THE ROLE OF SMES DEVELOPMENT ON POVERTY ALLEVIATION IN NIGERIA*

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Received 10 March 2019; accepted 20 June 2019; published 30 September 2019

Abstract. The role of SMEs development on poverty alleviation has been a core element of the current report. This study examined the role of small and medium enterprises on poverty eradication in Nigeria. Two research questions were posed for the study and two hypotheses formulated in line with the objectives. One hundred and forty two (142) questionnaires were administered randomly to the entire employee population of the SME companies that are registered with SMEDAN in Lagos Nigeria. The sample size was determined using Yamane formula. The data was analysed using manual and electronic based methods with the aid of data preparation grid and statistical package for the social sciences, (SPSS) statistical package version 21.0. The study made use of statistical tools which include: analysis of variance (ANOVA), correlation efficient and regression analysis in testing hypotheses where applicable. Therefore, the study found out that SME development affects poverty alleviation and also Training organized by SMEDAN affects SMEs employment creation. It was discovered that the small and medium enterprises provided employment opportunities, training ground, harnesses utilization of local resources and also acts as a pillar hold of a nation, Nigeria inclusive. The study concluded that a good development strategy if employed by these SMEs will grow to large-scale capital intensive. The study recommends that SMEs should source their loans from the financial institutions where interest rates are low.

Keywords: SMEs; poverty eradication; employment creation; training; SMEDAN

Reference to this paper should be made as follows: Kowo, S. A.; Adenuga, O. A. O.; Sabitu, O.O. 2019. The role of SMEs development on poverty alleviation in Nigeria, Insights into Regional Development 1(3): 214-226. https://doi.org/10.9770/ird.2019.1.3(3)

* Parts of this text are spinoffs from research in the framework of the project European Union's Horizon 2020 Research and Innovation Programme projects European Cohort Development Project (ECDP) Grant Agreement No.777449 (2018-2019)
1. Introduction

In this period of globalization, through world trade it is well recognized that private sector development has an important role to play in poverty alleviation (Bagetic & Sanogo, 2005; Tavis, 2016; Volchik et al., 2018; Mayorova et al., 2018; Bužavaitė et al. 2019).

Micro, small and medium enterprises is a very important sector in Nigeria economy and it is stipulated in the Nigeria strategy for Growth and Poverty Reduction as a crucial towards addressing the concerns and aspiration of the Nigeria vision 2020 (Nwaba, 2011). Nigeria has been the center of trade for many centuries. Nigeria depends on commercial activities for economic growth and most of them are engaged in the small scale business as the major means of earning their income particularly on agricultural sector, fishing sector and other business. These sectors contribute significant towards the reduction of poverty and unemployment. In Nigeria before revolution people were more engaged in micro, small and medium enterprises as artisans and other activities in urban areas. In rural areas SMEs engaged people in agricultural activities and business involving agriculture products and other consumable. After the 1964 revolution, the Government initiated a number of SMEs enterprises for the manufacture of nails, garment, cooking utensils, electrical wires, soaps and other products.

The SMEs in Nigeria create job opportunities among the low skilled people and therefore hold the key to employment creation and income generation (Maina, 2014; Iorun, 2014; Udoko-Aka, 2015). In the mid-1970s SMEs were engaged in cooperative activities especially for women groups (Ogundele, 2012). In 1984 the business started to build its root after the announcement of Free Trade (Trade Liberalization policy) and this was the initiation for small Scale Enterprises. Various investments have been approved and a large number of Small Scale Enterprise (SMEs), commercial farming and even manufacturing firms were established by natives and foreigners (Sule, 2014).

Consequently, the need for this research work is very important. The majority of enterprises in Nigeria fall within this category. SMEs accounts for over 70 percent of employment in Nigeria, with the potential of employing more and also has a large potential of reducing poverty in our economy (Sule, 2014; Otokiti 2002).

