

ABSTRACT

This research work is on the impact of small and medium scale enterprises on economic growth in Nigeria. The main objective of this study is to empirically examine the impact of small and medium scale enterprises on economic growth in Nigeria. This research work made use of secondary data which were obtained from the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS) for GFCF, SME invest, RGDP and EDUCEXP. While the data on labour supply will be obtained from the World Development Indicator web site of the World Bank.

The Ordinary Least Square Estimation Technique was employed in the analysis of the data. It was found among other things that based on the empirical analysis, it is concluded that small and medium scale enterprises has significant relationship with economic growth in Nigeria. SME developments cuts across sectors, involves multiple stakeholders and necessitate concerted action by the public and private sectors, therefore, SME development should be mainstreamed into the national development framework. Building up markets institution should be accompanied by capacity building of appropriate institutional structures. It is recommended that, the Federal government should implement favourable fiscal and monetary policies that will encourage foreign investors that want to invest in the economy, also government should ensure that the productiveness in the domestic sector of the economy is increased as this would encourage infant industries to produce capital goods for exportation.

CHAPTER ONE

INTRODUCTION

The role of Small and Medium-Scale Enterprises (SMEs) in the national economy cannot be underestimated. These enterprises are being given increasing policy attention in recent years, particularly in third world countries partly because of growing disappointment with results of development strategies focusing on large scale capital intensive and high import dependent industrial plants. The impact of SMEs is felt in the following ways: Greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with

bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk taking of small and medium enterprises to trigger and sustain process of economic growth. In overall economic development, a critical important role is played by the small and medium enterprises. Small and medium scale enterprises advocates firstly, its endurance competition and entrepreneurship promotion and hence have external benefits on economic and productivity growth. At this level, perspectives are directed towards government support and involvement in exploiting countries social benefits from greater completion and entrepreneurship.

Secondly, proponents of SMEs support frequent claim that SMEs are generally more productive than large firms, financial market and other institutions, direct government financial support to SMEs can boost economic growth and development. Some argued that SME expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tool, by promoting SMEs, individual countries and the international community at large can make progress towards the main goal of halving poverty level by year 2020 i.e. to reduce poverty by half and becoming among 20 largest World Economies (Nigeria Vision 20:20). Entrepreneurial development is therefore important in the Nigerian economy which is characterized by the following heavy dependence on oil, low agricultural production, and high unemployment, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructural base. These constraints limit the rate of growth of entrepreneurial activities in Nigeria. Hence, this paper seeks to investigate small and medium enterprises as a veritable tool in economic growth.

1.1 BACKGROUND OF THE STUDY

In recent times, the fortune of small and medium scale Industries attracted the attention of government world-wide and thus has been the focus of general interest and research, especially in developing countries due to the importance of small scale and medium scale Industries. Their importance 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 catalyst for restructuring and diversifying the productive base of an economy and for the Industrial economy 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.

In Nigeria, evidence has shown that in 1986, small scale and medium scale Industries accounted for 70% of all firms, employing millions of Nigerians (First Bank of Nigeria report, 1987). By the end of 1979, over 80% of all establishments licensed under the factory act were small and medium scale Industries (Onwuala, 1987). This made the importance of this economic unit to be unelectable.

Small and medium scale industries in its widest sense implies the urgent response to the challenges of developing countries, of which Nigeria is not an exception. Small and medium scale Industries should be established with due regards to the importance of available local raw materials in its environs because the challenges facing them are enormous. The importance of small and medium scale Industries to the economic growth of any country, whether developing or developed, have been widely acknowledged and acclaimed. They are considered as stimulants to private ownership and entrepreneurial skills development employment generation, promotion of industrial dispersal and rural-urban migration.

Clive Carpenter (2001), said that across the world, small businesses are crucial for economic growth, poverty alleviation and wealth creation. According to Uayatudeen (2001), across the world, small businesses have such a crucial role to play in the development of an economy and that cannot be ignored. Most firms and small and medium scale Industries are compared with companies that economists usually study, but economists have concentrated on large scale Industries. The leading textbooks in economics have little discussions on small and medium scale businesses or entrepreneurs. The contributions of small and medium scale Industries on the Nigerian economy are as follows: creation of wealth, poverty eradication and employment generation as encapsulated in the national economic empowerment development strategies (NEEDS)

However small and medium scale Industries are bedeviled by numerous challenges which have hampered its development and growth and also its contribution to national development.

