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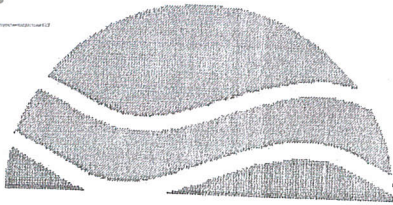
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Impact of Small and Medium Scale Enterprises on Poverty Alleviation in Kwara State, Nigeria.

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ABSTRACT

Small and medium scale enterprises (SMEs) are the mechanism propelling economic growth and development mitigating poverty in many countries of the world. Despite accounting for more than 95% of productive activities, SMEs contribution to the Nigeria's gross domestic product (GDP) is below 10%. The rates of poverty and unemployment remain very high in the country. In view of this, this study examines how SMEs contribute to poverty alleviation and reduction in Kwara State.

The study employed primary data through the administration of questionnaire from a sample of 100 small and medium scale enterprises. A probit regression was used to shed light on the impact of income generated by owners of SMEs on poverty alleviation in Nigeria. The results of the regression analysis revealed that income generated by owners of SMEs impacts strongly on poverty alleviation in Kwara State. The study therefore, recommends that small and medium scale enterprises owners should seek and maintain sufficient funds at a lower interest rate for the smooth operation of their businesses.

(Key terms: SMEs, small-scale enterprise, mid-scale enterprise, poverty, unemployment, income, Kwara State, Nigeria)

INTRODUCTION

Poverty is an unfavorable and unpalatable situation and condition in which people live with economic, social, and political deprivation. Poverty has been an increasing phenomenon in the world and has continuously remained a leading issue at any point in time. Ajala and Fakoya (2003) stressed that it is widely experienced among developing countries such as

Nigeria. In Sub-Saharan Africa, on the average, 46.8% of the people live below the poverty line, which is rated much higher in proportion compared to any other region of the world (World Bank, 2011). Poverty is an issue of utmost concern to most governments, given its effects on the welfare of the people.

Poverty in Nigeria was not really a major threat until when international oil prices crashed and the attendant international economic slump. The continuous downward trend in the oil prices in the world market from 1981 exacerbated the level of poverty in the country. The over-dependence on oil revenue and inadequate efforts to mobilize resources from non-oil sources led to a serious decline in government revenue. In view of this, Nigeria government at different times introduced different policies to eradicate the menace. In spite of these efforts, the poverty level and unemployment rate has continuously increased. The failure of several programs on poverty reduction has particularly led to interests in discussions and studies on how SMEs could lead to poverty reduction in Nigeria.

Chad (2005) opined that SMEs drives America economy. However, Fatai (2011) averred that Nigeria's current problems of hunger, poverty and unemployment have been undermined by the capacity of the SMEs. He further stated that the unfortunate development is the inability of SMEs to provide the mechanism to propel economic growth and development which is the basis for mitigating poverty.

Small and medium scale enterprises are referred as engine for industrialization because they constitute major supplier of inputs to larger firms and also serve as the customers to larger firms. SMEs provide employment generation for any country; they assist in reducing the rural-urban

migration since they can be easily established by relatively less skilled labor force.

However, looking at Nigeria's infrastructure situation in the areas of power, water supply and road networks, not to talk about government several policy somersaults; one cannot but wonder the magic SMEs are expected to perform in a non-conducive environment.

According to Eniola (2014), SMEs in Nigeria accounts for more than 95% of productive activities, employ over 70% of work force and has the ability to generate up to 70% of Gross Domestic Product (GDP). However, in Nigeria the expectation that SMEs help in reducing poverty is far from reality. This can be further explained through the challenges faced by inadequate financing, poor managerial skills and unfavorable macroeconomic environment, among others. The underperformance of SMEs is due to underdevelopment which has left Nigeria to a state of paradox- living in poverty among plenty. Hence, there is a need to examine the impact of small and medium enterprises on poverty alleviation in Kwara State, Nigeria. Specifically, this study examines the income generating potentials and abilities of SMEs operators and how they assist in poverty alleviation in Nigeria generally and Kwara State in particular.

LITERATURE REVIEW

Definitions of Small and Medium Scale Enterprises

Small and medium scale enterprises has been defined by different scholars who have given diverse definitions. European Union in 2003 adopted a universally accepted definition of small and medium scale enterprises and micro business as companies with less than 250 employees, revenues must not exceed 50 million Euro (turnover) or 43 million Euro (Fatai, 2011).

