
The Roles of Small and Medium Scale Enterprises in Nigerian Economic Growth: An Empirical Analysis.

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ABSTRACT

The study addresses the roles of small and medium scale enterprises SMES toward accelerating the economic growth and development in a manner in which they enhance effective utilization of local resources. However, the militating challenges faced by SMES are that while making policy by the government, much attention is not being paid to them. This, makes their financing the main problem to SMES growth and blocks their potential for reaping economic growth in Nigeria. Thus, with regards to the identified issues, the study investigated the roles of SMES in economic development in Nigeria between 1981 to 2002. It made use of Ordinary Least Square OLS, two stage Least square 2SLS and Vector Error Correction Model VECM method while estimating the regression model. The end result of this analysis shows that, when we proxy the SME as a component of Gross Domestic Product GDP, it portrayed the negative influence on economic growth. Therefore, based on the finding of the study, the central authority should pay more attention for the development of SMES.

Keywords: Small and Medium Scale Enterprises, Economic Growth.

Introduction

SMES and Economic Growth

Growth is nothing more than simultaneous increase of all goods and services from the various sectors of the economy usually a year. In line with the importance of small and medium scale enterprises in developing as well as developed countries SMES' role would be re-considered in the economy of a nation. The yard stick for measuring the development level include but not limited to; urbanization, industrialization, modernization, meaningful employment for the people that are willing as well as able to provide their factor services, equitable distribution, per capita income, undergoing and living a quality life by the citizenry. It is obvious that, in most, if not all the economic environment the small and medium scale enterprises exist so also in Nigeria. The background history of SMES in Nigeria could be ascertained during the year 1946 (i.e the commencement year of SMES). In its effort to ensure the growth and the development of

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SMES which in turn will be a means of poverty alleviation in the country, there was a commitment since the establishment of Structural Adjustment Program SAP in 1986 with the aim of reforming the economy. According to a study that posited as, small and medium scale enterprises is considered as an avenue for growing the Nigerian economy and also help in alleviation of poverty which in turn reduce the level of unemployment. Moreover, enhancing such enterprises in growing economies like Nigeria is very crucial simply because its help in the provision of; entrepreneurial development employment, wealth, self-dependence, income and other economic uplifting factors (Aremu 2004). Additionally, during the unfavorable balance of payment, small and medium scale enterprises contributed a lot in respect of growing the industrial sector which in turn help in export portfolio as well as generating the smoothing effect that get-rid the unfavorable balance of payment. It was also stated as, small and medium scale enterprises observe a crucial role in an economy of a particular country in relation to their supportive developmental level. Additionally, re-stated that since 1980 Nigeria had been on the part of poverty increase even though its a worldwide phenomenon Aremu (2004).

However, based on the above issue, there is a disagreement by (Adeyemi and Badmus 2001 and Schmitz 1982) they argue that, enough and sufficient funding of small and medium scale enterprises could curtail if not eliminate the unemployment in Nigeria. It is therefore discovered generally that, through the development of SMES sector, the desired employment could be obtained (Awosika 1997, Schmitz 1995) while another position is stated as, Small and medium Scale Enterprises provide employment generation, income and savings, they are considered as prime mover and engine for enterprenuerial development Gunu (2004) and Aremu (2010).

SMES and Economic Development

One of the important features of rising and growing the economy has to do with the booming of small and medium scale enterprises sector. They observe a crucial role toward the development of a particular country (Feeney and Riding, 1997). In several ways, they contribute toward the development of an economy. Some of the ways are; by providing an employment for both urban and rural residents and also by providing sustainability as well as the innovation in an economy at large. Additionally, directly or indirectly vast number of people heavily rely on it (Fida, 2008). Therefore, the growth of small and medium scale enterprises is considered as an avenue to accelerating the aim of a large socio economic mission, alleviation of poverty is inclusive (Cook and Nixson 2000). While another study exerts that, country's development process has been observed by the Economics through its

crucial roles, the main concern of development process is to ensure the people living standard is on increasing rate, while obtaining needs that are basic necessities by the entire people at an affordable price is the effort of life sustaining, it is pertinent to know that absence of some certain needs to people make their life to be in danger or none at all, additionally, when the majority of the people are excluded while small number of people enjoy the benefit, there is no development (Todaro and Smith, 2003).

