International Journal of Research in Social Sciences
(ISSN: 2249-2496)

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Editorial Board

Title

SMALL AND MEDIUM SCALE ENTERPRISES AND ECONOMIC GROWTH IN NIGERIA

Author(s)

OBASAN KEHINDE A.
Department of Business Administration,
Olabisi Onabanjo University,
P.M.B.2002 Ago-Iwoye,
Ogun State. Nigeria

ADEDIRAN, OLANREWAJU ADEWOLE
Department of Economics,
Crescent University,
P.M.B.2104 Sapon,
Abeokuta Ogun State, Nigeria.

Abstract:

Small and medium scale enterprises (SMEs) was acknowledge as effective instrument for economic growth, so this necessitate the analysis of its contribution to sustainable development as it is proxy by economic growth in Nigeria. To accelerate growth and reduce poverty, World Bank group and other international agencies provide targeted assistance to small and medium scale enterprises in developing economies and thus include Nigeria. There is a relationship between small and medium scale enterprises and economic growth in Nigeria but what is the degree of significant even-though the country strives to achieve poverty alleviation, industrialization, millennium development goals (MDG's), vision 2020 among other sustainable development programmes. The data set covers from 1980 to 2008 as the study employ time series data with the use of 7.0 E-view statistical packages. Therefore, econometric tool will be employ to analyze the contribution of small and medium scale enterprises to economic growth and development in Nigeria. Appropriate policies were therefore recommended on how sustainable development can be achieved through small and medium scale enterprises in Nigeria.

Key words: Gross Domestic Product, Small and Medium Scale Enterprises output.

INTRODUCTION:

The role of small and medium scale enterprise is very important in our development effort particularly at this period when government and non-governmental organisation (NGO) agencies are placing top priority on the development of our rural areas through small scale industries development in an effort to reduce the incidence of unemployment among youths and women. And have in recent years explained to such an extent that they are the source of livelihood for between one-third and three quarter of the urban economically active population. (Maldonado and Sethuraman,1992)

It plays a useful role in alleviating poverty ill educated and ill trained is now widely recognized.

Millennium development goals (MDG's) consists poverty reduction or alleviation and so on. But, the persistent income inequality has been since independence but increasing poverty rate started during the oil boom era. This is an elusive concept, which is determined by which ever way one tends to look at it. The eradication of widespread absolute poverty and reduction on income inequality is in the content of redistribution of Economic opportunities, which emphasizes the need to provide and guarantee a decent livelihood to majority of the populace; which include the provision of adequate food, shelter and clothing, access to health facilities and education and greater employment opportunities. Lack of these things is both a symptom and causal of absolute poverty and income inequality. (Todaro, 1989).

Poverty is a global phenomena which affects continents, nation and people differently. It affects people in various depths and levels at different times and stages of existence; the main difference is the intensity and prevalence of this malaise. Poverty relates to a state whereby individual lacks the ability to cater adequately for his or her basic needs of food, clothing and shelter, variable to meet social and economic obligations, lack gainful employment, skills assets and self esteem and also has limited access to social and economic infrastructures such as health, education, potable water and environment protection (CBN- Economic and Financial Review, 1991). Today, Nigeria is ailing economically not because she is not richly endowed with natural resources but presently there is low industrial capacity utilization and high dependence on the imported input for the existing manufacturing industries (Marsden, 1984; Kiaj, 1989; Haan, 1989; Fuitmen, 1989) have shown that the modern formal sector is viable to cope with the increasing number of the poor, the unskilled, the illiterate and hungry. It has been demonstrated that the informal sector is capable of absorbing large proportion of the new entrants into the labour force. The proportion of small scale industries in the sector is expected to produce a process of indigenization of the industrial sector, generate higher employment per unit of investment, make use of local raw material and lead to the development of technology and manpower. The problem impending the development of this sector in Nigeria range from financial problem, managerial, marketing, technological, shortage of basic physical infrastructural facilities, raw materials and other related problem.