The Central Bank of Nigeria (1998) stated that SMES are firms whose total investment does not exceed 500,000 Naira and whose annual turnover does not exceed 1 million Naira. The Federal Ministry of Industries defined a medium scale enterprise as any company with operating assets less than 200 million and employing less than 300 persons. The National Association of Small and Medium Scale Enterprises defines SMEs as businesses employing less than fifty (50) people

and with an annual turnover of one hundred million Naira. The association further defines a medium scale enterprise as a business with less than 100 employees and with an annual turnover of five hundred million.

The Small and Medium Industries Equity Investment Scheme (SMIEIS) in Nigeria defines SMEs as enterprises with a total capital employed not less than N 1.5 million but not exceeding N 200 million, including working capital but excluding cost of land and or staff strength of not less than 10 and not more than 300 (Abubakar and Yahya, 2013).

This study adopts the definition given by the CBN that small enterprises are those with total asset base (excluding real estate) of less than N 1 million and employing less than 50 full time workers. While medium enterprises are those with total asset base (excluding real estate) of less than N 50 million and employing less than 100 full time workers. In Nigeria, SMEs are faced with different limitations, coupled with deplorable condition of the existing infrastructural facilities which has inhibited the development of SMEs (Ojo, 2006). This calls for urgent attention of the government if they are to contribute maximally to the growth and development of the economy compared with their counterparts in other countries of the world.

The inability of SMEs to raise sufficient funds are usually linked to their lack or inadequate collateral securities, poor financial reporting, lack of feasibility report, risks associated with the sector and the inability to raise required equity contribution. (Ojo, 2006; Omoruyi and Okonofua, 2005; Okwonkwo and Obidike, 2016). Most SMEs have little or no accounting records for daily transactions and this has hindered them from accessing financial aid from the banks and other formal financial institutions.

The huge mismanagement of financial resources have also compounded the woes of SMEs in Nigeria (Omoruyi and Okonofua, 2005). Many studies have pointed to managerial skills as the most important constraint faced by small business. At the formation stage, a small owner is able to run a business but as it grows through ages, managerial skill arises.

Different Views of Poverty

Poverty is seen as lack of resources that fosters moderate livelihood. There is no generally acceptable definition of poverty. Poverty is viewed as a condition in which resources of individuals or families are grossly inadequate to provide a socially acceptable standard condition of living (Central Bank of Nigeria, 1999; Ifamose, 2001; Magaji, 2002). Townsend, Davidson and Whitehead (1992) asserted that poverty is the lack of material resources of certain duration and to such an extent that participation in normal activities and possession of amenities and living conditions become impossible or very limited. Political instability, corruption, unemployment, unfavorable business environment, inappropriate implementation of privatization programs, poor educational system, harsh economic reforms, poor macroeconomic policies, incessant cases of inflation among others are the main causes of poverty (Obadan, 1996).

Different types and levels of poverty are being experienced in Nigeria. Absolute poverty is said to be a living condition below the acceptable level of global standard on meaningful level of human existence. It can also be viewed as living below the basic condition that must be met in order to sustain a physically healthy existence. Individuals or groups who lack basic needs of food, shelter, and clothing fall under this category. According to World Bank (1996), relative poverty is used in evaluating individual in relation with the average income of the country or 40th percentile of the distribution and which often varies with the level of average income. It exists when people may be able to afford the basic necessities of life but are not able to maintain average standard of living while chronic/structural poverty occurs on a long term or persistent basis.

Obadan (1997) opined that chronic/structural poverty causes are more permanent and depend on a host of other factors such as limited resources, lack of skills for gainful employment, locational disadvantage or endemic socio-political and cultural factors. Other types of poverty are conjectural/transitory poverty which can be referred to as poverty on a short term or temporary basis caused mainly by factors such as natural or manmade disaster or changes in the economy structure which might lead to loss of employment or loss in value of real income. While the likes of spatial and locational poverty is the kind of poverty that depends on the geographical

or regional structure of a community which are usually classified as urban squalor and rural poverty. Generalized island or case specific poverty is used to refer to poverty when is common among the people of a country or when it occurs in a special situation which is particular or general among some certain group. In the case of Nigeria, the situation is paradoxical – living in poverty in the midst of plenty (World Bank, 1996). It can also be categorized into five dimensions of deprivation, namely: personal and physical deprivation, social deprivation, cultural deprivation, political deprivation and economic deprivation.