The previous non positive effect of economic hard-ship, have worldwide affected the condition of many people. With regards to this negative conditions, a study posited that it is pertinent to consider the job creation effort or ability by the small and medium scale enterprises were enhanced (Barakat, 2001). Therefore, another study supported it as, an enhanced and well supported small scale tend to continue to provide its contribution toward growth and development of an economy in a manner that large scale enterprise does (Abraham, 2003). The economic down turn that caused the rising unemployment as well as declining the living standards in group of developing countries. This was an ugly situation due to the fact that, the economy was left with no option than to reshuffle the jobs which cause many people to lose their jobs (Abraham, 2003, DTI, 2004).

This work is aimed at achieving the following objectives:

- a) To assess the roles of Small and medium scale enterprises in ensuring growth in an economy.
- b) To evaluate the extent to which small and medium scale enterprises can be used.
- c) To examine the implication of or absence of, SMES contribution in an economy.
- d) To examine the effect (if any) of faulty or incomplete attention given to SMES in an economy.

Literature Review

Except during the year 1986, most economists considered continued moving of small and medium scale enterprises in under developed countries as vindicated by shortage of capital and inexperience of administrative activities. It has been argued on several occasions that economic growth and local type of enterprises would, bit by bit be in a sector that was overpowered by modern way of large scale activities so as to ensure an efficient transition. Small scale have been noticed to be given support but that should only be geared toward those sectors where modern method seen to be difficult to observe or exercise. At the middle of 1960s way to SMES improvement started emanating as a result of some factors. First of all is that there has been serious concern on improving employment and curtailing the

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unemployment but most of the efforts were made by large scale. It has been observed by (Chenery et al, 1974, ILO 1973) that despite the efficient policy(s), the large scale were unable to cover significant proportion of labor force. Secondly, there had been an issue that the accrued benefit attributed to economic growth were fairly distributed and the blame is that using capital intensive on large scale was among the factor that made it difficult for the large scale to cover significant proportion of employment (Chenery et al, 1974). Thirdly, it has been discovered that the way to alleviate poverty is through the increment of productivity of those engaged in small scale as posited by (Aftab and Rahim, 1989)

This established a new role for small scale or rather to be called "the urban informal sector" the idea of exercising labor intensive in small scale was considered not only to increase employment opportunity but also to improve the poor people living standard. They had been also thought to be capable of obtaining a fresh dynamic of economic growth, the recent motive was to uplift the small scale sector as stated by (Schmitz, 1982; Aftab and Rahim 1986). The recent change of diverting attention from large scale to small scale was aimed at improving the "rurally orientated smallholder" ROSH as stated by the following:

Oshima (1962), undp (1974), Kilby (1975), Acharya (1981), Daniel et al (1985), and Olofin (1990) among others,

Even though, world bank (1989) remained committed to assist the ROSH program by focusing on its activities through the non-governmental organization, equally the government interceded in order to ensure the implementation (Olofin, 1990). Therefore, coming together by both parties would certainly strengthen the strategy, this is because where one party couldn't do, the government as the mover of the economy would do within small period of time.

The idea of Kilby (1969) who sees SMES as a "quasi sponge" more especially in urban employment and the distributor of cheap consumable goods with scanty cost, carrying out very important role that would assist the citizenry to maximize his wellbeing. Hence, upon all efforts of the government in Nigeria to uplift SMES, there is no significant progress being achieved on their part, this could be seen through the SMES performance. This research will investigate and evaluate the militating features that hinder them from doing significantly. As discovered in the above, some studies do believe that SMES do not provide quantitative and qualitative employment. However, in his research, Birch (1979) discovered that SMES are strongly important in terms of job creation, he also stated that during