Recently, the World Bank estimated the number of people living below poverty line to be over 71% which invariably portrays higher poverty rate leading to greater income inequality. Small and Medium Enterprises (SME) have become a popular phrase in the Nigerian lexicon since this administration. Key policymakers in the public and private sectors now comment on this issue every so often. Hopefully this signifies a growing realization as to the core values that SMEs can deliver to Nigeria, such as Job Creation, Poverty Alleviation and Foreign Exchange Conservation. So-called SMEs both in the formal and informal sectors employ over 60% of the labor-force in Nigeria. The attempt by Nigeria over the last four-decade to fully advance into the industrial age has failed woefully due to bureaucratic malfeasance, misplacement of priorities and the inability to adequately capitalize on available potentials within the country to create a sustainable domestic production base and efficient service industry. And the role of small scale enterprise comprises of a number of different characteristics. These clearly represent the overwhelming majority of industries capacity in developing countries. The importance of SME in our economy cannot be over emphasized.

According to Beachman and Cummnghand (1970) the small business is an indispensable part of even the most advanced industries. It functions in such a way as to fill in the gaps left by larger firms producing small outputs, filling batch orders and carrying out special processes; which larger firm with their more rigid structure and heavy overheads would find prohibitively expensive to carry out itself. With proper digestion of some work that have relationship with this study, small and medium scale enterprise will play a sin-qua-non role in poverty alleviation, economic growth and achievement of millennium development goals in Nigeria and world at large.

Obviously, small and medium scale enterprises was acknowledge as effective instrument for economic growth, so this necessitate the analysis of it contribution to economic growth. Therefore, econometric tool will be employ to analyze the contribution of small and medium scale enterprises to economic growth and development in Nigeria. Hence, econometric may be considered as the integration of economics, mathematics and statistics for the purpose of providing numerical values for the parameters of economic relationship and verifying economic theories. (Koutsoyiannis, 1977)

The objective of this paper is to examine the effect of small and medium scale enterprises on economic growth in Nigeria. The remaining part of this paper is divided into four sections. Section II presents literature review, Section III provides the methodology while Section IV analyses the estimated results. The last section (Section V) comprises of concluding remarks and recommends.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK:

Globally, the definition of SMEs varies from country to country, depending on parameters considered best suitable to promote the sub-sector in each country. However, in most developing countries, the promotion of micro, small and medium enterprises (MSMEs) has become an important part of the process of reform and restructuring that are inevitable, given the experience of countries such as Nigeria that earlier pursued policy of investing mainly in large scale industries. Nigeria has changed this position as the impact and contribution of SMEs to the industrialization of the country has been generally recognized". (Jamodu, 2001)

Small and Medium Scale Enterprises SMEs is a sector of the economy that has attracted and retained government's attention in the past tow or more decades. In many developed and developing countries, the government assist them with favourable policies, plans and programmes in reversion of the older practices of giving interest to the big business. The official reversal may not be unconnected with promotion of economic self-reliance. (Onah,2001)

Small Scale Enterprises have no consensus definition as the term small is relative and it differ from industry to industry and country to country. The difference amongst industries could be described to the different capital requirements of each business whilst among countries could arise as a result of differences in industrial organisations of countries at different levels of economic development. Moreover, the guide for the Small and Medium Scale Industries equity Investment Scheme now modified and called Small and Medium Enterprises Equity Scheme (SMEEIS) an initiative of the (Bankers Committee) in June 2001. The above definitions of SMEs not withstanding may have been overtaken the rapid inflationary factors which characterized Nigeria's economy today.

The size and nature of SMEs allow them to be more proactive, more flexible, more entrepreneurial and most efficient than larger firms, hence their enviable success records. They can translate ideas into reality fairly quickly. SMEs are readily sought after by multination as well as foreign SMEs for partnership and joint venture agreement in their attempt to implement new market development strategies.

Small and Medium Enterprises is acknowledged to have huge potential for employment generation and wealth creation in any economy. Yet in Nigeria, the sector has stagnated and remains relatively small in terms of its contribution to GDP or to gainful employment. Activity mix in the sector is also quite limited dominated by import dependent processes and factors.

