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SMALL AND MEDIUM SCALE ENTERPRISES AND EMPLOYMENT GENERATION FOR POVERTY REDUCTION IN NIGERIA: THE ROLE OF GOVERNMENT

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Abstract

Recent insights now show that the term poverty, which traditionally was believed to mean lack of income, also refers to lack of access to good health, education, security and other social services. Efforts at providing solutions to this malaise facing developing nations of the world by various governments are often faced with stiff opposition, sometimes right from conception. This is largely because poverty is devoid of any universal definition and its focus and solutions have continued to change over time. The aim of this study therefore, is to examine the role of government in influencing small and medium scale enterprises as a panacea for employment generation and poverty reduction in Nigeria. To achieve this objective, the Step-wise logistic regression analysis –a form of -Binomial Logistic Regression Analysis was used. The choice of this method of analysis was informed by the nature of the dependent variable (poverty), which is dichotomous. The study is of the opinion that using this poverty reduction strategy entails an increase in the average monthly income of the respondents. As a way out, the study suggests that government should, as a matter of urgency, provide the enabling environment as well as infrastructure such as roads, water, electricity, etc. The study is of the view that these efforts will reduce the cost of doing business, increase retained earnings of the SMEs, average monthly income; create employment and reduce poverty on the long run.

Introduction

Governments of the world today have continued to put in place different programmes and policies towards achieving the Millennium Development Goals (MDGs), aimed at reducing poverty to fifty percent (50%) of its current level by the year 2015. In some countries (Nigeria inclusive), achieving this target appears to be unrealistic while in others, there is considerable progress. As a comprehensive and all encompassing mechanism, the Nigeria government set up the National Economic Empowerment and Development Strategies (NEEDS), Poverty Alleviation Programme

(PAP), now National Poverty Eradication Programme (NAPEP), Small and Medium Enterprise Development Association of Nigeria (SMEDAN), etc as an inducement towards re-engineering the economy for growth, efficiency and effectiveness (Kadiri, 2008). These are attempts to restructure, right size, professionalize and strengthen government institutions so as to reduce poverty to the barest minimum and provide gainful employment to Nigerians. These policies were also aimed at eliminating waste and inefficiency, as well as free up resources for investment in infrastructure development and social services.

A close examination of these programmes suggests that they were also meant to energize small and medium scale industrial development and achieve advancement in the economy. This is because no economy in the world has grown without contribution from its Small and Medium Enterprises (SMEs). For instance, through the small scale industrial revolution, the antecedent economic and industrial expansion moved some Asian countries into world leaders in poverty reduction, wealth generation and industrial output. During the 70s for instance, Japan outpaced the United States of America in car, steel and electronics production. This achievement was made possible through the various machineries by the Japanese government to move the country forward. Presently, seventy percent of exports from Japan can be attributed to the efforts of Small and Medium Enterprises (SMEs). The SMEs, with fewer than 300 workers, account for 99.5 percent of the factories in Tokyo and employ 74 percent of its work force. Large industries on the other hand, account for only 0.1 percent of the industries and employ only 13.4 percent of the country's labour force. This situation is similar to what obtains in countries like Korea, Taiwan, USA and Germany (Kadiri, 2008).

It is evident from available statistics that poverty has continued to rise at an alarming rate in the country despite the efforts of the government in reducing poverty. The poverty level in Nigeria between 1960 and the early 1970s, which was at the lowest, rose to unimaginable level. As a result of the oil shock experienced between late 1970s and early 1980s, this period could be regarded as a landmark in the growth of poverty in the country. The shock caused deterioration in the country's terms of trade, heavy debt burden and macro-economic shocks. Between 1985 and 1986, 43 percent of Nigerians were already living in poverty. This figure rose sharply from 53 to 61 percent between 1996 and 1997. By 2004, about 63 Million Nigerians were already living in poverty.

Past studies show that SMEs have, in many countries, provided the mechanism for stimulating indigenous entrepreneurship thus enhancing greater opportunities, mobilizing saving for investment and promoting the use of local raw materials (World Bank, 1995). The sector, past studies have shown, can also contribute to the strengthening of industrial linkages and other sectors of the economy through the production and transformation of intermediate products such as raw materials, spare parts and machineries into finished products.

Countries that have succeeded in reducing poverty significantly indicate the importance of sustained growth and development in achieving better results. But high growth is not enough, the pattern and sources of growth are extremely important from the point of view of raising the incomes

of the poor (ILO, 2004). Hence, the search is on for mechanism that would be put in place by the Nigerian government to achieve a faster economic growth that will guarantee employment generation and poverty reduction. This motivated the present study.