the year 1970 firms with less than 100 employees created eight out of ten of newly job or employment in USA; However, some objected the proposition that SMES are the provider of job formation. Researchers like; (Dunne, Robert and Samuelson 1989; Leonard 1986, Biggs and Shah (1998) posited that large scale have the dominant way for creating net job within the manufacturing sector. Furthermore, sizes of a particular firm is not a yard-stick for measuring labor intensity because it varies more often over the industries than across their size group in an industry, this is because many small scale are more of capital intensive than large one that are within the similar industry, as posited by the following (Little mazundar page 1987, Snodgrass and Biggs, 1996). Therefore, looking at the provision of job, pro SMES believes that small scale is the best in that aspect but, however, there is disagreement that believes based on certain researches like what empirical evidences is, Large enterprises provide a lot of employments that are stable, more benefits and other fringe ones, while small scale enterprises do not do much on that aspect in developing and developed countries, even with education level and industry experience (Brown, Medoff and Hamilton, 1990; Rosenzweig, 1988). Similarly, Another research solidifies the above views of empirical by saying „„Many small firms are created at last resort rather than as first choice and have therefore limited growth potential` ` (Compare Liedholm and mead (1987) for Africa and de soto (1987) for Latin America.). On the contrary, another research from USA completely disagreed and provided its research finding as, small firms are figured as the one that are more of labor augmenting and have higher and skill employees while large firms are more of capital augmenting even though they have very good technology U.S firms Acs and Audretsch (1987).

In the case of developing economies, probably due to the number of International organizations that secure employment for the teeming populace, that made most of the research finding to support the large scale as stated here, in terms of technology transfer, it has been discovered that large enterprises played a crucial roles in which very good and sophisticated technology (s) are being forwarded from developed to developing countries through large enterprises (see Biggs,shah, and srivastava,1996 for sub-saharan Africa; pack, 1992, and pack and west phal 1986 for Asia). Therefore, most of the researches from developing countries did not support the pro SME views. On the other hand, some looked at it from the perspective of productivity approach or level, and the research on productivity exert that, with regard to the total factor productivity, small scales are the least efficient but medium and large scale enterprises are the best (Little, Mazumdar and page,1987). Another research viewed the

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growth of an enterprises based on the country's financial development and this is their research as, the extent of large enterprises tend to have a direct positive and strong relationship with how strength a developed country is financially Beck, Demirguckunt, and Maksimovic (2002a). Others are of the opinion that having good and better enterprises in a particular country depends on how good and efficient the judicial system is as exerted ,a good, sufficient and better judicial system in a particular country could lead to the presence of large firms Kumar, Rajan and Zingales (2001).

The Roles and Characteristics of SMES in Innovation

The main objective of the SMEPOL project is to undertake comparative analysis of existing policies and programs to encourage and support innovation in small and medium scale enterprises SMEs in order to establish good practice. Since SMEs have been increasingly recognized by policy makers as a target by intervention, an important part of the context of SMEPOL project is role of SMEs in contemporary European economies. Another is distinctive characteristic of SMEs with respect to innovation, since these are likely to influence the rationale for policy intervention designed to support innovation in them, as well as any barriers they face in achieving their innovative potential. It may be suggested that one of the key underlying aims of policy intervention in this respect should be to help firm to overcome any size-related barriers that may limit their ability to achieve their potential contribution to innovative capability of a local, regional or national economy. Although there are variations between policy program (within as well as between countries) in the eligibility criteria that are applied, the SMEs definition used in the SMEPOL project is that currently used by EC for statistical purposes: very small enterprises, with less than 10 employees: small enterprises with 10-49 employees and a turnover of less than pound 7m: and medium enterprises with 50-249 employees and an annual turnover of less than pound 40m.

The Role of SMES in Contemporary European Economies

One aspect of the structural change that has been affecting most European economies in the last two decades is ,,,growth in the number of small firms and an increase in their relative importance. Whilst the starting point and pace of change may vary between countries, the underlying trend is consistent, which helps to explain the increasing attention to the need of the SMEs sector by policy – makers. In the more industrialized countries, this re-emergence of the small firm sector followed a period of increasing concentration, particularly in manufacturing. This reflected a previous emphasis on scale economies associated with the mass production of standardize products, market expansion to minimize cost at optimal plant sizes

and an extensive division of labor. The reversal of this trend toward increasing size of enterprises and establishments in the 1970s saw the share of small enterprises start to grow, particularly in term of employment` `(Sengenberger et al., 1990).

