



## ASSESSING THE CONTRIBUTION OF SMALL AND MEDIUM SCALE ENTERPRISES TO THE ECONOMIC GROWTH OF KOGI STATE, NIGERIA

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### Cite this article:

Attah E.Y., Wada J. (2023), Assessing the Contribution of Small and Medium Scale Enterprises to the Economic Growth of Kogi State, Nigeria. African Journal of Economics and Sustainable Development 6(1), 129-136. DOI: 10.52589/AJESD\_BKVVFDRC

### Manuscript History

Received: 20 Jan 2023

Accepted: 16 Feb 2023

Published: 7 March 2023

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**ABSTRACT:** *This paper sought to determine the contribution of small and medium scale enterprises to the economic growth of Kogi State, Nigeria. The specific objectives examined the impact of small and medium enterprises on employment generation in Kogi State as well as their impact on poverty reduction. The population of the study comprised 134 small and medium enterprises in Kogi State. A sample size of 100 was derived from the population using Taro Yamane's formula. Chi-square was used to test the formulated hypotheses using Statistical Package for Social Sciences (SPSS). Findings revealed that small and medium enterprises have a positive impact on employment generation and also have a significant impact on poverty reduction in Kogi State, Nigeria. Based on the findings, it is concluded that small and medium enterprises have a significant impact on the economic growth of Kogi State, Nigeria. It is recommended, among others, that governments at all levels should encourage the establishment of more microfinance banks to enable SMEs to have increased access to funding at a reduced cost in order to boost their growth and also ensure the provision of a business friendly environment by adjusting harsh economic policies so as to help SMEs to grow.*

**KEYWORDS:** Small and medium enterprises, Economic growth, Entrepreneurship, Employment, Poverty



## INTRODUCTION

Many states in Nigeria have been grappling with the challenges of employment generation, poverty reduction and income growth. Government and stakeholders in the economy are concerned about the causes of the slow pace of economic growth in the country. Many factors have been identified to be responsible for this slow pace of economic growth in Nigeria, some of which include unstable power generation, insecurity of life and property, corruption, lopsided policies of government and multiple taxation system among federal government, state and local government. Bello, Jibir and Ahmed (2018) opine that countries that experience sustainable economic growth in terms of increase in income growth, employment and poverty reduction made it possible through the vehicle of small and medium scale enterprises (SMEs). They believe that SMEs are economic and social engines for a nation's development. The economic and social vibrancies of small scale enterprises are facing contending issues in Kogi State such as inadequate financial resources, poor nature of infrastructural facilities, high interest rate charged by banks and other financial institutions, among others.

Jibir (2015) reiterated that to solve the aforementioned problems, the government should establish Micro, Small and Medium Scale Development Fund (MSMSDF) microfinance banks, direct loans from state governments with the objective of facilitating the running of SMEs. One of the greatest benefits of small and medium scale enterprises is that the industry creates room for entrepreneurship development, employment generation, greater utilization of local raw materials, mobilization of local savings, encouragement of rural development, creations of managers training opportunities, provision of opportunity for self-employment, creation of regional balance by spreading investments more evenly, and creating grounds for training skilled and semiskilled workers (Murirala, Awolaja & Bako, 2012). In view of this, developing nations like Nigeria may find it difficult to enjoy sustainable growth economically without the rapid development of the small and medium scale enterprises.

Ilegbinosa and Jumbo (2015) posit that small and medium scale enterprises have created the proofs relating to the growth and development of many developed economies like the USA, China and India. It has been observed that SMEs comprise over 98% of the business sector and contribute over 65% to employment in such countries (Deen, 2003). Over 50% of the Gross Domestic Product of developed countries comes from small and medium scale enterprises.

Ikpor, Nnabu and Itumo (2017) assert that the adoption of large-scale production-driven industrialization strategy was accentuated by the economic condition of the 1970s and the early 1980s. This is due to the fact that the post war era of the 1970s saw to the emergence of rehabilitation programmes. These industries were capital intensive and required the importation of heavy machines and technical manpower to handle the capitals.