The small and medium enterprises (SMEs) are supervised by various ministries in depending on its nature of operation. Those ministries are: Ministry of Trade, Industry and marketing, Ministry of community, woman and children, Ministry of Labour, Economic empowerment and cooperatives and Nigeria chamber of commerce and industries. SMEs activities are in the form of batik making, antiques, handcraft works, medicine soap making, oil milling and other tourism articles involved in trades which include purchasing and sales of goods and agriculture. Long chains of this type of business are located at many places in South west Nigeria. Most of them are owned by individual and other by family or groups. These enterprises create many job opportunities to the people of Nigeria especially the youth from different gender. The main objective of small enterprises is profit making and enabling people to improve their income through this kind of business (Anyanwu, 2004).

1.1 Statement of the Problem

Generally, the Small and Medium Enterprises (SMEs) has become very popular entity in Nigeria due to their important role they play in terms of reducing unemployment rate among people. Concern with employment creation and with the welfare of the least advantaged can therefore lead to policies to raise labor standards and employment levels and stability in this sector on microeconomics and distributional grounds (Anyanwu, 2004). This has been reinforced in the past by the not always sustainable notion that these firms are in general, efficient
users of labor inputs at a micro economic level. CBN (2007) provide a useful critical review of this line of reasoning. Another set of argument hinges upon notions of market failure. The government of Nigeria has undertaken various measures and programmes to establish and sustain the SMEs in order to contribute towards poverty reduction. This action has caused many people to formulate and engage in SMEs. To address the problems aforementioned, the study will answer the following question: (i) To what extent does SME development affect Poverty Alleviation? (ii)To what extent does training organized by SMEDAN affect SMEs Employment creation? The Research Objectives are: (i) To determine the role of SMEs development on poverty alleviation. (ii)To determine the effect of training organized by SMEDAN on SMEs Employment creation.

1.2 Operationalization of Research Variables
Examining the Role of SME development on poverty alleviation as the topic has the following constructs: Dependent construct as – Poverty alleviation and Independent as SME development. The above is mathematically expressed as Y = f (X)
Where Y – Dependent Variable
X – Independent Variable.
Y – Poverty alleviation
X – SME development
Therefore from this equation, the alleviation of poverty would depend on the development of SME
This is expressed as:
Poverty alleviation = f (SMED)
That is PA = f (SMED)
Where PA = Y and SMED =X
The X and Y are broken down as follows:
Y = (y1, y2,)
y1 – Poverty alleviation
y2 – Employment generation
Similarly X = (x1, x2)
Where
x1 – SME development
x2 – Training

2. Literature Review

2.1 The Roles of Small and Medium Enterprises in Eradicating Poverty in Nigeria
Small and medium scale industries facilitate the creation and use of non-existing or unused products and materials. It is also the main stream of economic activities in a nation and provides the stages for industrial revolution and economic growth (Abosede, 2000). In a contribution of Abugu (2007) on the place of small scale enterprises in the economy, he states that “the role of small & medium scale enterprises in the development of the country has been summarized in the Nigeria Third National Development Plan of 1975-80 which dwells on generating employment opportunities, stimulating indigenous entrepreneurs, improvement in per capita income, balanced regional development, education, empowerment of citizens, Stimulation of indigenous companies and providing self-sufficiency.

Improvement in Per Capital Income
SMEs locate and exploit opportunities. They convert idle resources like land, labour and capital into national income and wealth in the form of goods and service. They help to increase Net National Product (GNP) and per capital income in the country, which are important yardstick for reducing poverty and measuring economic growth (Adelaja, 2003).
Generation of Employment
Anyanwu (2003) Opined that SMEs enhance employment generation in a place since unemployed youths and graduates can easily engage in skills on their own. Small and medium enterprises generate more employment opportunities on the aggregate than giant industries. Many people in this country depend on self-employment for sustenance. Many others including their relations are provided employment in these enterprises directly and indirectly.

Education
Towards the end of the sixties, two significant contributors were made in the field of small and medium enterprises. One was that, there is a positive linkage between entrepreneurship and economic development and the other was regarding and emergence of a strong hypothesis that small and medium enterprises can be developed through planned efforts (Capenter, 2001; Otokiti, 2002).