Small scale enterprises (SSEs) occupy a significant place in the economy of virtually every nation. They are a major factor in the industrial and economic development. It is thus not surprising that SSEs are vastly considered in the literature of industrial and economic development, although in most cases in an informal sector framework. Reasons adduced for this are because they utilize the large labour surplus that exist in less developed economies, they yield quick returns and given their small initial capital requirements, they facilitate the exploitation, mobilization and utilization of local capital resources (Adejugbe, 1987; Nahdiv, 1992). Thus in an economy where capital, institutional savings, management and technical skills are inadequate, their contribution to the economy cannot be over-emphasized.

The continuous changes that affect the business environment, due to the globalization process and the technology innovations, force Small and Medium Scale Enterprises and other organizations in Nigeria to constantly look for new competitive advantages in order to maintain and improve their market position (Aremu 2004).

Non capital-intensive nature of small-scale industries is another important significance of small-scale enterprises. (Aremu and Adeyemi, 2011)

Aina (2007), emphasised on government effort to reduce the rate of poverty using different programme and suggests that if SME's can be effective poverty will be completely eradicated. The problems facing SMEs in Nigeria to day ranges from inadequate financing, lack of accountability and management, lack of infrastructure among others. However, finance is one of the most crucial problems facing small and medium scale enterprises. In fact, almost all problems confronting SME could be traced to lack of adequate funding. The issue of inadequate financing usually derives from inadequate proprietorship equity participation. Most of the SME are faced with perennial problem of working capital, which hinders their ability to produce efficiently. The result is that SME have developed to depend on source of capital in form of borrowing which attracts high interest rate. Their problem is compounded by unwillingness on the part of the financial institutions to lend them on long-term basis, because they are considered highly vulnerable with high credit risk until recent economic melt down. Their best bet is to borrow from friends, local money lenders or plough back their profit, but is it possible? "If not the adage of rich becomes richer and poor becomes poorer will not be true" Despite various structures and institutions set up by government at all levels, it is still very difficult to ascertain where those SMEs stands presently and perhaps realize their impact in the economy.

Many problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to make excessive risk due to dome pervasive incentive structure in the system.

On the other hand, because SMEs do not have access to public capital markets they naturally depend on banks for funding. Dependence on banks makes them even more vulnerable for the simple reason that shocks in the banking system can have significant impact on the supply of credit to SMEs.

Berger and Udell (2001) further note that shocks to the economic environment in which both banking and (SMEs) exist can significant affect the willingness and capability of banks to lend to small and medium scale firms.

The importance of small scale enterprises was further appreciated with the introduction of the structural adjustment reforms in Nigeria. The reforms sought to correct the distorted incentive structure that encourages the excessive dependence of the economy on imports (especially raw materials and capital goods demand of the large scale enterprises) and oil export. The policy response was an effort to look inwards by developing local technology, raw materials and intermediate inputs, and providing enabling conditions for achieving such goals.

Although this calls for a better policy for the development of the small scale enterprises as they are the largest employer of labour, most traditional and highest users of local technology, yet within the adjustment reforms context, the emphasis of industrial policy was majorly laid on improving the efficiency of large scale enterprises and government owned enterprises. Central to this part of reform is the privatization and commercialization of various state-owned enterprises. Incidentally the policies emanating from structural adjustment reforms being macro in nature have effects on the whole economy including the small scale enterprises (Farugee, 1994).

It is however recognized by policymakers, scholars and the government that small scale enterprises can offset the negative effects of certain adjustment reforms like import liberalization to the extent that they can use local inputs to produce import substitute and certain exports, thereby taking advantage of the incentive that might arise from the devalued exchange rate, financial and industrial reforms (Steel and Webster, 1992). This however depends on the institutional and financial environment that face the small scale enterprises as the various policies of adjustment reforms (i.e. trade, exchange rate, monetary, fiscal, industrial and income policies) have differential effects on their incentives and profit.

THE ROLES OF SMALL AND MEDIUM SCALE INDUSTRIES IN ECONOMIC DEVELOPMENT:

One of the greatest challenges facing the economies of less developed countries today is that of economic reconstruction. The need for economic reconstruction arose from the realities of the unfavourable balance of payments situation in which most developing countries found themselves as a result of the import-dependent nature of their economies. This has led some less developed countries (LDCs) to adopt the IMF – administered Structural Adjustment Programme (SAP) whose main objective is the fundamental transformation of their economies.