Poverty Reduction Strategies in Nigeria

Poverty alleviation is in the main task for economic policy and it requires some anti-poverty programmes directed at the poor. Development policy has three fundamental objectives, namely economic growth and development, price stability and social equity. Whatever the objective that is to be achieved, there is mounting evidence in support of the complementarities between economic growth and poverty reduction. The crucial issue is the quality or character of growth. In this respect, the proposed strategy gives premium to a growth process that is employment-centered and engineered by massive investment in human capital. This kind of growth, which Choski (1995) considers to be simply getting the basics right, that is investing extensively in human capital. In contrast to the exclusive reliance on the natural forces of economic growth, poverty alleviation with growth strategy admits explicitly to some targeting of the poor. This is quite achievable with the development of SMEs.

To reduce poverty, various schools of thought advocated a number of measures. For instance, the early development economists of the 1940s and the 1950s advocated the theory of forced-drift industrialization via Big push, Balanced growth and Labour transfer, while the World Bank (1991) and Sen (1990) emphasize macro-economic stability, basic needs and capability and entitlement approaches to poverty reduction (Ijaiya 2002). In Nigeria, various efforts were made by the government, non-governmental organizations and individuals to reduce poverty in the country. According to Ogwumike (2001), poverty alleviation measures implemented so far in Nigeria focused more attention on economic growth, basic needs and rural development strategies. The economic growth approach focuses attention on rapid economic growth as measured by the rate of growth in real per capita GDP or per capita national income, price stability and declining unemployment, among others, which are to be attained through proper harmonization of monetary and fiscal policies. The basic need approach focuses attention on the basic necessities of life such as food, healthcare, education, shelter, clothing, transport, water and sanitation, which could enable the poor live a decent life, while rural development approach focuses attention on the total emancipation and empowerment of the rural sector.

As a reaction to this measures, Ogwumike (2001) grouped the strategies for poverty reduction in Nigeria into three eras, the Pre-Structural Adjustment Programme, Structural Adjustment Programme and the Democratic or Post Structural Adjustment Programme eras (Ijaiya, 2006).

Methodology

To obtain the required data/information, a detailed questionnaire was prepared and mailed to the SMEs. The questions raised follow the pattern of the World Bank and Federal Government of Nigeria. To say the least, the questions drawn reveal the biological, socio-economic as well as

health characteristics of the targeted SMEs. Past evidence suggests that questions that involve personal circumstances, prestige or social standing may often lead to respondents consciously or otherwise supplying inaccurate answers. To guide against these, questions raised in the study were framed and arranged in such a way to reduce the biases and response error usually associated with this type of study.

A total of one thousand six Hundred (1,600) SMEs were identified in the study areas. Out of these, three hundred and seventy (370) belong to the agro-allied category while one thousand two hundred and thirty (1230) operate in the non-agro allied sector. Of these numbers, one hundred and eighty agro allied SMEs (180) and four hundred and seventy (470) non agro allied SMEs were duly registered by the government and have been operating in the business for a minimum of five years. The six hundred and fifty (650), which comprise of 180 agro allied and 470 non-agro allied SMEs represents the population of the study. A sample size of four hundred respondents was chosen using multi-stage sampling technique to select the SMEs for the study. This sampling method was informed by the relative homogeneity of SMEs characteristics and the residential structure of the enterprise under study. Ogunbameru (2003:106) is of the opinion that a sample size of about one-third is a good representation of the entire population.

The Binomial (Binary) Logistic Regression was used for this study. It is a form of regression which is used when the dependent variable is a dichotomy and the independent variable is of any type. The method applies maximum likelihood estimation after transforming the dependent into a logit variable (the natural log of the odds of the dependent occurring or not). In this way, Logistic Regression estimates the probability of a certain event occurring. Note that Logistic Regression calculates changes in the log odds of the dependent, not changes in the dependent itself as OLS Regression does. It has many analogies to OLS Regression.

Results and Discussions

The section identifies the effects of the independent variables such as age of respondents, gender, household size, education of respondents, occupation of respondents, average monthly income and length of years that the respondents have been operating the SME business as independent variables on the dependent variable (poverty) which is dichotomous in nature. It also establishes how many of the SMEs are living below poverty-line and how many are living above it.

Table 1: Poverty Classification of SMEs

	Frequency	Percent	Cumulative Percent	Percentage correct
Below Poverty Line	160	40	40.0	83.3
Above poverty line	240	60	100.00	85.7
Total	400	100		84.6

Source: SPSS Analysis (2008)

The study observed that 160 of the SMEs representing 40 percent of the respondents examined were living below the poverty line. Also, 240 SMEs representing 60 percent of the total respondents were living above poverty-line. However, it should be noted that 83.3 percent of those classified as living below poverty-line were correctly classified while 85.7 percent of those living above poverty-line were equally correctly classified. Overall, the classification is 84% correct.