During the 1980s, the apparent of small enterprises to create jobs at a time when many large firms were shedding labor attracted the attention of policy -makers in many countries. Whilst the magnitude of the increase varied considerably from country to country, as well as between sector, Sengenberger et al. concluded that ,,,the increasing share of small enterprises (<100 employees) in total employment represented a reversal of a decline in the share in the small sector that had existed for several decades previously. However, whilst emphasizing that data limitation (particularly with respect to the availability of comparable time series) limit the scope for direct comparison` `, Storey has suggested that ,,,the evidence available to support the sengenberger hypothesis concerning the increasing contribution of small firms employment is convincing when the UK is excluded` ` (storey 1994). Nevertheless, following the publication of the Birch Report (Birch 1979) which showed that, between the year 1969 to 1976, small and medium scale enterprises had contributed excellently about 80% in respect of net employment growth in the US, since then, most of the Europeans countries policy makers re-focus toward the SMEs contribution in respect of employment generation at different levels like: nations, regional or local Storey 1988).

Moreover, recessionary period had been characterized as the time in which most of the economic activities are running down which in turn lead to lose of number of jobs while job gain reduces, therefore, small and medium scale enterprises performance with respect to employment had remained stable within the trade or economic circle while that of large enterprises are getting down continuously Davis and Haltwanger 1992; EIM 1994; Fendel and Frenkel 1998; Schmidt 1995), particularly that of the smallest. For example, ,,,In EU countries at the beginning of recession in 1991, employment in micro enterprises continued to increase whilst that of small and medium enterprises remained unchanged and that in large enterprises decline. However, during the recovery in 1994-5, large enterprises were the first to increase their employment` `(EIM 1997). It would appear that ,,,employment in large enterprises is more vulnerable to cyclical effects than employment in SMEs. During recessionary periods, SMEs are able to partly offset job losses in large firms while during recovery periods employment growth is concentrated in large enterprises` ` (EIM opt. cit). In an effort to explain the re-incorporation of the sector of SME firms, David storey (1994) had differeciated between

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influences of demand and supply side, in respect of supply side ,new product and services came up through the development of the contribution of technological changes and the marginalization of activities of new knowledge base, which had provided the chance for new and small companies. In some sectors, such as printing, technological change has contributed to a reduction in the minimum optimum scale of production, enabling smaller firms to compete more actively with larger enterprises. In the other cases, such as business services the growth in the number of small firms is based on the new „commodity` of information` ` (Storey op.cit). Increasing the chances for scales have also come up from the fragmentation through the strategy for cost reduction in for larger enterprises which assisted immensely in outsourcing and sub-contracting out. Whilst it is difficult to estimate the extent to which the increase in either the number of small firms, or the people they employ, is a result of externalization strategies of large firms, it is clear that the growth of the small firms sector, during the 1970s and 1980s particularly, reflected changes in the nature of the relationship between firms of different sizes.

The rise in the number and roles of small scale is incorporated with strategic moves between the services and manufacturing, alongside a shift or moving upward of the demand for business services. Rising the real incomes have assisted to a growth in consumer demand for more alternative sequel of products and services, thereby creating an inche opportunities that small scales are ideally deserved to serve. Potential entrepreneurs there have been a rise in their supply, convinced during some time by recession factors that can be the or lead to so-called „enforce entrepreneurship. Finally, government policies, which, in Storey's analysis, include privatization, deregulation and taxation policy as well as direct support measures designed to promote or assist small business development, have also contributed. Whilst the precise nature and extent of commitment to SME policy varies between European countries, most EU member states attempt to encourage the development of SMEs through some combinations of policies designed to improve the environment for enterprise establishment and development (such as through deregulation, liberalization tax reform) and direct support measures (such as financial schemes or tax relief) (EIM 1994).