In Nigeria, the need for the active encouragement of small and medium scale industries had been recognized even before the collapse of the import dependent economic system and the inevitable introduction of SAP. The rationale for this is that small and medium scale industries play a vital role in economic development especially in terms of their contribution to the several indicators of national well-being such as gross domestic product and employment of labour. (Freear, 1980). In Nigeria, small scale enterprises dominate the economic sphere in terms of its size and growth (Ojo, 1992). The roles of SMEs in economic development in general therefore include:

(a) Creation of Employment Opportunities

Employment creation is undoubtedly one of the most important roles of SMEs. For instance, in the UK, a study conducted showed that in 1972, the sub-sector accounted for 18.3% of employment (Freear, 1980). In Nigeria, research work showed that in 1978, SMEs employed 45% of the work-force in the manufacturing sector (Owuala, 1987). By 1986, the figure had risen to about 70% of all firms employing millions of Nigeria (Mbachu, 1989). In fact the United Nation Industrial Development Organization (UNIDO) based in India, claimed in one of its findings that SMEs generate employment 5times more than the large industrial concerns. Apart from the fact that SMEs do generate employment opportunities, research has also shown that they do so at a relatively cheaper rate than the large scale industries. Oguntoye (1984) has also pointed out that while it required a capital investment of about N7, 500, in a small industry to create an employment for a worker, it required N25, 000 in a large scale industry to accomplish the same feat. He therefore reasoned that if the capital/labour ratio reflected the intensity of the rise of capital and labour, then small scale industries are especially suited to Nigerian economy which suffers from inadequacy of capital but has super-abundant labour supply, especially in the unskilled and semi-skilled cadres.

(b) Mobilization and Utilization of Resources

Mobilization and utilization of resources represent another vital role which SMEs play. They mobilize resources – financial or otherwise – which would have been lying idle or wastefully spent and channel them to productive uses. Oguntoye (1984) in a study of small-scale industries established that they obtained 85% of their initial capital investment from non-formal lending sources, i.e. from relations, friends, money lenders, and from personal savings. Oduwole (1989) opined that given the non-availability of banks in most rural areas in Nigeria, such money might not have been put into productive use in the first place. Furthermore, small and medium scale industries do utilize local raw materials such that "the ingenuity in discovering and utilizing of local raw materials has increased the productive base of the country without necessarily constituting a drain on the country's foreign exchange reserves". This is particularly so in respect of raw materials which are not available in large quantity, hence cannot support the operation of a large enterprise.

(C) Seed-bed Function

SMEs have been credited with a "seed-bed" function (Freear, 1980). In other words, SMEs represent the little acorn out of which the mighty oaks – the large-scale industries – had gro. Empirical research has revealed that SMEs do serve as training grounds for the development of entrepreneurial skill (Adejugbe, 1987). Oguntoye (1975) asserted that most of Nigeria's big-time businesses started on small scales from where they acquired requisite entrepreneurial skill for the management of big businesses today. The same is true of Phillips International, an internationally acclaimed giant in the electrical/electronic industry, which started as a small outfit at the proprietor's backyard in Netherlands, and several organizations world-wide.

(D) <u>Inter-sectoral Linkage</u>

According to Usman (1990), SMEs can provide important intersectoral linkages through their use of indigenous raw materials (e.g. agro-allied industries), offer support on agricultural inputs (e.g. production of agricultural tools and equipment) or through the use of waste materials from large firms (scrap metal, wood, rubber, etc).

(E) <u>Price Stability</u>

With the production of more goods from local resources and at relatively cheaper cost, SMEs do contribute meaningfully towards ensuring price stability. For instance, one of the underlying policy objectives for the establishment of NERFUND is to stimulate the spontaneous rise of small and medium scale productive activities among others is to produce more goods and check demand-induced inflation and restrain rising prices.

(F) <u>Reduction of Regional Economic Imbalance</u>

Oduwole (1989) has also credited SMEs with the ability to reduce regional economic imbalance. His argument hinges on the fact that unlike big industries which are usually located in urban centres where basic infrastructural facilities like electricity, pipe-borne water, good road, etc must exist, SMEs can be located where some of these basic amenities are non-existent. The net effect of this advantage is that there will be less pressure on the limited infrastructure in the urban centres which would have resulted from rural-urban drift, while rural areas will witness speedier development. This attitude is capable of reducing social tension which in turn may have serious repercussions on political stability. It is therefore not surprising that NERFUND, for instance, states unequivocally in its guidelines that "preference shall be given to products located in the rural areas".