Provide Self Sufficiency
The small and medium enterprises not only become self-sufficient but also provide great standards of living to its employees and the public. It provides opportunity to a number of people working in the organization. The basic factors which become a cause of happiness may be liberty, monetary rewards and the feeling of contentment that one gets after doing a job (Uzoma & Uzoma, 2012).

2.2 Characteristics of Small and Medium Scale Enterprises
A major feature of SMEs in Nigeria relates to the ownership structure, which primarily revolves around one-man or a family. Nigerian SMEs are predominantly owned by a sole proprietor or partners (Adeniji, 1981). Owualah (1999) states that in Nigeria SMEs, it is difficult for owners or managers to obtain short or long term capital from the organized capital market, but instead relies on loans from friends, relatives or money lenders, and also from personal saving (Udoko- Akaka, 2015). Adegbite (1995) refer to Nigerian SMEs as the cornerstones in which Nigeria economic growth and stability rests. Similarly, Adeniji (1981) states that SMEs are known to be labour intensive, and SMEs in Nigeria account for over half of the total share of employment. According to CBN (2007) SMEs have contributed significantly to Nigeria development by the provision of employment opportunities, marketing of goods and services, and the growth and development of the rural areas. SMEs have also contributed immensely to the growth of indigenous entrepreneurship in Nigeria. From this point in time it has been agree that SMEs are generally regarded as the locomotive that drive the economic engines of growth and poverty eradication in developing countries like that of Nigeria(Tavis,2016;Alexander, 2005;Onyemere,2013;Cares & Porter 1997).

2.3 Constraints to Small and Medium Scale Enterprises Development
The challenges faced by SMEs globally are very worrisome which hinder its operation towards alleviating or reducing poverty in the country (Chasten and Mangles, 1997; Sule, 2014; Caleman, 2002; Brain& Ostenyeng, 2001; Ogundele, 2012; Afrane, 2002; Adizes, 1979).The following are the constraints faced by SMEs: Osuagu (2016) opined that lack of access to finance or loan has been one of the most pervasive obstacles faced by SMEs in both developed and developing countries. It represents the major challenges which can significantly affect the ability of a firm to grow, upgrade its technology, expand its market, and promote its management skills, increase productivity simply to grow and survival in the business environment (Berger, 2000; Kao, 1982; Hall, 1987; Williamson, 1985; Wiles, 1977; Ogundele & Olayemi, 2015; Cheston & Reed, 1999). Onyemere (2013) posit that inadequate financial services have been figure out as the primary inhibitors to SMEs development and production in Nigeria. Barry (1978) noted that insufficient start-up capital from the personal savings of an individual and the contribution from friends and relatives still constrained access to institutional finance from the capital market and banks. The genesis behind the limitation or constraint includes; wrong and unacceptable feasibility report, inability to raise the required equity contribution, lapses to provide collateral securities and incomplete financial
documentation (Yavlinsky et al, 1994; starodubrovskaya, 1995; Anyanwu, 2004; Churchill 1983; Chan et al 2006; Ogundele & Opeifa, 2014b).

**Infrastructural Facilities**
Inadequate infrastructural facilities or deplorable conditions of the available once and it has posed a formidable obstacle to SMEs operations, and hence call for urgent attention by the government (Otokiti, 2002). The obstacle of infrastructure involves inadequate transportation system, shortage of water supply, poor telecommunication system, and lack of electricity to solid waste management. These make businesses to provide expensive parallel infrastructure. These have been a hindrance to the success of SMEs performance in Nigeria (Adelaja, 2003).

**Strategic Planning Problem**
SMEs do not carry out strategic planning in their operations properly. Previous study conducted by Wedel (1998) claimed that SMEs lack strategic planning system because well active and sound planning serve as a necessary input for sound decision making for new ventures or existing enterprise to succeed in terms of profits maximization and the rest.

**Multiple Taxation**
Abugu (2007) discovered that the manifold and high taxes are considered to be significant factors that cause SMEs’ failure in Nigeria. This is the major obstacle faced by given it to tax consultants and agents hired by the governments at all level. There are not honest in their operations, excessive in their assessment and broken heart in their relationship to the production process.

