



---

**AN EVALUATION OF THE ROLE OF SMALL SCALE BUSINESS TOWARDS  
ECONOMIC DEVELOPMENT OF NIGERIA.**

**ILIYA SIMON PUKUMA**

*Department of Business Administration and Management Studies, Adamawa  
State Polytechnic, Yola, Numan Campus, Adamawa State.*

---

**ABSTRACT**

*Small scale business is a machinery that enhance economic development in society for decades that attract recognition globally. This awareness increase the number of Nigerians that strive daily to put their personal ideas and abilities to start small business to provide an effective means of stimulating economic activity that will enhance employment opportunities for unit of capital investment and aiding the development of technology. The study emphases on evaluate the role of small scale business in Nigeria where descriptive method were used to collect data, secondary method of collecting information. Various literatures were reviewed of some scholars. The study revealed that small scale business help to boast economic development in Nigeria that why the federal government are Nigeria play much emphasis on entrepreneurship development. It also identify some of its limiting factor as capital, technology competitive etc. that hamper their development.*

***Keywords:*** *An Evaluation Of The Role Of Small Scale Business Towards Economic Development.*

---

**Introduction**

For the past decades, the latent contributions which small business can make are now attracting recognition. This awareness is manifest in the ever increasing number of Nigerians who daily strive to put up their personal ideas and abilities to effective use (by starting small business) ventures. Evidence around the world indicate that small scale enterprise provide an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of technology. Through their

wide dispersal, they provide an effective means of mitigating rural-urban migration and resource utilization. Furthermore, by producing intermediate products for use in large scale enterprises, small businesses contribute to the strengthening of industrial linkages.

Small business enterprises in Nigeria were characterized as essentially backward and cog in the wheel of the overall development of the Nigeria economy. As a result of this, there has been a prevalent feeling that such businesses could be assisted only for social reasons, not as a promising opportunity for national development. Obviously, too little attention has been paid to the benefits to be derived from helping small enterprises of modernize and grow.

In spite of all the contributions and the attention given to it by the government, the small business enterprise is still confronted with problems, peculiar to what many may refer to as the 'Nigerian factor'. One of such problems is the lack of Funds, "*it takes money to do business*". From the time a business idea is conceived of (the promotional state) until after it has ceased to operate, there are financial implications in every activity at every point in time associated with the businesses. It is therefore not surprising that the issue of financing is of major concern to small business organization. Despite that, the role of SMEs in Nigeria cannot be underestimated. It is noteworthy that most of the small businesses in Nigeria are sole proprietorship and partnerships.

Accordingly due to the recognition of the roles of small business, the Nigerian government has since 1970 initiated programmes for the assistance of small businesses, especially, in the areas of finance, extension and advisory services including, training and provision of infrastructures. All these are designed to enhance the development of small businesses. Successive governments in Nigeria have for the past three decades shown great interest in the financing of small businesses by establishing specialized banks and other credit agencies/schemes to provide customized funding.

### **Statement of the Problem**

Nigeria is currently witnessing an alarming rate of unemployment rate is growing in geometric progression. The economy is also increasingly finding it difficult to cope as Nigerian economy is waning. A lot of experts have called for the creation of an enabling environment for small-scale enterprise to thrive. They cited Asian "Tigers" such as Malaysia, China, South Korea, Indonesia, Singapore and Thailand where both the government and individuals knowing the importance of small scale industrial development join forces together in fostering effective and sustainable small scale enterprises in their countries. Evidence also abound that

in the above mentioned places lot is being done to empower the growth of this subsector of the economy. The role of small scale industries in the development of indigenous technology cannot therefore be over emphasized.

### **Objectives of the Study**

This study seeks to identify the role of the small scale enterprise in the overall development of the nation's industrial sector. It also aims at finding ways of making small-scale enterprises more effective in order to enhance to economic development of the nation's indigenous technology. Moreover in this study, attempt will be made to achieve the following:

- (i) To assess the importance of the identified roles of small scale enterprises in the development of Nigerian Economy.
- (ii) To determine whether or not the Nigerian small scale enterprises make use of all the credit facilities available to them.
- (iii) To evaluate the problems encountered in utilization of the available opportunities and/or facilities.
- (iv) To assess the level of consumers' preference to imported goods and determine the rate at which it affects the establishment of small scale enterprises in Nigeria.
- (v) To determine the contribution of small scale business in relation to the capital structure.