Yahaya (1989) in summarizing the role of small scale business listed the following advantages:

The provision of employment opportunities in both the rural and urban areas irrespective of infrastructural base, the provision of sources of inputs and retail outlets to enliven large industries, the emergence of free competitive market which is basic to economic development, the ease of adaptation of local raw materials and technologies, the breeding of diverse innovative ideas that could have been dormant, the grooming of potential managers for heavy demands of large establishment, development of indigenous entrepreneurship thus ensuring rapid self-reliant economic growth, flexibility to consumers' demands, technological adaptation, and mobilization of domestic savings, reduction of rural – urban migration the attendant social problems, building of fair distribution of industries, and encouragement of a balanced spread of wealth and potentiality of growth of the sub-sector into medium and large scale establishments.

PROBLEMS MILITATING AGAINST THE ACHIEVEMENT OF SME'S ROLES:

From the above exposition, there is no gain-saying the fact that the contribution of SMEs to socio-economic development is tremendous. Nevertheless, there are several problems hampering the full attainment of these objectives. Oduwole (1989) classified these problems into two main categories: Those inherent in SMEs and those arising from non-harmonized and weak institutional support. Under the first heading i.e. those inherent in SMEs, he listed under-capitalization of the enterprise owing to strong aversion on the part of the proprietors to ownership dilution: high rate of business failure as a consequence of inadequate working capital; poor accounting record-keeping habit of the proprietors; shortage of skilled manpower, among others. Under the second heading – those problems emanating from the institutional framework – he identified the problems as: restricted access to institutional credit as a result of strict requirements by financial institutions, inadequate and non-harmonized incentives to small and medium scale industrialists, restricted access to market due to the non-standardized and relatively small quantities of their products and high import dependency which has resulted in high production costs, lower profit margin and a high degree of capacity under-utilization.

Peacock (1985) had earlier done a similar classification in which he categorized SMEs' problems into endogenous and exogenous. The endogenous problems, according to him, are management inefficiency in the areas of accounting, marketing, finance and operation. Exogenous problems, on the other hand, are those harsh economic and seasonal conditions as well as fraud, and behavioural aspects of businessman.

Mall et; al (1988) also traced the failure of small scale business into two broad causes: the uncontrollable and the controllable factors. According to him, uncontrollable factors are government regulations, actions of financiers, economic climate, taxation, competitive environment and high interest rates. Under the controllable factors, he listed absence of specific goals and objectives, crude strategic planning, lack of accounting knowledge, poor judgement, inadequate control over the business, lack of adequate marketing skills, inability to raise external finance, reluctance to take uncomfortable or difficult decisions and aversion to risk.

THEORETICAL FRAMEWORK:

The poor performance of neoclassical theories in illustrating the sources of long term economic growth has led to a widespread dissatisfaction with additional growth theory. In fact, according to traditional theory there is no intrinsic characteristic of economies that causes them to grow over extended period of time. The literature is instead concerned with the dynamic process through which capital-labour ratios approach long-run equilibrium levels. In the absence of external "shocks" or technological change, which is not explained in the neoclassical model, all economies will converge to zero growth. Hence, rising per capital GNP is considered a temporary phenomenon resulting from a change in technology or a short-term equilibrating process in which an economy approaches its long-run equilibrium. Unsurprising, this body of theory fails to provide a satisfactory explanation for the remarkable consistent pace of historical growth in economies around the globe.

Any increases in GNP that cannot be attributed to short-term adjustments in stocks of either labour or capital are ascribed to a third category, commonly referred to as the Solow residual. This residual, despite its name, is responsible for roughly 50% of historical growth in the industrialized nations. In a rather ad hoc manner, neoclassical theory credits the bulk of economic growth to an exogenous or completely independent process of technological progress.