Theoretical Framework

This study is hinged on two theories, viz: vicious circle of poverty and basic human needs.

Vicious Circle of Poverty

Vicious circle of poverty theory was adopted for this study. Jhingan (1997) asserted that there are circular relationships known to be vicious circles of poverty that will likely perpetuate the low level of development in less developed countries. It implies a circular constellation of forces tending to act and react upon another in such a way as to keep a poor country in a state of poverty.

The basic vicious circle stems from the fact that in less developed countries total productivity is low due to low level of real income that leads to a low level of demand that in turn leads to a low rate of investment and hence back to deficiency of capital to low productivity and low income. Vicious circle of poverty simply means that a country is poor because there is less saving, less capital formation, low productivity, low income (Ishola, 2011). Breaking the vicious circle of poverty seems impossible because poor people do not have enough resources to get out of poverty.

Basic Human Needs

Dissatisfied with growth, employment and other approaches of development, economic thinker turned towards the basic human needs strategy for promoting human wellbeing, especially that of the poor (Jhingan, 1997). The basic human needs strategy laid emphasis on providing basic

material needs in terms of health, education, water, food, clothing and shelter. Basic needs are directed at increasing productivity and incomes of rural productivity and the income of the rural and urban poor dwellers of less developed countries (Jhingan, 1997). These needs are arranged in an order of importance usually called a hierarchy of needs and once a lower need has been met, such person moves up the hierarchy. Thus, a hungry person is not going to be motivated by consideration of safety and affection, for example, until after his hunger has been satisfied (Cole, 1996).

Empirical Framework

Tambunan (2008) examined the effects of the development of small and medium enterprises in less developed countries (LDCs) on two issues: the survival of SMEs in the course of economic development and the importance of government promotion programs for SMEs development with Indonesian data. The study revealed that both real gross domestic product per capita and government development expenditure have positive impacts on SMEs growth. The study also found that SMEs in LDCs can survive, and even grow in the long-run, for three main reasons: (a) they create a niche market for themselves, (b) they act as a "last resort" for the poor, and (c) they will grow along with large enterprises (LEs) because of their increasingly important production linkages with LEs in the form of subcontracting.

Dimoji and Onwuneme (2016) carried out study on small and medium scale enterprises and sustainable economic development in Nigeria. The study employed descriptive statistics. The study discovered that small and medium scale enterprises provide the tools for sustainable economic liberation in Nigeria. Orugun (2016) examined poverty issue and the entrepreneurial engagement of small scale enterprises in Nigeria: an empirical study. Data for the study were analyzed with the aid of descriptive statistics, correlation analysis and regression. The findings indicate a positive correlation between entrepreneurship through SMEs and poverty level, and significant positive correlation between poverty and unemployment in Nigeria.

Ben-Caleb, Faboyede, and Fakile (2013) studied empowering small and medium scale enterprises in Nigeria: a key poverty alleviation strategy. The findings of the study revealed that the major

problems plaguing SMEs are inadequate capital, poor infrastructural facilities, inability to access funds from financial institutions due to stringent conditionality, ignorance of the available sources of finance and lack of management and skill support.

The major contribution of this study to existing body of knowledge is the introduction of the impact of income generated by owners of small and medium scale enterprises on alleviating poverty in Nigeria. The choice of income as a tool in eradicating poverty is based on the theory of vicious circle of poverty.

METHODOLOGY

Population of the Study and Sample Size

The population for the study consist of small and medium scale enterprises operators in Kwara State, Nigeria. These operators were selected following the random sampling technique. Primary sources of data collection were used. Questionnaire was the primary instrument used to solicit information from the respondents. The questionnaires were administered face to face to the operators of small and medium scale businesses. A total number of 120 copies of questionnaire were administered. However, 100 copies were fully filled and returned which was employed for the study.

Method of Analysis

The result of the questionnaires were analyzed with the use of Maximum Likelihood Estimator Technique. Specifically, the ordered probit regression technique was used to ascertain the probability of the independent variables on the dependent variable. This method is unique for this study because the dependent variable will have more than two response categories and the responses are ordered. The study adopted survey research design in carrying out the study.