**Unfavourable Fiscal Policy**
It has been recognized that Government policies and programmes regarding SMEs are inappropriate, inadequate or inconsistent, which inhibit the growth and development of SMEs (Otokiti, 2002). Anyanwu (2003) also state that the SMEs sector in Nigeria has not been thriving mostly due to poor implementation of several government policies as well as frequent policy changes or what they call policy inconsistencies.

**Sources of Finance to Small and Medium Enterprises**
Small scale business could be financed through the following ways: Saving: Individuals save money for various motives. Individuals can directly set aside unexpended earning and save indirectly when they pay life assurance premiums or purchase amenities (Bamberger, 1983).

**External Borrowing**
An individual who wishes to start a business can borrow money from people or external sources to expand his business. A sole proprietor or partnership may obtain funds by borrowing from a private individual or from micro credit institution (Carland et al, 1994).

**Trade Credit**
The basic trade credit transaction involves the supplies handling over goods or performing a service without receiving immediate payment in exchange. The customer is expected to pay by some agreed issues.
- a. The seller would be unwise to part with goods or perform the service, unless he is satisfied that the customer will indeed pay.
- b. The terms of the transaction will include some credit period which is accepted to both parties and to which it would be to the customer advantage to adhere.
- c. There must be some sanction, which the supplier can impose on the customer if he fails to meet the agreed terms. There are three reasons for the existence of trade credit. They are convenience, cost, and loyalty. Trade credit service as a permanent source of loans to worth customers.
2.4 Problem of Small and Medium Enterprises in Nigeria

Lack of Access to Funding/Credits
When an idea is conceived, there must be fund to actualize such idea (Ogundele, 2012). A business opportunity in the course of planning must first consider capital as a basis for the establishment. This is because deficiency of fund in procuring fixed and current assets as required by the enterprises jeopardizes the operation of the business (Osagu, 2016; Uwandu, 2012). Lack of capital therefore is a disability to the industrialist in the actualization of their objective which sometimes is attributed to the rigorous bureaucratic red-tapism involved in procuring funds from the banks and financial institution (Ogundele & Olayemi, 2015).

Government Unstable Policies
Uzoma & Uzoma (2012) Opined that there has been an instability and inconsistency in the Nation’s government and policy formulations. Government policies and social attitudes affect business operation considerably. Nwaba, (2011) noted that “in a nation of relaxed economic policies and stable political system, the business community is seen to flourish more than one that lacks these qualities” He further added that government policies and laws could have such an overwhelming impact on the business arena leading to economic boom or depression. The regulation of the Central Bank of Nigeria (CBN) over banks on both fiscal and monetary policies coupled with inconsistencies of these policies determines the credit extension to the small and medium enterprises (Ogundele & Opeifa, 2014b).

Lack of Suitable Training and Leadership Development
Sule (2014) emphasized that Training institution abounds in Nigeria, but they rarely address the relevant needs of SMEs especially in the areas of accounting, marketing, information technology, technological processes and development. SMEs are left most often on their own to survive amidst the avalanche of operational difficult inherent in the Nigeria environment as well as the operational shortcoming, which characterize institution set up to facilitate small scale enterprises businesses. Some of this organization lacks appropriate skills to operate (Nwaba, 2011)

3. Methodology

In this study, SMEs that are registered with SMEDAN in Lagos are used in determining the role of SMEs on poverty alleviation and the survey method is adopted for collection of relevant data. The study employed the ex-post facto method. For the purpose of this research, the study population refers to the entire number of employees in SMEs that are registered with SMEDAN in Lagos. For this study, the sample size is determined using Yard's formula. This formula is concerned with applying a normal approximation with a confidence level of 95% and a limit of tolerance level (error level) of 5% (Harrel, 2001).