### **LITRETURE REVIEW**

#### **CONCEPT OF SMALL BUSINESS ENTERPRISE**

In many respects, the meaning and concept of small businesses cannot be completely isolated from the operational environment. Thus the perception and definition is highly dependent on the particular economy that provides the environment of operation. In Nigeria, there seems to be no clear cut definition or scope for determining small business enterprise. However varied definition and scope were made by some agencies as follows:

- (i) The National Directorate of Employment defined it as being able to accommodate project with capital investment as loan as N15,000 and employing as few as three persons.
- (ii) The Central Bank of Nigeria in its monetary policy guidelines 1980 defined small scale business as an enterprise whose annual turnover ranges between N35,000 and N60,000, also the Federal Ministry of Industries before the Structural Adjustment Programme [SAP] and Foreign Exchange Market defined small scale business as any manufacturing, processing or service

industry with capital investment of not more than N 170,000 in plant and machinery.

- (iii) The Nigeria Bank for Commerce and Industry also defines the small scale enterprise as firms or companies with assets (including working capital but excluding land) not exceeding N790,000 and paid employment of up to 55 persons and such an establishment be wholly owned by Nigerians. Measuring the appropriateness of some of these definition.

However, comparatively, most develop countries seems to have agreed on a maximum unit of 550 employees as a small firm (Feldman 1989). However, a review of the performance induct of small scale business can be best anchored on the United Nations industrial development organization's definition of small scale business as "an economic venture" that is characterized by the following:

- Ownership and management being vested in the same Individual
- Capital being made available by an owner on whom the policy Decisions rest
- Having a coalised operational area
- A situation of a venture controlling a small share of the market their by constituting a little quota in the large sized market
- The owner participating very actively in all decision making processes on a day to day operation basis with a high degree of rigid control.

Reflecting the characteristics, small scale business enterprises have emerged, especially in the developing world, with roles of employment generation, encouragement of rural development, assisting substantially in lifting gross domestic product, developing entrepreneurship and proving avenue for self-employment.

### **Characteristics of Small Scale Enterprise**

The overall business scene and activities in Nigeria appear to be dominated by small businesses which are established by individual, groups, companies and cooperatives. Most business start off as small but with proper planning and management, then expand and grow. However, it will be risky to assume that small enterprises are exactly like big ones after all the difference is size. But it is necessary to differentiate the small business from the large ones and to associate those characteristic with problems inherent in small business.

In summary, characteristics as identified by several writers among who Broom and Longnecker (1972). Musselman and Fluglice (1973) and Yewande (1991) are presented here. It must not however be taken that these characteristics are

all embracing or that all must be present in the same magnitude in a business 1er such a business to qualify as a small scale business”.

Management is not independent- generally; the managers are also the owners. This means that the manager/owner can run the business as he pleases. Discipline as the control factor in this case may sometimes be missing. This lack of proper managerial discipline leads to business failures.

The size of the small business firm within industry is usually small. Thus they are not dominant in their individual field or operation.

Capital requirement is small and therefore not within the, reach of the indigenous entrepreneurs

Majorities of the modern small business units are labour intensive and are able to achieve high productivity. These units are concentrated in areas of low technology.

Capital is supplied and ownership is held by a small group or an individual. The initial capital usually equity holdings is supplied by the owner or co- owners of the business. Often for working capital, they depend on trade credit or credit finance or both.

The area of operation is mainly local employees/workers and owners all like in one home community. Most small scale firms even those identified as modern utilizing plants and machinery are run along family line however, markets served by them are not always local, modern small firm’s serves market across ethnic cultural and even nations or state boundaries.

On other all-embracing characteristic of small scale business in Nigeria is the apparent lack of attention to managerial functions of planning, organizing, directing, coordinating and controlling.

In Nigeria, the entrepreneur usually sets out to achieve high return on investment. The workers generally are not adequately remunerated or sufficiently motivate.

### **Types of Small Business**

No doubt, the future of economic prosperity of Nigeria lies in the structuring and eventual growth of medium and small scale enterprises. This situation has been confirmed by the Nigeria Institute of Social and Economic Research (NISER), The National Association of Small Scale Industry (NASSI) and the German based Frederick Elbert Foundation. It is the existence of this kind of scenario that had given impetus to the growth of some small scale industries like the ones that constitute the objects of the study. Their very existence also confirms with Oshagbenius (1995) categorizing of small scale industries as those which include,

weaving. Carpentry, pottery, ceramics, turning, fishing, piggery, animal husbandry, Poultry, wood and metal works, brick and block making, and a host of others, operating under registered names and depending largely on local raw materials.