Efforts have been made over the years by the Nigerian Government towards the development of small and medium scale enterprises. Several microfinance agencies have been established to promote the growth of small and medium scale enterprises in Nigeria. Ikpor et al. (2017) reveal that the Nigerian Industrial Development Bank (NIDB) was established by the government in 1962 which was followed by the establishment of Rural Banking Initiative (RBI) in 1977. Other bodies such as the Agricultural Credit Guarantee Scheme Funding (ACGSF) and Nigerian Agricultural Cooperative Bank were set up to facilitate funding to agriculture and small and medium scale enterprises. The National Economic Reconstruction Fund (NERFUND) was also established to make available to small and medium scale



enterprises long-term loans of 5-10 years. Also, the People's Bank and Family Economic Advancement Programme (FEAP) were established in 1997. In 2002, the government merged the NERFUND and NIDE to the Bank of Industry to provide loans at an interest rate of 10 percent to the industrial sector and SMEs. In 1997, the People's Bank and the Family Economic Advancement Programme (FEAP) were established. (Ikpor et al., 2017).

The importance of small and medium scale enterprises cannot be over emphasized as they constitute a whole virile vehicle for the generation of vast production of outputs and job creation. They also act as catalysts for restructuring and diversifying the productive base of an economy and for the industrial economic take-off and growth of such an economy. The small and medium scale industries are seen to hold the key to future expansion of the Industrial sector (Aka, 2001).

### **Objectives of the Study**

The major aim of this research work is to examine how small and medium scale industries serve as a catalyst for the economic growth of Kogi State, Nigeria. The specific objectives are:

- i. To determine the impact of small and medium scale enterprises on employment generation in Kogi State, Nigeria; and
- ii. To examine the impact of small and medium scale enterprises on poverty reduction in Kogi State, Nigeria.

### **Research Hypotheses**

The following hypotheses were formulated to give direction effectively to the study.

- i. Small and medium scale enterprises have no impact on employment generation in Kogi State, Nigeria.
- ii. Small and medium scale enterprises have no impact on poverty reduction in Kogi State, Nigeria.

## **LITERATURE REVIEW**

### **Concept of Small and Medium Enterprises (SMEs)**

The term small and medium scale enterprises (SMEs) is dynamic in character and varies from country to country as a result of differences in socio-economic factors across the countries (Etuk et al., 2014). The basic parameters of definition are not the same. They include the number of employees, assets and turnover.

According to Ikpor, Nnadu and Itumo (2017), small and medium enterprises (SMEs) refer to different types of firms involved in different business activities, like coffee shop owners, artisans producing local implements, internet café, iron fabricators, small transport firms, roadside mechanics, medium-sized automotive parts manufacturers, small engineering or software firms, among others. Small and medium scale enterprises produce for either local or



foreign markets. They exist at the rural, urban, national or international level. Mambula (2002) added to Ikpor et al. definition by stating that it is evident around the world that small and medium scale enterprises provide an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit capital invested, and aiding the development of local technology.

Shuaib and Ndidi (2005) opine that a small scale enterprise refers to an enterprise with a labor size of 11-100 workers or a total cost of not more than 50 million including working capital but excluding cost of land; while Afolabi (2013) is of the view that a medium scale enterprise is an enterprise with a labor size of between 101-300 workers or a total cost of over 50 million, but not more than 200 million including working capital but excluding cost of land. Burns (2016), on his own part, defines SMEs as enterprises with an asset base not exceeding N200,000,000.00 excluding land and working capital with staff strength of not less than 10 and not more than 300.

A cursory glance at the structure of SMEs in Nigeria reveals that 50% are engaged in distributive trade, 10% in manufacturing, 30% in agriculture and the rest 10% in services. A special feature of Nigeria SMEs is that the distributive trade component is generally considered more commercially viable than the manufacturing component hence they attract more funding from banks and other financial institutions (Shuaib & Ndidi, 2005). In summary, SMEs can be said to be conducted in the following terms:

- i. As a proprietorship: single ownership.
- ii. As a partnership: where (2-20) 2 to 20 people pooled their resources together.
- iii. As a legally, incorporated entity: having the characteristics of a legal person and this could be a private limited company.

However, in Nigeria more than 83% of the SMEs operate under the first two businesses type, while the third one operates mainly as family business (Shuaib & Ndidi, 2005).

Muritala, Awolaja and Bako (2012) in Adebayo, Clement and Clement (2020) argued that small and medium enterprises enhance competition and entrepreneurship, and hence have external benefits on economy-wide efficiency and productivity growth. Kuteyi (2013) asserts that small and medium enterprises may drive economic growth through employment creation channels and that they mostly use labor-intensive technologies thereby reducing unemployment rates.

### **Economic Development**

The concept of economic development has been used to mean the expansion in the national income measured in Gross Domestic Products (GDPs). Shuaib and Ndidi (2005) view economic development as what may be measured by capital equipment building that is capable of enhancing productivity. Ewetan and Urhie (2014) observe that development is multifaceted and man-centered. Hence, the use of economic development may not be restricted to development in one or few variables of the economy but rather applicable to multifaceted factors and the benefit should be directly man-centered.