To this extent the sample size is determined by

\[ n = \frac{N}{1 + N \cdot \epsilon^2} \]

Where:
- \( n \) – the sample size
- \( N \) – population
- \( \epsilon \) – the limit of tolerance

Therefore, \( n = \frac{220}{1 + 220 \cdot 0.05^2} = \frac{220}{1 + 220 \cdot 0.0025} = 220/1.55 = 142 \) respondents

A sample size of one hundred and forty two (142) SME out of the two hundred and twenty (220) SME population of the selected SME that are registered with SMEDAN in Lagos as calculated above. All members of the population had equal chances to be chosen as part of the sample because one hundred and forty two (142) questionnaires were administered randomly to the entire employee population of the SME companies that are registered with SMEDAN in Lagos. The data was analysed using manual and electronic based methods with the
aid of data preparation grid and statistical package for the social sciences, (SPSS) statistical package version 21.0. The study made use of statistical tools which include: analysis of variance (ANOVA), correlation efficient and regression analysis in testing hypotheses where applicable (Table 1, Table 2).

| Respondents Occupation | Questionnaire administered (sampled) | Percentage of total response (%) |
|------------------------|---------------------------------------|----------------------------------|
| Top Level              | 29                                    | 24.00                            |
| Middle Level           | 48                                    | 39.60                            |
| Lower Level            | 44                                    | 36.40                            |
| Total                  | 121                                   | 100.00                           |

| Gender/Category        | Questionnaire administered (sampled) | Percentage of total response (%) |
|------------------------|---------------------------------------|----------------------------------|
| Male                   | 76                                    | 62.80                            |
| Female                 | 45                                    | 37.20                            |
| No of Returned         | 121                                   | 85.21                            |
| No of not Returned     | 21                                    | 14.79                            |
| Total no of Questionnaires | 142                              | 100.00                           |

Source: Field Survey 2018

4. Results

Hypothesis 1

H₀₁  SMEs development does not affect poverty alleviation
Hₐ₁  SMEs development affects poverty alleviation

| Model | R       | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|---------------------------|
| 1     | 0.979   | 0.957    | 0.957             | 0.24561                   |

a. Predictors: (Constant), SME DEVELOPMENT

Source: Authors Computation, 2018
The results from the model summary tables above (Table 3, Table 4) revealed that the extent to which the variance in poverty alleviation can be explained by SMEs development is 95.7% i.e (R square = 0.957). The ANOVA table shows the Fcal 2680.186 at 0.0001 significance level. SME development affects poverty alleviation.

\[ Y = a + bx \]

where \( y \) is reduction in cost and \( x \) is SMEs development, \( a \) is a constant factor and \( b \) is the value of coefficient. From this table therefore, POVERTY ALLEVIATION = 0.049 +0.979 SMEs development. This means that for every 100% change in poverty alleviation, SMEs development contributed 97.9%. The significance level below 0.01 implies a statistical confidence of above 99%. This implies that SMEs development affects poverty alleviation. Thus, the decision would be to reject the null hypothesis (H\(_{o1}\)), and accept the alternative hypothesis (H\(_{a1}\)).

**Hypothesis 2**

\[ H_{o2} \] Training organized by SMEDAN does not affect SMEs employment creation

\[ H_{a2} \] Training organized by SMEDAN affects SMEs employment creation

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|-------|------------------------------|---------------------------|---|------|
|       | B   | Std. Error | Beta |     |      |
| 1     | (Constant) | 0.049 | 0.084 | 0.589 | 0.557 |
|       | SMEDEVELOPMENT | 0.979 | 0.019 | 0.979 | 51.771 | 0.000 |

The coefficient table (Table 5) above shows the simple model that expresses how SMEs development affects poverty alleviation. The model is shown mathematically as follows:

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**Hypothesis 2**

\[ H_{o2} \] Training organized by SMEDAN does not affect SMEs employment creation

\[ H_{a2} \] Training organized by SMEDAN affects SMEs employment creation
The results from the model summary tables above (Table 6, Table 7) revealed that the extent to which the variance in SMEs employment creation can be explained by SMEDAN training is 95.8% i.e (R square = 0.958). The ANOVA table shows the Fcal 2718.968 at 0.0001 significance level. Training organized by SMEDAN affects SMEs employment creation.