### **Source of Fund to Small Businesses Sources of Initial Capital**

Traditionally, and with regards to sources, two types of capital are recognized, equity and borrowed. Baumbach is of the view that the distinction between equity and debt capital in a small business is blurred. In any case, one thing is clear; equity financing denotes ownership while debt financing implies an obligation to repay the principal amount plus interest. In providing initial capital, a small business enterprise has a good normal source open to it. These include funds invested by the owner as well as funds made available by creditors. Credit takes the form of bank loans, trade credit, union loans from individuals, friends and relatives and credit union loans. It is noteworthy that these and other sources of funds are made use of both at the beginning stage and in the subsequent day-to-day financing of business operations. Those more closely related with the growth of the business will be discussed later under sources of development capital”

(a) **Personal Saving:** To a beginning firm, personal savings of the founder constitute a primary source of equity capital. Many writers are in support of this view. Broom says it is not only difficult but also quite hazardous to borrow venture capital. He is of the opinion that two thirds of initial should be from the owner.

Dr. Nordi advises that the starting small business should not only be from borrowed funds if his personal resources are inadequate. Baumbach goes further to explain why initial capital should necessarily come from those who have created the business he said that there is general hatred for risk taking among human beings. The general public thus is usually hesitating about investing in an unknown venture. Such recommended ownership equity is designed mainly to provide a margin of safety for the new entrepreneur.

(b) **Commercial Banks:** Commercial banks are a primary source for debt capital. Although they tend to limit their lending to working capital needs of going concerns, some initial capital does come from this source. The commercial bank has considerably changed from just supplying capital for an interest income to a more acceptable socio-economic role. It has development”. Mr. Tina confirmed this when he said that he has increased the amounts given out for loans the 20 percent (proportion of deposits government requires that should be set aside for small business loans are also given. One of those is the

installment loans which may not exceed certain amount. Such a loan is repayable monthly or quarterly as prearranged but the maximum maturity period is one year. Over draft for up to a period of two years is also given. In spite of the new interest in small businesses, their problem with the banks has not changed. Their greatest problem is to meet the requirement of the banks. The bank considers the mode and time of repayment of the principal amount plus the interest. Many small business many not be in a position to start paying interest not to talk of the principal as and when due.

(c) **Trade Credit:** Credit extended by suppliers' plays an important role especially to the beginning business. Trade credit tends to be widely used source of short tends funds to the small firm This according to Baumback often provides a major point of the small business man's working capital needs especially in the retail fields. The amount of credit available to a particular firm depends upon the type of business and the supplier's confidence in the new firm. They extend credit more freely than the bankers. Competitions for sales volume force them to reach out for new small and financially weak customers by offering delayed payment. Even when such customer faulted in the credit terms, the suppliers often hesitate to react for fear that they might lose a promising customer.

(d) **Friends and Relatives:** Very often, funds from friends and relatives are used to supplement initial owner equity capital. This usually character as poor business practice and in many cases based on erroneous assumptions may at times be necessary. This is with cognizance of the fact that many and family owned. It should be noted that family and business relationships are well as funds should not be mixed, if most desirable result are to be obtained. Loans from friends and relatives tend to create a highly personal relationship such relationship may conflict with independence and business. The time for the repayment of the loan may not be defined. Interest payment may be deferred too. But the problem in these associates may feel it a duty to offer advice and even insist that certain decisions be taken.

These decisions may not be in harmony with the objectives of the proprietor. However, this problem can be easily avoided. A business loan should be taken as a business transaction and not a favour. In such case, the inexperienced associate's advice can be easily rejected. Terms of the loan should be clearly defined and loans could be getting from lending institutions instead of from friends and relatives.

(e) **Credit Unions:** S. F. Amid defined a credit union as "a group of people bound by some intangible bond of association, perhaps the bond of the same

employer, the same religion, the same politics, the same profession, trade, hobby or the same type of misfortune.” credit unions are cooperative that encourage saving and lending on attractive terms. They also provide financial advice to members. The prime purpose of a credit union is to teach thrift. People save with the credit union for various reasons. These may include absence of banking house.

- (f) **Other Sources of Funds:** in addition to the already discussed sources of funds for initial capital, a good number of small businessmen still make use of some local sources. Such include borrowings ‘isusu” (a group of persons who agree to make contributions regularly). Members take turns to benefit from these contributions. Some of the funds got from the “isusu” are used for small business operation.