According to neoclassical theory, the low capital-labour ratios of developing countries promise exceptionally high rates of returns on investment. The free-market reforms imposed on highly indebted countries by the World Bank and the International Monetary Fund should thus have prompted higher investment, rising productivity, and improved standards of living. The anomalous behaviour of developing-world capital flows (from poor to rich nations) helped provide the impetus for the development of the concept of endogenous growth or, more simply, the new growth theory. The new growth theory represents a key component of the emerging development theory.

The new growth theory provides a theoretical framework for analyzing endogenous growth, persistent GNP growth that is determined by the system governing the production process rather than by forces outside that system. In contrast to traditional neoclassical theory, these models hold GNP growth to be natural consequence of long-run equilibrium. The principal motivations of the new growth theory are explain both growth rate differentials across countries and a greater proportion of the growth observed. Models of endogenous growth bear some structural resemblance to their neoclassical counterparts, but they differ considerably in their underlying assumptions and conclusions drawn. The most significant theoretical differences stem from discarding the neoclassical assumption of diminishing marginal returns to capital investments, permitting increasing returns to scale in aggregate production, and frequently focusing on the role of externalities in determining the rate of return on capital investments. By assuming that public and private investments in human capital generate external economies and productivity improvements that offset the natural tendency for diminishing returns, endogenous growth theory seeks to explain the existence of increasing returns on scale and the divergent long-term growth patterns among countries. And whereas technology still plays an important role in these models, it is no longer necessary to explain long-run growth.

RESEARCH METHODOLOGY:

According to Thorsten Beck, Asli Demirguc-Kunt and Ross Leine (2003), to evaluate the relationship between SMEs and economic growth over the period, they use the following regression:

$Y = \alpha i, + \beta SMEi + \varepsilon i$,

Where Y is the log real GPD per capita,

SME is one of our two indicators of the size of the SME sector and ε is error term.

For the purpose of this research work the above model specification will be adopt and build upon, we would proxy Economic growth with Gross Domestic Product (GDP), Small and Medium Scale Enterprises sector output, Exchange rate and Interest rate. The model could therefore be specified as follows in the form

GDP = f(SME, EXR,IR,SML,GEXP)

$$GDP = \mathbf{a_0} + \mathbf{a_1}\,SME + \mathbf{a_2}\,EXR + \mathbf{a_3}\,IR + \mathbf{a_4}GEXP + \mathbf{a_5}SML + \mathbf{U_t}$$

Where GDP = Gross Domestic Product-(Real Gross Domestic Product); SME = Small and Medium Scale Enterprises sector output; EXR = Exchange Rate; IR = Interest Rate, SML= Small Scale Loans and Investment, GEXP= Government Expenditure

Parameters = $\mathbf{a_0, a_1, a_2, a_3, a_4, a_5}$ $\mathbf{U_t}$ = Error term

From the specified model equation above, dependent variable is GDP i.e. endogenous variable and the exogenous variables include small and medium scale sector output, exchange rate, interest rate, small scale loans and investment, government Expenditure.

This aspect defines the theoretical expectations about the signs and magnitudes of the parameters of the specified function. The apriori expectations are determined by the principles of economic theory guiding the economic relationship among the variables under study.

EMPIRICAL ANALYISI:

Regression Estimation

Dependent Variable: RGDP

Method: Least Square

Sample: 1980-2008

	C	SME	IR	EXR	SML	GEXP
	79297.21	187.3168	4168.068	516.7364	0.02301	0.048471
Std.Er:	81671.28	269.09	1568.93	454.59	0.004	0.11

Prob:	0.34	0.49	0.01*	0.27	0.00*	0.66

R^2= 0.93 Adjusted R^2= 0.91 F-Statistic= 54.97

Prob(F-Statistic)= 0.0000 Durbin-Watson Stat= 0.91

Extracted from the E-View 7.1 output

INTERPRETATION OF THE ESTIMATION RESULTS:

In order to establish the relationship between small scale enterprises and development process of the Nigerian economy, selected econometric techniques have been employed as the descriptive statistics show above. The simple linear regression analysis was equally employed to capture the effect of some important macro economic variables that have been assumed to either directly or indirectly influence the Economic growth and development of small scale industries in Nigeria for the period 1980 to 2008. From the results obtained, the regression equation shows that there is positive relationship between dependent variable and independent variables. The probability of t-statistics shows that small and medium scale enterprises and interest rate is statistically significant at 5% but exchange rate is not significant thus it has not been favourable over time in Nigeria. The adjusted co-efficient of determination (R^2) shows that the equation has a good fit with 0.91 percent of RGDP explained by the variables in the equation. In other word, the co-efficient of determination which indicates that the explanatory variable account for variation in GDP is caused by changes in small scale output (SME), government spending, interest, exchange rate etc.