## **Small and Medium Enterprises (SMEs) and Economic Growth in Nigeria**

A common characteristic of the Nigerian market is small and medium enterprises. The number is so much that getting accurate statistics on them can be a heinous task. Acho and Abula (2018) assert that the number of a country's SMEs per 100 persons has a positive relationship with a country's overall level of income. Unlike large firms, SMEs have unique methods of carrying out innovation activities. In order to tackle the dynamism in the technological environment, they generate innovative approaches that facilitate the production and sales of their goods in the most effective and efficient manner (Porter and Krammer, 2019). In the same vein, the uncertainties that characterize the economic environment prompt SMEs to explore other market opportunities, develop new products and seek new market openings for survival and enhanced performance (Dosi, 1988).

Tom, Glory and Alfred (2016) identify that small and medium scale enterprises play a vital role in the economic development of Nigeria. They stress that SMEs constitute a key factor in promoting private sector development and partnership. Etuk et al. (2014) sum it up by stating that properly managed and thriving small and medium scale enterprises provide significant wealth creation and employment opportunities.

## **METHODOLOGY**

This study made use of survey design methods with data obtained from both primary and secondary sources. The study population comprises 134 SMEs in Kogi State. Using Taro Yamane's formula, a sample size of 100 was adopted from the population. To ensure the instrument's validity, a pre-test was carried out while test-retest was conducted in testing the instrument's reliability. The result of 0.97 was obtained, indicating a high degree of item consistency. The questionnaire was structured according to a 5 point Likert scale model and distributed to the 100 respondents. Through diligent follow-up, the entire 100 copies of the questionnaire were completed and returned. Data was presented and analyzed in frequency tables. Chi-square was used to test the formulated hypotheses using Statistical Package for Social Sciences (SPSS).

## **RESULTS AND FINDINGS**

### **Study Objective 1**

To determine the impact of small and medium scale enterprises on employment generation in Kogi State, Nigeria

### **Hypothesis 1**

Small and medium scale enterprises have no positive impact on employment generation in Kogi State, Nigeria.

**Table 1: Test Statistics****Impact of small and medium enterprises on employment generation in Kogi State, Nigeria**

	Small and medium enterprises have a positive impact on employment generation in Kogi State, Nigeria
<b>Chi-Square</b>	<b>105.520<sup>a</sup></b>
<b>Df</b>	<b>3</b>
<b>Asymp.Sig</b>	<b>.000</b>

a. 0 cells (0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.

Decision:

Since the p-value = 0.000 is less than the level of significance (0.05), we reject the null hypothesis and conclude that small and medium enterprises have a positive impact on employment generation in Kogi State, Nigeria.

**Table 2: Test Statistics****Impact of small and medium enterprises on poverty reduction in Kogi State, Nigeria**

	Small and medium enterprises have a significant impact on poverty reduction in Kogi State, Nigeria
<b>Chi-Square</b>	<b>700.347<sup>a</sup></b>
<b>Df</b>	<b>2</b>
<b>Asymp.Sig</b>	<b>.000</b>

a. 0 cells (0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.

Decision:

Since the p-value = 0.000 is less than the level of significance (0.05), we reject the null hypothesis and conclude that small and medium enterprises have a significant impact on poverty reduction in Kogi State, Nigeria.

**CONCLUSION AND RECOMMENDATIONS**

The study concludes that small and medium enterprises impact positively on the economic development of Kogi state, Nigeria. This is drawn from the first hypothesis whose result shows a strong impact of SMEs on employment generation in Kogi State. The study further concludes that SMEs have contributed immensely to poverty reduction in Kogi State, Nigeria.

Based on the findings, the study recommends the following:





- i. Governments at all levels should encourage the establishment of more microfinance banks to enable SMEs to have increased access to funding at a reduced cost to boost their growth.
- ii. The government should ensure the provision of a business friendly environment by adjusting harsh economic policies so as to help SMEs to grow.
- iii. Adequate infrastructural facilities which are important to the operations of SMEs should be put in place adequately.
- iv. With respect to policy implication, a proper understanding of the challenges militating against the growth and survival of SMEs will assist policy makers at the various levels to design and implement policies that will positively stimulate and promote SMEs for economic growth.
- v. Small business owners should make efforts to get their businesses registered in order to give them recognition and a good standing to receive support from the government whenever opportunities avail themselves.

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