Table 2. Government Role in promoting SMEs

Poverty Classification		Frequency	Percent
Below poverty line	Below expectation	160	40
Above poverty lie	Below expectation	180	45
	Not certain	60	15
TOTAL		400	100

Source: SPSS Analysis (2008)

From table 2, all those living below poverty line are of the view that the efforts of the government in assisting the SMEs in the country is still below expectation. They represent 40 percent of the respondents. Among those living above poverty line, 180 respondents representing 45 percent equally believe that the role of government is below expectations. However, 60 respondents of that category representing 15 percent of the total respondents were not certain of the role of the government. In all, 85 percent of the total respondents believe the role of the government is below expectation.

From initial variables that were identified, the step-wise regression equation has assisted us to reduce the number of independent variables that determines poverty to the nearest minimum. A total of seven independent variables were first identified and regressed upon. Of these, age of respondents, educational qualification of respondents as well as the average monthly income of the respondents were identified as the major determinants of poverty. These independent variables were subjected to further analyses.

Table 3: Stepwise regression equation

	B	S.E	Wald	Df	Sig	Exp (B)
Step X ₆	0.001	0.000	30.244	1	0.000	1.001
1 ^a Constant	- 3.743	0.484	59.826	1	0.000	0.024
Step x ₄	1.763	0.493	12.784	1	0.000	5.832
2 ^b X ₆	0.001	0.000	26.053	1	0.000	1.001
Constant	-10.309	2.390	18.613	1	0.000	0.000
Step X ₁	-4.854	3.050	2.564	1	10.109	0.008
3 ^c x ₄	2.623	1.113	5.548	1	0.019	13.770
X ₆	0.001	0.000	21.486	1	0.000	1.001
Constant	-2.876	2.307	1.555	1	0.212	0.056

Source: SPSS Analysis (2008)

$$R^2 = 0.891$$

Where X₁ = Age of respondents, X₄ = Educational Qualifications

X₆ = Average monthly income of respondents

At 1% and 5% levels of significance, the result shows promising outcomes. The Nagel Kerke R² (Coefficient of determination) is 0.891. The Age of respondents, Educational Qualifications and Average monthly income of respondents must be the focus of government if any meaningful progress is to be made in reducing poverty in the country. These variables must be addressed because they are the most significant of all the independent variables.

Age of respondents, educational qualifications and average monthly income of respondents were first identified as the core independent variables that determine poverty. A further step wise regression reduced the variables to educational qualifications of respondents and average monthly income of respondents as the most important variables. The last step of the step wise regression analysis shows that income of the respondents is the most important variable to be influenced in order to have more meaningful outcomes. It has a significant level of 0.000 which is less than 0.005. The central focus should be how to influence these core variable(s) most especially the average monthly income of the respondents for poverty to be reduced.

Conclusions and Policy Recommendations

This study examined the impact of the various government efforts in promoting SMEs as a vibrant tool for employment generation in Nigeria. Over the years, considerable attention has been paid to the issue of poverty reduction by government in the country. Contentious issue often, was what strategy should be used in order to reduce poverty? Most poverty related programmes in the country aimed at reducing poverty die as soon as they were formulated or at the stages of implementation. Available statistics as evident in the study show that poverty has continued to increase in the country at alarming rates. The myriad of factors confronting poverty reduction in the country has often belittled the anticipated outcomes. This accounts for the reason why different

strategies for poverty reduction in the country were established. Contemporary insights now tend towards the belief that no economy of the world can grow without contribution from the small and medium scale enterprises. The sector was adjudged as a catalyst for job creation, enhanced household income and poverty reduction as noticed in Asia and other developed countries of the world.

The Nagel kerke R^2 square of 0.891 confirms the adequacy of our model and robust as a forecasting tool. The study also observed that 83.3percent of those below the poverty line were correctly classified by the model. More so, 85.7 percent of those living above the poverty line were equally correctly classified. This study also identified the factors that determine poverty. The study has assisted us to establish that SMEs are very vibrant means of reducing poverty in the country. There has been a clear manifestation of high variability in the returns from the SMEs provided progressive steps were taken to energize the credit as well as income accruable to SMEs in the country. Of all the independent variables, the monthly average income of the SME operators was discovered to be the most outstanding.

The current efforts of the Nigerian government at promoting the activities of the Small and Medium Enterprises are yet to produce the desired result. The activities of the various government agencies such as SMEDAN, NAPEP and Bank of Industry etc. are yet to be felt by the SMEs. As a matter of urgency, and in order to increase the income and employment generation abilities of the SMEs, there is the need for the Nigerian government to establish formal financial institutions just like the BOI, with the mandate of providing financial support to the SMEs. The Bank, if established, should be mandated by the Nigerian government to provide loans and other financial support to the SMEs at the barest minimum interest rate. Moreso, basic infrastructure such as roads, health facilities and electricity should be provided. This infrastructure will go a long way in reducing the cost of doing business thereby increasing the retained earnings of the SMEs. These earnings if re-injected into the business, is capable of increasing the productive capabilities of the SMEs, ensure more employment generation, and increase the average income and reduce poverty reduction ultimately.

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