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. |
|-------|----------------------------|---------------------------|---|-----|
|       | B  | Std. Error | Beta |     |     |
| 1     |    |            |      |     |     |
| (Constant) | 0.144 | 0.082 | 1.747 | 0.083 |
| TRAINING | 0.973 | 0.019 | 0.979 | 52.144 | 0.000 |

The coefficient table above (Table 8) shows the simple model that expresses how training organized by SMEDAN affect SMEs employment creation. The model is shown mathematically as follows;

\[ Y = a+bx \]

where y is SMEs employment creation and x is SMEDAN training, a is a constant factor and b is the value of coefficient. From this table therefore, SMEs employment creation = 0.144 +0.973 SMEDAN training. This means that for every 100% change in SMEs employment creation, SMEDAN training contributed 97.3%. The significance level below 0.01 implies a statistical confidence of above 99%. This implies that training organized by SMEDAN affect SMEs employment creation. Thus, the decision would be to reject the null hypothesis \( H_0 \), and accept the alternative hypothesis \( H_a \).

4.1 Empirical Findings

The general finding of this research study centered on the achievement and role of SMEs in eradicating poverty in the state.

(1) It was discovered that the small and medium enterprises provided employment opportunities, training ground, harnesses utilization of local resources but also acts as a pillar hold of a nation, Nigeria inclusive.

(2) More so, the problems of the industry were also identified as; managerial /technical problem, inadequate and improper utilization of funds, commercials and infrastructural problems and instability in government policy as envisage by the various authors whose works were cited in chapter two (2)of the research studies.

(3) Further analysis in reflected these problems as major causes of failure in the industry and more importantly in the areas of managerial capability, which encompasses the general ideality, resources and motivation within the reach of the entrepreneurs. In other words low productivity and inefficiency were attributed to poor managerial function existing in small and medium enterprises.

5. Conclusions

From the information supplied by the various related literature, regarding problem, nature, capacity and prospect of small and medium enterprises including oral interviews and information gotten from the analyzed questionnaire, it becomes clear that many variables needs the attention of the small and medium enterprises and government alike such include the provision of incentives, credit and loan facilities, provision of infrastructural facilities, promotional campaign support programme etc the impact made by these SMEs cannot be underestimated especially in the areas of providing employment opportunities and utilization of local resources. Its immense contributions in providing for the general public and basic needs of the society cannot be quantified. A good development strategy if employed by these SMEs will grow to large-scale capital intensive.
6. Recommendations

In line with the above premise of findings and conclusions drawn by the study, the following recommendation if applied effectively will serve as a means of achieving economic growth and eradicating poverty in Nigeria.

1. Firstly small and medium enterprises should source their loans from the financial institutions where interest rates are low. Entrepreneurs should insist on revolving loan scheme from government which should be interest free.

2. Secondly, government should introduce a revolving loan scheme for small and medium enterprises; she can equally set up a team to monitor the use of such loan so as to avoid its diversion. To this end Nigeria Industrial Development Bank (NIDB), Nigeria Bank of Industry (NBI) and Nigeria Agricultural and Cooperatives Bank (NACB) should gear up towards assisting the small and medium enterprises in satisfying their capital needs.

3. Thirdly, the government can jointly open a data bank with small and medium enterprises. The duty of this bank will be to furnish potentials and prospective investors with information concerning the availability of factors of production and the existing market potentials in the economy.

4. Finally, an improvement and reliability by the government on the infrastructural facilities such as accessible road and regular power supply will facilitate efficient operation of the industry; moreover, a positives thinking, concern and implementation in the development plan and policies of the government over small and medium enterprises will yield positively to the promotion of the industry.

5. The government therefore should protect the manufacturing industries by way of banning and increasing tariff on import of similar goods so as to promote our indigenous entrepreneurs. Besides, recognition of the small scale industries as a base to industrialization will assist in achieving a maximum productivity, efficiency and total independence in the near future.

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Acknowledgements

Parts of this text are spinoffs from research in the framework of the project European Union’s Horizon 2020 Research and Innovation Programme projects European Cohort Development Project (ECDP) Grant Agreement No.777449 (2018-2019)

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