1.2 STATEMENT OF THE PROBLEM

Several studies have identified financial constraint as the major obstacle to Small and Medium Scale Enterprises Development in developing countries including Nigeria. For instance, Adelaja (2003) argued that the access to institutional finance has always constituted a pandemic problem for SME development in Nigeria. She recalled that in the past, a number of schemes have been put in place to provide special credit lines/windows for SMEs but this achieved very limited impact.

The primary focus of this study emanates from the fact that small scale enterprises owners do not have sufficient finance to carry on their business due to the low saving culture of the people in this part of the world. The reason for this is not far fetch: low level of income basically.

Adesaolu, Oladoyin and Oladele (2005) deduced that the financial challenges mar the developmental role of Small and Medium Scale Enterprises. But this may not be true especially in the case of Nigeria where the informal sector, which is constituted largely by the Small and Medium Scale Enterprises play a very important role in the development of the nation's economy.

Many scholars have written widely on entrepreneurship and its potency to generate employment, thus, underscoring the quintessence, significance and relevance of this sub-sector in the development of any given economy. The experiences of developed economies in relation to the roles played by entrepreneurship buttresses the fact that the importance of entrepreneurship cannot be overemphasized especially among the developing countries. In order to highlight its significance in relation to the growth and development of a given economy, entrepreneurship has been variously referred to as a "source of employment generation". This is because entrepreneurial activities have been found to be capable of making positive impacts on the economy of a nation and the quality of life of the people (Adejumo, 2000). Studies have established its positive relationship with stimulation of economic growth; employment generation; and empowerment of the disadvantaged segment of the population, which include women and the poor (Oluremi and Gbenga, 2011; Thomas and Mueller, 2000; Reynolds, 1987) and small and medium scale enterprises is all about entrepreneurship which is a major engine to economic growth. Therefore, this study seeks to evaluate the promotion of Small and Medium Scale Enterprises (SMEs) in Nigeria and their

catalytic role in economic growth.

1.3 OBJECTIVES OF THE STUDY

The aim of this research work is to examine how small and medium scale industries can be a catalyst for the economic growth of Nigeria. The specific objectives are:

- a. To determine the impact of SMEs on economic growth in Nigeria.
- b. To determine the relationship between SMEs and the economic growth of Nigeria.
- c. To determine the extent of increase of SMEs in Nigeria.

1.4 RESEARCH QUESTIONS

- a. What is the impact of SMEs on economic growth in Nigeria?
- b. What is the relationship between SMEs and the economic growth of Nigeria?
- c. What is the extent of increase of SMEs in Nigeria?

1.5 STATEMENT OF THE HYPOTHESES

For the purpose of this study, the researcher developed the following hypothesis.

H₀1: Small and medium scale enterprises has no significant impact on economic growth in Nigeria.

H₀2: There is no significant relationship between SMEs and economic growth.

1.6 SIGNIFICANCE OF THE STUDY

This study is significant because it would help to evaluate the operations of a vital segment of the industrial sector SMEs which have been identified as having high potential in promoting economic growth (Oni and Daniya, 2012). Also this study is going to provide useful information on some of the challenges SMEs face in Nigeria which will be significant to people interested in developing SMEs in Nigeria

1.7 SCOPE AND LIMITATION OF THE STUDY

The study encompasses the roles and contributions of small and medium scale industries on the Nigeria economy from 2000-2015. In writing this project, the researcher encountered some limitations, which were; lack of information from appropriate quarters, time constraint, transportation difficulty in terms of traffic problems, lack of funds, power outage etc. However, in spite of all odds, I was able to come out with a standard work. The project contains information which is reliable and authentic.

1.8 DEFINITION OF TERMS

Economic Growth: Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or *real GDP*. Growth is usually calculated in *real* terms, i.e. inflation-adjusted terms, in order to obviate the distorting effect of inflation on the price of the goods produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment".

Entrepreneurship: The willingness and ability of an individual to seek out investment opportunities in an environment, and be able to establish and run an enterprise successfully based on the identified opportunities.

SMEs: Small and medium enterprises or small and medium-sized enterprises (SMEs, small and medium-sized businesses, SMBs, and variations of these terms) are companies whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). In their paper *Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries*, Tom Gibson and H. J. van der Vaart indeed suggest a less imperfect formula:

An SME is a formal enterprise with annual turnover, in U.S. dollar terms, of between 10 and 1000 times the mean per capita gross national income, at purchasing power parity, of the country in which it operates

CATALYST: It is a substance that increases the rate of a chemical reaction. Also according to vocabulary dictionary, it is a person or a substance that causes change

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