The t-test shows that Small Scale Loans and Investment is perfectly statistically significant and for second order test, F-statistic is perfect and the Durbin Watson (D.W) statistics of 0.91408 as it is significantly below the bench mark of 2.00, we can conclude that there is no auto correlation or serial correlation in the model specification hence, the linear assumption is not violated. The t-statistics test conducted shows the small and medium scale output is statistically significant. The second order test confirms the significance of the research hypothesis.

CONCLUSION AND RECOMMENDATION:

CONCLUSION:

An attempt has been made in this work to indicate the role of SMEs in the growth and development process of any economy most especially Nigeria. In doing this, the study observed that what constitutes a small and medium scale enterprise varies from one country to another and even in the same economic environment; definition varies from industry to industry.

However, SMEs share some similar characteristics such as education-experience prior to commencing current business, income level, type of business, ownership structure and business capital. The study also indicates that in countries where SMEs are given a primary place as a catalyst to economic development process, they are expected to help persons, assist in entrepreneurship and skill development, amongst others. Experience from various countries, developed and developing, attest to the relevance of SMEs as a catalyst to economic growth and development.

The study recognized the various governmental policies that have been implemented by the government to promote the development of SMEs, varying from monetary to fiscal policies before, during and after Structural Adjustment Programme (SAP), National Economic Empowerment and Development Strategy (NEEDS) and recently introduced Small and Medium Enterprises Equity Investment Scheme (SMEEIS). The study recognized finance using interest rate as one of major bane of SMEs in the country in spite of various government policies aimed at facilitating financial and technical support for the promotion of SMEs. There is for government to increase her expenditure on the provision of infrastructural amenities and improve standard of living of citizenries.

In particular, the study examines the roles of some government agencies such as NIDB, NBCI, SMEDAN, CBN, BOI etc in encouraging the survival of SMEs. An empirical result was carried out in testing if SMEs serve as a catalyst to economic growth and development, and also a test shows that unfavourable exchange rate has been hindering the performances of SMEs. In an attempt to enable the sector perform its roles effectively, a number of technical, institutional and financial support were put in place by the government. These ranged from government institutions and non-governmental organizations to support SMEs, but research shows that such institutions have not lived up to expectation.

Some constraints that also hinder the performance of small and medium scale enterprises in Nigeria aside from financial facilities, exchange rate policy and electricity supply. Nigeria is a country that is blessed with a lot of natural varying resources. Apart from agriculture, oil, gas and solid minerals have been confirmed to exist in commercial quantities. Nigeria also has enormous electric power resources, a large human population forming a very big market ands substantial idle capacity in all industrial sectors (CBN 2000).

Therefore, it is believed that the Nigerian economy has what is takes to achieve economic development and growth through the small scale enterprises investment, due to the fact that it will assist in employment generation, stimulation of entrepreneurship, mobilizing hidden capital in the economy, providing a middle class of self employed entrepreneurs, development and utilization of local technology, steaming rural-urban migration use of local materials and encouragement of equitable distribution in income and wealth.

The current drive toward self reliance and the economic recession in Nigeria with the increase in number of unemployed graduates has made the government embrace the development of small scale enterprises. The ease in terms of small finance needed to establish small scale enterprises, has encouraged many unemployed graduates to take to small scale enterprises. The future of the industrialization process and job creation in Nigeria in particular is largely dependent on the future of the small and medium scale enterprises SMEs sub sector considering its inherent benefits to a developing economy. It is the sub sector that holds the promise of meeting the industrial challenges and job creation opportunities in the 21st century and the vision 2020.