It is clear that „„the re-emergence of the small firms sector in Europe's mature market economies is associated with a change in the nature of the relationship between firms of different sizes, which has involved a number of processes. Contracting and outsourcing by large scale enterprises provide business opportunities in favor of small scale which in other ways, can aid to the growth of clustering in which some number of large scale acts as last producers, the customers for

their small scale suppliers. Small scale in this regards can contribute up to a regional competitiveness in line with their supply role to most of the large scale and by extension to regional innovation through the dynamic nature of their inter-relationship with large firms. Moreover, from an economic development perspective, the efficiency of the local supply system and ability of SMEs to develop linkages with large firms affect not just regional competitiveness but also the spread effect associated with any expansion of leading firm within the region. In other cases, regional competitiveness may be based on the interdependence between SMEs rather than on the strategies and actions of individual firms or a dependence of SMEs on larger firms. Whilst it may be argued that the social condition within which such integrated production systems develop are highly specific, the potential advantages of co-operation in terms of external economies of scale between SMEs, between SMEs and large firms and between SMEs external agencies makes region where such network exist of considerable policy interest, even if the importance of local economies networks for the majority of small firms is the exception rather than the rule` `(Curran and Blackburn 1994)

SMES IN NIGERIA

Small and Medium Scale Enterprises (SMES) in Nigeria

Since countries must not have similar way for classifying and defining their small and medium scale enterprises sector, neither does a single acceptable definition worldwide. Its solidly depend on the purposes as well as on how the regulation of the SMES sector are. Hence, there are three approaches or ways which is generally applied by the vast majority of countries, either in separate identity in conglomerate, these are: 1) capital investment on plant and machinery, 2) number of workers employed and 3) volume of production or turnover of business. Even though, there is no single definition for them that is universal, but they are clearly distinguishable in most of the country(s) whether developed or developing.

The militating factors that exposed them to many of their problems are: quantitative or comparative. Looking at the quantitative one, it focuses mainly on the structure of the management that is internally, ranging from; process of decision making, financial issues, attendance etc. It is understood that vast majority of SMES are being handled or taken care of by one, two or three individuals and these are mainly friends, relatives or even partners in business where the decision couldn't be reached by anyone except them. In such a situation there is no serious concern on personal and business assets on how to handle them.

Secondly, on the issue of comparative factors, it is a way in which the

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SMES are situated, for instance small and medium scale enterprises in comparison with the large enterprises or rather large enterprises in comparison with the giant corporate sector.

SMES Capacity Building in Nigeria

In its efforts to acknowledge the contribution of SMES in the country, the Nigerian government remained committed to promote the growth and development of small and medium scale sector. Hence, its effort was demonstrated through the establishment of some agencies that could assist, these include: Nigeria directorate for employees NDE, National Poverty Eradication Program NAPEP etc. This was also posited as, in respect of small and medium scale enterprises substantial contribution toward the country's economy, the initiatives and strategies to uplift the development of SMEs were figured out essentially in most of the government developmental plans with the aims of promoting growth within the sector, decade ago, a clear efforts have been demonstrated toward the establishment of National Directorate of Employment NDE, National Program for the eradication of Poverty NAPEP (Ogwuma, 1995). The state carried out the industrialization model which was immediately came up after the independence of Nigeria during the year 1960 and after that there were 1970s and 1980s which faced the constraining factors in terms of growth of small and medium scale enterprises. During this period, SMES were faced with lots of discriminations some which are;

First, trading activities were regulated in such a way that large enterprises could easily obtain license for the imports among others more easily than small scale enterprises, and equally they were denied the privilege for most of the incentives with regards to investment due to high-rent seeking service cost.

Secondly, coming up to the issue of financial activities which is of paramount important in every set of business dealings, SMES also were discriminated, this is because due to the certain selective credit control procedure that charges high rate of interest in respect of loan acquisition which mostly is within the range of SMES small scale enterprises and hence, favor the large scale enterprises by charging lower rate of interest.

Thirdly, with regards to the issue of government regulation is very discouraging, simply because some government stuffs like; tax, fixed cost for complying with import/export are also in favor of large scale. Thus, afore mentioned weight down the small scale.

