that enhancement of the tempo of industrial development is generally visible among small and medium scale enterprises to become a feeder of large-scale enterprise. This will help the forward and background linkages needed in industrial growth. Therefore we advocate the adoption of import substitution industrialization co-joined with the export-oriented model of which the position of small-scale firms is evidently clear.

Problem of Small Scale Enterprises in Nigeria

Agwu and Emeti (2014) stated that despite the catalytic role of SMEs in the economic emancipation of countries some of their major operational challenges in Nigeria include:

1. **Financial Problems:** About 80% of small-scale enterprises are stifled because of poor financing. The problems of financing is not with the source of funds but it's accessibility. Factors identified hindering accessibility include conditions set by financial institutions, lack of adequate collateral and credit information, cost of accessing funds and so on.

2. **Management Problem:** Lack of trained manpower and management skills also constitute a major challenge to the survival of small-scale enterprises in Nigeria. According to West and Wood (2000) "asserted that 90% of all business failures result from lacks of experience and competence.

3. **Inadequate Basic Infrastructure:** Nigerian Government has not done well to create the best conducive environment for the striving of small-scale enterprises. The problem of infrastructure ranges from shortage of water supply, inadequate transport system, lack of electricity to improper solid waste management

4. **Socio-Cultural Problems:** Most Nigeria enterprises do not have the investment cultural of plowing back profit. David (2005) stressed that the attitude of a typical Nigeria entrepreneur is to invest today and reap tomorrow. Also the problem of bias against made-in-Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

5. **Strategic planning Problems:** small-scale enterprises often do not carry out proper strategic planning in their operations. Ojiako stated that one problem of the small-scale enterprise is lack of strategic planning. Sound planning is a necessary input to a sound decision making.

6. **Location/Economic Problem:** Market stores are dominated by absentee landlord who charge exorbitant rates. The ownership of market stores by politicians is crowding real small-scale operators out of the market. Also, domestic economic problems of deregulation and removal of protection as well as the global financial crisis have been detrimental to small-scale enterprises.

7. **Poor Accounting System:** The accounting system of most small-scale enterprise lack standard, hence no proper assessment of their performance. This creates an opportunity for mismanagement and eventually leads to the downfall of the establishment.

8. **Multiple Taxation:** This has become a major problem especially given the role of the tax consultants and agents hired by local government. They are often crude in their operation, excess in their assessment and destructive in their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect to household incomes and employment.

9. **Unstable Policy Environment:** Instability in government policies have caused some small scale enterprise to collapse. One of such policies is that of the 1980s when government specified that cocoa should not be exported raw or an unprocessed form after a specified deadline, many small-scale enterprises had to import machinery only for the government to reverse this policy. This negatively affected so many small-scale enterprises in the cocoa industry.

Small-scale enterprises failure in Nigeria

Although SME sector is favoured on the point of view that SMEs stimulate economic growth, however, market imperfections and institutional failure hamper their growth amongst these market imperfections and institutional failure in Nigeria are inconsistent government policies (political uncertainty, inconsistent tax policy), poor management strategic skills, lack of credible credit information, credit quality and institution; dearth and paucity of credible and reliable database; poor infrastructures (roads, electricity, energy, communication; manufacturing environment) dwindling economic environment (venture capital, fluctuating value of the naira, financing), low quality product inputs arising as a result of the quality and availability of raw materials and bottleneck bureaucracy (Onibokun and Kumuyi, 1996; Ubom, 2006). The socio-economic development challenges confronting Nigeria is exacerbated by the changing demographic profile of the country. The number of unemployed is on the increase, of which the proportion of the educated youth will also continue to rise.

Fortunately, Nigeria's economic growth has in the last decade been led by the service sectors which is predominately easier for entrepreneurs to start, usually due to its low capital needs in comparison to goods sectors (SMEDAN, 2010). Some of the arguments believed to cause their low performances include: The Association of Nigeria Development Finance Institution (ANDFI) 2004 issued a statement that "Finance is usually considered as major constraints in SMEs while this may be true empirical evidence have shown that finance contributes only about 25% to the success of SMEs. Thus, the creation of other appropriate support system and enabling environment are indispensable for the success of SMEs in Nigeria. David (2004) stated that "Government all over the world now reorganize the important contributions that small firms make to the economy and many governments have established extensive support arrangement to help people start and grow their business. In Nigeria, there has been no concerted effort to encourage and support new business".

Prospects of Small Scale Enterprises in Nigeria

The role of small-scale firms in any nation whether developing or developed cannot be overemphasized. Basil (2005) reiterates that the earliest business enterprise began on a small scale. It is always better when growth starts from the scratch. The developmental process of human beings starts from conception gradually grows till birth and then to when the child matures into an adult. It is obviously clear that the most multi-nationals today started at small scale. Aliyu (1990) on realizing this role says that the investment aimed at stimulating the development of a more diversified and integrated industrial base has shifted to small-scale enterprises. Many countries have developed successful approaches to achieving their development. Small-scale enterprises are seen as one of the tools achieving development conjoined with others. If there is a commitment from both small-scale enterprise and the supporting institutions, there will be an unprecedented benefit from small-scale sector.

Mba and Cletus (2014) say that what makes manufacturing popular in the Asian countries are mostly the one-room factories that constantly gives way to one flat factory which are along the part for the industrial revolution. So, small-scale enterprises are the solid ground on which industrialization thrives because it gets down to the grassroots. So Nigeria as a country will be

recognized as one of the industrialized nations if she adopts one of the successful models or strategies for industrialization considering its affordable labor and available raw materials within the local content.

Conclusion

It has been identified that the small-scale enterprises could be used as a tool that can help in achieving industrialization in Nigeria. Though it is limited by the problems in Nigeria and the way Nigerians go about their business. The identified roles performed by a small-scale enterprise should be fully exploited in the face of the problem encountered. With the right framework, perseverance and strict implementation of successful growth and development policies, there will be tremendous growth in Nigerian industrialization and small-scale enterprise will be of great benefit to achieve this industrialization. Take the evidence of other nations developed and developing, we say small-scale enterprise is extremely important in achieving growth and development of any nation. Though we are still far from reaching the desired level, it is evident that grassroots development can be possible through small-scale enterprises. It is evidently clear that the following can further develop the country, industrial initiative, and entrepreneurship, export promoting, provision of the complementary role by small-scale enterprises and generation of employment

Recommendations

From the analysis, the following recommendations are made:

1. Provision of basic infrastructure is one of the main challenges encountered by Nigerian small-scale enterprises, issues like epileptic power supply and poor road network. It is therefore very important that the government provides basic infrastructure as a one of the government's priority.
2. There is the issue of government policies and support programs that end up not reaching the greater number of small-scale enterprises. The government should come up with monitoring team that will ensure the implementation of the policies and programs in such a way that all small-scale enterprises will be beneficiaries.
3. Genuine efforts made by serious investors should not be allowed to go to waste. They should be encouraged by the government through support financially and otherwise.
4. The problem of obsolete technology can be tackled by continues training of the investors by the government and also the purchase of latest machinery to complement training will help a great in solving the challenge.
5. The problem of SMEs should be tackled by the multidimensional concerted approach by all stake government at all levels, agencies, parastatals banks, regulatory authorizes so on.
6. The entrepreneurial attitude should be encouraged and enforced at all educational levels starting from the primary level which is the foundation with these recommendations, small-scale enterprises will be better of and this will definitely lead to industrialization in the country.

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