Finally, it is important to note that the effort made by the government to facilitate SMEs access to credit requires the cooperation of the banking institutions in general. It is crucial that the spirit of self-denial be taught the youngest generations and populace be boost of domestic savings for investment in order to make the country great (Obitayo, 1991).

POLICY RECOMMENDATIONS:

For small scale enterprises to act as a catalyst to economic growth and development in Nigeria, the study will prescribe some solutions to the various constraints facing SMEs.

1. There is need to improve the administration and fiscal environment of SMEs.

2. Promote the production of qualitative goods and services to facilitate a competitive export oriented manufacturing sector.

3. There is need for the use of consultancy services to improve management and general function of SMEs.

4. Development of network of local teams in conjunction with the Universities in required to make SMEs more aware of the changes in their Environment.

5. There should be promotion of micro-finance institution to cater for the creation of SMEs.

6. There is need for sustained collaboration between government and the private sector. Government needs to sustain the present consultations with the private sector by providing incentives and the needed enabling environment to stimulate and foster the survival and growth of SMEs.

7. There is need for cooperation between SMEs and research institute with a view to making R&D activities more demand driven.

8. There is need for the nation's engineering infrastructure to be established in order to facilitate the local production of machinery and equipment strengthens the industrial development and growth.

It is quite appreciated that government established Small and Medium Enterprises Equity Investment Scheme (SMEEIS) as roll out by the CBN and would further suggest that the procedure for managing and disbursing the fund under scheme should be made more transparent, to enable genuine SME operators have access to the funds, to improve their productive capacity, generate more jobs and ensure economic growth. All these can not be left in the hands of the government alone but banks, private individuals, multi-national companies, mass media, economic analysts and training centres, should come together to assist small scale enterprises to achieve Nigerian economic growth and development.

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APENDIX

PRESENTATION OF DATA

The obtained data are presented in the table below, variables for 29 years (1980 - 2008) **TABLE 1:**

YEAR	RGDP	SME	IR	EXR	SML	GEXP
1980	31546.8	327.84	9.5	0.5445	6349.1	10163.4
1981	205222.1	309.57	10	0.6369	8582.9	6567. 0
1982	199685.3	319.14	11.75	0.6702	10275.3	6417.2
1983	185598.1	324.37	11.5	0.7486	11093.9	4885.7
1984	183563	269.7	13	0.8083	11583.6	4100.1
1985	201036.3	225.96	11.75	0.9996	12170.2	5464.7
1986	205971.4	240.14	12	3.3166	15701.6	8426.8
1987	204806.5	257.48	19.2	4.1916	17531.9	6372.5
1988	219875.6	265.11	17.6	5.353	19561.2	8340.1
1989	236729.6	308.51	24.6	7.65	22008	15034.1
1990	267550	300	27.7	9.0001	26000.1	24048.6
1991	265379.1	343.42	20.8	9.7545	31306.2	28340.9
1992	271365.5	344.6	31.2	19.6609	42736.8	39763.3
1993	274833.3	320.98	36.09	22.6309	65665.3	54501.8
1994	275450.6	331.19	21	21.8861	66127.6	70918.3
1995	281407.4	350.57	20.79	21.8861	114883.9	121138.3
1996	293745.4	372.89	20.86	21.8861	169437.1	158678.3
1997	302022.5	390.59	23.32	21.8861	385550.5	269651.7
1998	310890.1	400.01	21.34	21.886	272895.5	309015.6
1999	312183.5	409.94	27.19	92.5284	1265984.4	498027.6
2000	329178.7	421.35	21.55	109.55	1795768.3	239450.9
2001	356994.3	476.9	21.34	112.486	2796112.2	438696.5
2002	433203.5	488.3	30.19	126.4	3606229.1	321378.1
2003	477533	509.1	22.88	135.407	4339443	241688.6
2004	527576	535.8	20.82	132.67	5686669.4	351259.9
2005	561931.4	564.7	19.49	130.4	7468655.1	519510
2006	595821.4	488.86	18.7	128.27	9542573.4	552385.8
2007	634251.1	556.29	18.24	117.968	15285129	535947.9
2008	674889	522.58	21.18	130.75	12413851	544166.85

Sources: CBN-Statistical Bulletin 2008 and various issues