Fourthly, due to the nature of under development in Nigeria, the

below research stated it as, due to the over reliance on ineffective established state of infrastructural facilities by SMES which include; water, electric power and affording other means for developing seem to be difficult. Similarly, still, lack of skilled entrepreneurs, managers etc hampers the growth of small and medium scale enterprises SMES (Tendler and Amorim 1996).

In view of the above situation, there is an advice in his research as, the ongoing changes that have an impact on the business environment with regard to the technology innovation and globalization process, urges small and medium scale enterprises SMES including other organizations as well, particularly in Nigeria so as to improve, maintain and realized the newly competitive advantages within their market position (Aremu 2004). Contextually, with regards to the above phenomenon, the Nigerian government should geared its efforts towards strengthening SMES thereby motivate domestic investment in order to promote economic growth.

The Structure of SMES in Nigeria

The structure of small and medium scale enterprises in Nigeria comprises different sort of businesses that are legitimate by the laws of the country, more so, they operate in every part of the country irrespective of the tribes or religion, language or culture. SMES consist many of the people that engaged in the field of distributive trade that form almost 50% portion that is own and run by the small and medium scale enterprises. Equally, the manufacturing sector carries 10%, while agricultural sector takes 30% and also the remaining 10% goes to the services and the total portion of the percentage constitute 100% (Odeyemi, 2003). Similarly, many researchers show that, in term employment, SMES has taken credit, simply because based on the indication that 70% jobs of the Nigerian industrial sector were provided by them.

SMES Finance and Government Initiative in Nigeria

The small and medium scale enterprises within the Nigerian context are expected to secure or get their funds from the following sources: Debt and equity. Debt, enterprises secure their funds through external borrowing for the purpose of expansion. These external debts could be obtained either in a formal way or in an informal one.

The informal way include; cooperative societies, friends, credit associations or even relatives etc. While the formal sources; Bank and sometimes government agencies. Hence, considering the level of people attitude toward saving or saving propensity is relatively low especially from the low income level; therefore, mostly borrowing from the informal source is relatively minimal. Similarly, with regards

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to the accessibility of the formal source, is a bit higher than the informal one. This is because, considering the banks that the suppliers of fund, they don't expand the loan size for the SMES. On the other hand, SMES are scared of obtaining loan because of high service cost or interest and sometimes the maturity of the facility is not favorable. The obstacles of funds issue had been in existence for long, even though several programs were established by the government purposely to assist the sector of small and medium scale enterprises. The establishment by the government had been on ground since 1970, and several credit scheme.

Therefore, Hallberg (2000) observes that, the strategy for offering assistance by the government to both developing and developed countries is on ground in order to reap the combine aims of equity which include; (gender inequalities, social ethnic, and addressing poverty alleviation) also objectives of efficiency include (increase in productivity and firm's profitability). However, there is a total disagreement based on the above observation, the argument of the Ojo (2003) is, most. if not all, the assistance programs for the small and medium scale enterprises by the government were failed to achieve its aim. Similarly, another researcher supported it as, the several programs established to achieve the desired goals, they could not because of numerous number of obstacles which include ; lack of monitoring and lack of poor evaluation of project which in turn led to mis-use of public funds with the aim of promoting private sector enterprises Tumkella (2003).

Research Methodology

The objective and systematic analysis is what the methodology of a research is all about and also to witness the recording of observed data which in turn can lead to the certain generalizations, development of principles and even noticed some theories of a particular result that can help in predicting and possibly control events (Best, 1985).

Research methodology is the approach adopted in any organized way for the purpose of providing relevant and efficient information in order to handle the identified problems. Therefore this chapter is structured in such a way that useful data will be sourced using one of the required recognized methods in order to find solutions to the identified problems on the „Role of Small and Medium Scale Enterprises in Economic Growth in Nigeria` ` .

$$Y_{t=1} SME + \beta_2 X + u \dots \dots \dots (1)$$

Where: Y = Per capita Real Gross Domestic Product;

SME = Small and Medium Enterprises (SMEs) activities;

X = set of control variables;

α = Intercept or constant;

β = Parameters or Co-efficient of explanatory variables;

u = Error term;

The variables are in first difference

More specifically in our context, the model is depicted as:

$$LN\Delta GDP = \alpha + \beta_1 LN\Delta SME_t + \beta_2 LN\Delta INV_t + \beta_3 LN\Delta RGT_t + \beta_4 t + \varepsilon_t \quad (2)$$

$LN\Delta GDP$ = Log of gdp per capita.