Model Specification

The model analyzed SMEs and poverty alleviation in Kwara state. The model used for the study is stated as:

$$POV = f(INC, HS, EQ, SF) \quad (1)$$

Where POV= Poverty Alleviation, INC= Income generated from SMEs, HS= Household Size, EQ= Educational Qualification of the household head, SF= Sufficient Funding of SMEs'.

$$POV = b_0 + b_1INC + b_2HS + b_3EQ + b_4SF \quad (2)$$

However, there may be other factors that could influence poverty alleviation that is not captured by the above model. Thus, we include the stochastic error term in our equation.

$$POV = b_0 + b_1INC + b_2HS + b_3EQ + b_4SF + U_t \quad (3)$$

Where U_t is the error term which is assumed to be normally distributed with zero mean and constant variance.

In a Probit regression form,

$$\text{Prob. (Pov} = 1 / X_1, X_2, \dots, X_3) = B_0 + \sum_{i=1}^k \beta_i X_i + U_t \quad (4)$$

Where B_i = structural parameters and X_i = a vector of income generated by owners of SMEs, funding of SMEs and household socio-economic characteristics such as household size, educational qualification.

DATA PRESENTATION AND ANALYSIS

The data collected for this study is a cross sectional data. The descriptive statistics shows the bio-data of the sampled respondents. One hundred and twenty questionnaires were administered and one hundred were fully filled and returned.

Table 1: Gender of the Respondents.

Gender	Frequency	Percentage (%)
Male	67	67
Female	33	33
Total	100	100

Source: Field Survey, (2016)

From the Table 1 above, 67 respondents representing 67% of the total respondents are male while 33 respondents representing 33% of the total respondents are female. The gender distribution shows that male genders are more involved in SMEs than their female counterpart.

Table 2: Educational Background of the Respondents.

Educational Qualification	Frequency	Percentage (%)
No formal education	05	5%
Primary education	13	13%
Secondary education	12	12%
Ond/Nce	41	41%
Hnd/BSc	23	23%
Postgraduate	06	6%
Total	100	100%

Source: Field Survey, (2016)

Table 3, 5 respondents representing 5% of the respondents have no formal education, 13 respondents representing 13% of the respondents have primary education, 12 respondents representing 12% of the selected size have secondary education, 41 respondents representing 41% of the total respondents possess ordinary national diploma/national certificate of education qualification, 23 respondents representing 23% of the respondents possess higher national diploma/bachelor of science qualification while about 6 respondents representing 6% of the total respondents have postgraduate qualifications. The education qualification of the respondents is encouraging and shows that the operators of SMEs can read and write which with little training they will be able to keep the accounts of their businesses.

Table 3: Management Level of Respondents.

Mgt level	Frequency	Percentage
Top	13	13
Middle	53	53
Low	34	34
Total	100	100%

Source: Field Survey, (2016)

Table 4 above shows the management level of of the sampled respondents. 13 respondents representing 13% of the total respondents are top management officials, 53 respondents representing 53% of the total respondents are middle management officials while 34 respondents representing 34% of the total respondents are low level management officials.

Table 4: Forms of Business of the Respondents.

Forms of Business	Frequency	Percentage
Sole Proprietorship	76	76
Partnership	17	17
Limited liability company	07	7
Total	100	100

Source: Field Survey, (2016)

Table 5 shows the forms of business organizations been operated by the sampled respondents. 76 respondents representing 76% of the total respondents are sole proprietors, 17 respondents representing 17% of the total respondents are into partnership form of business while 7 respondents representing 7% of the total respondents operates a limited liability company. The form of businesses revealed that majority of the SMEs are owned by sole proprietors.

The regression analysis to show the impact of the income generated by small and medium scale enterprises in alleviating the poverty situation of the sampled respondents is shown below.

Table 5: Estimates of Probit Regression.

Dependent Variable: POV				
Method: ML - Ordered Probit (Quadratic hill climbing)				
Date: 10/19/14 Time: 19:04				
Sample: 1 100				
Included observations: 100				
Number of ordered indicator values: 5				
Convergence achieved after 5 iterations				
Covariance matrix computed using second derivatives				
Variable	Coefficient	Std. Error	Prob.	Prob.
INC	-0.617072	0.296207	0.0372	0.0372
SF	-0.654348	0.283153	0.0706	0.4706
EQ	0.077659	0.229273	0.7348	0.7348
HS	0.148555	0.213108	0.4857	0.4857
Limit Points				
LIMIT_1:C(5)	-2.156705	1.198086	-1.800126	0.0718
LIMIT_2:C(6)	-1.480145	1.197135	-1.279147	0.2008
LIMIT_3:C(7)	-1.097687	1.111507	-0.987566	0.3234
LIMIT_4:C(8)	-0.131946	1.082523	-0.121887	0.9030
Pseudo R-squared	0.604025	Akaike info criterion		3.440822
Schwarz criterion	3.839115	Log likelihood		-26.40822
Hannan-Quinn criter.	3.518573	Restr. log likelihood		-29.47429
LR statistic	6.132143	Avg. log likelihood		-1.320411
Prob(LR statistic)	0.089495			

Source: Authors' Computation, (2016).

The table above shows the ordered probit analysis of small and medium scale enterprises and poverty alleviation in Kwara State. The

analysis reveals the probability of the independent variables influencing the dependent variable. From the above, it can be seen that the coefficient of income generated by SMEs' has a negative relationship with poverty. An increase in the income generated by SMEs' by 1 percent will lead to a decrease in poverty by 61.7%. The probability of the coefficient of income indicates that it is significant at less than 5 percent in influencing poverty. The coefficient of SMEs shows that the probability of increasing funds to the SMEs by 1% will lead to a decrease in poverty by 0.6%.

The probability value of sufficient funding of SMEs shows that it is significant in influencing the poverty situation at 10 percent. This implies that if more financing can be given to concerned parties to enable the growth of SMEs in this country thereby empowering the citizens and thereby increasing their standard of living. The coefficient of household size also shows the probability of an increase in household size on poverty.

The analysis above depicts that an increase in household size by 1% will worsen the poverty situation by 14.85%. Though the probability value shows that it isn't significant at influencing poverty situation in the sampled families. That is, some families could be large and could still enjoy all the basic necessities of life. The coefficient of educational qualification reveals the probability of an increase in one's educational qualification on his/her poverty situation. The probability value shows that it is insignificant at 10% at influencing poverty situation.

The Pseudo R-squared is one in the same with the R-square in Ordinary Least Squares Technique (OLS). That is, it shows the variability of the dependent variable that can be explained by the independent variables. Thus, it explains the explanatory or predictive power of the model. Table 6 above, it can be seen that 60% of the dependent variable can be explained by the explanatory variables. The closer the value of the Pseudo R-squared is to 1 the better the model. The LR- statistics is also same with F-statistics in a regression model. It shows the overall fitness of the model. The probability of LR-Statistics shows that the overall model is fit at less than 10%.

DISCUSSION OF FINDINGS

From the analysis above, it can be seen that the income generated by small and medium scale enterprises has succeeded in ameliorating the poverty situation of the sampled employees, owners or beneficiaries of SMEs. The probability value shows that income generated from SMEs is highly significant in reducing poverty. This implies that poverty can be reduced if more SMEs are established. Apart from that, sufficient funding of small and medium scale enterprises is also significant at ameliorating poverty which is consistent to the study of Kadiri (2012). The Nigerian government makes promises but we do not see the funds channeled to the small and medium scale enterprises. Thus, the era of paying lip service to the funding of SMEs should be seen as a thing of the past.

The result above shows that majority of the sampled respondents aren't well educated and this will have an adverse effect on the success of these small and medium scale enterprises which is in conformity with the findings of (Abubakar and Yahya, 2013). The size of a household also goes a long way in determining how effective the income generated will be impacted on such a family. A small family has the tendency of achieving great things with a specific income generated unlike a large family (Jonathan, Victor and Tuluma, 2013). From the analysis above, the size of a family is not significant in the sense that some large families are in affluence and enjoying all the good things of life while some small families are plagued with poverty.

CONCLUSION AND RECOMMENDATIONS

Over the years, poverty has been a challenge to sustainable development in any country and also the environment insecurity that can result from this menace. Therefore, it is eminent to employ every strategy in alleviating poverty. The potentials associated with small and medium scale enterprises have continue to receive increased attention from both academics and practitioners. Improving the performance of small and medium scale enterprises will provide job opportunities for the unemployed especially the youths and therefore result to reduction in poverty level of any country. Findings revealed that educational qualification of the operators of SMEs will have impact on poverty.

The following policy recommendations are proposed for the improvement of small and medium scale in Kwara State.

- i. SMEs owners should seek and maintain sufficient funds at a lower interest rate for the smooth operation of their businesses.
- ii. There is need for improvement in educational status of SMEs operators for an increase in human capital in order to utilize improved technology for the vibrancy of SMEs in Nigeria.
- iii. The operators of SMEs should be encouraged on the need to maintain a reasonable number of family members due to the negative impact large family could have on their income.

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