$LN\Delta SME$ = Log of small and medium scale enterprises (share of employment).

$LN\Delta INV$ = Log of investment rate (represent the macroeconomic environment).

$LN\Delta RGT$ = Log of real government transfer(funds)

Description and Sources of Data

The frequency of the data is yearly and it encapsulates the period ranging from 1981-2002. In an empirical analysis per capita growth in GDP is used as a proxy for the growth rate of the economy. The following data are; GDP per capita, SME, investment rate, and government transfer were obtained from:

Central Bank of Nigeria CBN, Nigeria national population commission NPC and International monetary fund IMF respectively.

LNSME represent the share of SME contribution to the total GDP, LNINV represent the macroeconomic environment and LRGT represent the real government transfer (i.e government transfer divided by consumer price index cpi).

Research Hypotheses

The relevant research hypotheses for this study are specified in null form as follows:

Hypothesis

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H0: SMEs has no effect on economic development in Nigeria.

Results

This study concentrates on the impact or role of small and medium scale enterprises SMES on economic growth in Nigeria. It has used annual time series data for the period of 1981-2002 . The analysis encapsulates the followings: Ordinary Least Square OLS, Second Stage Least Square 2SLS. Therefore, until observing the methods above, the study carries out Augmented Dickey Fuller ADF Unit root test on each time series data so as to become stationary, and they became at their first difference.

- 1) Based on the first Ordinary Least Square OLS result, the inverse relationship between the relative size of small and medium scale enterprises SMES and economic growth is highly strong, despite the efforts for controlling many other variables for growth determinants.
- 2) It was discovered at the second Ordinary Least Square OLS result that, the relative size of inverse relationship between SMES and economic growth is not much strong.
- 3) The impact of the relative size of small and medium scale enterprises SMES on economic growth is very much scanty, which shows that strong inverse relationship as shown in (1) above is through economic growth.

Attainment of predetermined target indisputably means the focus of every Research which demands absolute accentuation of cautiousness so as to prevent Chancy result that might turn the entire work useless. It (the research) has to conspicuously present the data collected (which must be harmonious with the objectives and the research hypothesis/question of the study), analyze and interpret it, which is the main deal of this chapter.

Small and Medium Scale Enterprises (SME) and Economic Growth with SMES

Proxied by Share of Employment

The table below depicts the result of ordinary least square OLS. The variables are shown while the figures in the second column show the result for the OLS estimates. The way the equation (2) is specified, the coefficient represents the dependent variable elasticity for each explanatory variable. The log of per capita gross domestic product GDPPC is the dependent variable.

Table: 1 The Result of Ordinary Least Square (OLS) Regression

Variable	OLS: Estimation	2SLS: Estimation
Constant	11.5724 (0.1092) [0.0000]	11.6645 (0.1400) [0.0000]
LNSME	-0.0167 (0.0444) [0.7104]	-0.0977 (0.0708) [0.1877]
LNINV	0.9988 (0.0507) [0.0000]	0.8801 (0.0875) [0.0000]
LNRGT	-0.0016 (0.0029) [0.5769]	0.0012 (0.0065) [0.8471]
t	0.0087 (0.0015) [0.0000]	0.0056 (0.0027) [0.0549]
Adjusted R Square	0.9816	0.9786
Number of Observations	22	22

The numbers in parenthesis () are the robust standard errors while the ones in squared bracket [] are the p-value(s)

Based on the OLS result, economic growth elasticity of small and medium scale employment expansion is -0.0167. This shows the percentage share of small and medium scale employment is not associated with growth of Real GDP Per capita RGDP. The coefficient for the log of SME is insignificant at ten percent level of significance.

Rate of investment indicates strong and healthy effect on economic growth. That is to say, it is significant at one percent level of significance with positive sign as expected. A one percent increase in an investment rate leads to a 0.9988 increase in the Real Growth GDP Per capita. The strength and direction of the relationship are also significant.

Based on the OLS result shown in Table 2, it is simple to conclude that the relationship that exist between Small and medium scale

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enterprises and the growth of an economy aren't robust. Despite OLS is used, it is not possible to ascertain whether Small and medium scale enterprises could cause impact on economic growth. Therefore, the results are exposed to simultaneity bias.

In order to check for the presence or absence of endogeneity problem, the Housman Procedure is conducted. First, the regression of LNSME is observed on all exogenous variables. Therefore, equation 2 is estimated once more by inserting the retrieve residuals as additional variable explanation. The second regression results show the coefficient on the retrieve residuals is not different from zero. This therefore, depicts the absence of endogeneity problem in equation 2.

Table 2 SMES Proxied by Share of Loan

Variable	OLS: Estimation	2SLS: Estimation
Constant	11.5361 (0.0378) [0.0000]	11.4782 (0.0516) [0.0000]
LNSSMEL	0.0008 (0.0059) [0.8843]	-0.0003 (0.0084) [0.9708]
LNINV	1.0053 (0.0688) [0.0000]	0.9546 (0.0913) [0.0000]
LNRGT	-0.0018 (0.0029) [0.5372]	-0.0034 (0.0050) [0.5057]
t	0.0092 (0.0011) [0.0000]	0.0091 (0.0015) [0.0000]
Adjusted R Square	0.9815	0.9761
Number of Observations	22	22

The numbers in parenthesis () are the standards errors while the ones in squared bracket [] are

the probability(s). Log of SMES share of loan (LNSSMEL)

Based on the OLS results in Table 2. The coefficient of LNSSMEL, LNINV and the variables are positive while that of LNRGT is negative respectively. The coefficient of LNSSMEL is positive (0.0008) and insignificant at Ten percent level of significance.

Similarly, the coefficient of LNINV is significance at one percent level

of significance. A one percent point increase in rate of investment is associated with 1.0053 percentage point increase in Gross Domestic Product. The coefficient of government transfer to public is statistically insignificant at ten percent level of significance.

Now we consider the other encapsulated time series such as: log of gross domestic product (LNGDP), log of small and medium scale enterprises SMES (LNSME), log of investment rate (LNINV) and log of real government transfer (LNRGT) unfortunately, one of them was found to be stationary. However, after differencing the series, it indicated the rejection of null hypothesis at the first difference. Similarly, this shows that the first difference of log of GDP, SMES, INV and RGT and their variance convergence over a period of time.

However, looking at the possibility of biasness of OLS estimates and the consequences of regressing the non-stationary series on stationary times, the study equally made use of Co-integration and VECM to figure out the long run and short run relationship that exist between the series.

Conclusion(s)

- 1) The federal government of Nigeria should provide the much-awaited National Credit Guarantee Scheme for small and medium scale enterprises SMES which would guarantee greater percentage of loans needs by them (smes).
- 2) The government should deal with and upgrade rural/urban means of transportation system such as: road, water, railways etc, so as to help the local manufacturers more importantly SMES.
- 3) The government should continually shun any act of bribery and corruption so as to ensure transparency and due process in the conduct of business (s).
- 4) The government should within its capacity establish National Rehabilitation Fund NRF as a way of assisting the viable but ailing small and medium scale enterprises SMES.
- 5) Tax system by the government should be reduced in favor of SMES to zero (o) from their first three years of operation and then up to 20% and above from the fourth year. (Because in Nigeria newly established firms or organizations are oblige to pay 10% to 20% for their first three years of operation)
- 6) The owners of SMES should ensure and maintain good quality in

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their goods as well as services at all level in all production activities.

- 7) SMES should endeavor to provide relevant needed information to the relevant government agency saddle with responsibility of receiving such information for the sake of providing enabling environment.
- 8) The owners of SMES should be given accurate data of their return so as to represent the Nigerian SMES sector and those that are not registered, they should in order to represent the formal sector in general.

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