### Sources of Working and Expansion Capital

For the business to survive and grow after successful launching, the continuous need for funds must be met the following sources are used largely for procuring initial capital namely, personal saving, commercial banks, trade credits, unions, and friends and relatives. These sources may continue to provide funds for the going concern operations. Some of them could be eliminated. Brooms and Longnecker suggest this should be done by liquidating loans as those from friends and relatives personal savings too may become less important through funds could continue to conic form there.

- (a) **Retained Earnings:** retained earnings provide a natural type of expansion for many small enterprises. As profit are realized, they are ploughed back into the business by foregoing dividends, for firms that use only retained earnings, the rate of expansion is limited by the amount of profit generated by the business. These funds are often insufficient to meet the heavy capital needs of a rapid expanding firm. The firm, thus still has to look for other avenues for funds.
- (b) **Sales of Capital Stock:** the firms are usually faced with severe competition. In this situation, it may have to expand or die. To expand it need working capital, most of which must be inevitably be borrowed. The small firm has a disadvantage in that it has to pay interest charges on the debt capital both in good and bad times. Sale of capital stock to outsiders eliminates these disadvantages, in general small firms have an interior complex when considering themselves as candidate for public financing. Robert A.

### Government Influence on Small Business Enterprises

Government tax policies generally make it difficult for the small businesses to exit. In fact, government fiscal policies and the way they are designed are a major



cause of discontent among small businessmen. Tax problems of small concerns have not arisen because the tax measures were directed at small business as such. The central point is that the system weights disproportionately on them by virtue of their sizes and character. Most businessmen fail to understand this and nurse the feeling that government does not want them to survive. This is wrong as the growth of small business organizations has become the concern of many governments. In Nigeria, the government's effort to promote small business was materialized in national development plans. With the aid of international organizations, a number of assistance centers to meet the technical and financial needs of small and medium sized enterprises were created. To further show government interest emphasis is laid on more effective use of the bodies responsible for the promotion and guidance of small, and medium sized enterprises. These bodies include:

- The national directorate of employment
- Small industries corporation
- National economic reconstruction fund
- Nigeria industrial development bank
- The Nigerian Agricultural & cooperative Bank.

For such assistance to be given, the importance of the project has to be critically confidence the socio-economic point of view. Obviously, there is evidence that with proper guidance, most small scale industries that do not depend solely on personal income have been known to have find it relatively easier to deal with these prescribed government agencies than with the conventional profit oriented commercial and financial institutions. But it has also been revealed that most of the small scale entrepreneurs have not made use of these facilities because they are not equipped to deal with the bureaucracies associated with procuring loans. This attitude of the small scale entrepreneurs has the tendency of effect the efficiency of some of these lofty. Government policies designed specifically for the growth of small scale business.

### **The Role of Small Scale Business in the Development of Nigeria Economy**

Small industries have a shorter gestation period and as a result, yield quicker returns on investment. They facilitate balanced industrial development in that only such small scale ventures can easily be established in many rural areas. In this regard, those present a potent means of reducing rural urban migration and its consequential urban congestion, unemployment and other social vices. Small businesses also serve as a training school for indigenous entrepreneurs and

provide the opportunity for acquisition of skills for a large number of workers. They facilitate a speedy development of Nigeria economy.

Hardly, can any major industry succeed in isolation of the services and contributions of small business enterprise. The relative strength of their importance and role vary from one industry to another. In fact the importance of small scale business in any economy cannot be over-estimated. Firstly, continuous growth in the economy of any nation depends to a large extent on the start-ups of small businesses. Even on a recessionary economy, small scale enterprises are a legitimate and viable component in any strategy for reconstructing the economy. Furthermore, it is emphasized that the small scale enterprises make the possibility of the equitable distribution of national income more realistic of providing employment opportunities on a large scale.

By creating more employment that help to mobilizing capital and human resources that would otherwise be left idle. Some small businesses no doubt, provide certain distinct services that in most cases may not be matched success of large businesses. Implicitly, if the small businesses would by and large find themselves over saddled with a myriad of activities that they would only be able to manage minimally. The role of small scale businesses in the development of Nigeria economy has made it very possible for firms to depend less on imported goods or materials. They often rather depend on locally made machines and local raw materials as inputs. One can buttress this point further by the fact that non-dependence of small businesses on imported raw materials as inputs leads to a reduction in the demand of foreign raw materials thereby saving the foreign exchange earnings of the nation. Worthy of mention also is the advantage of solving payment problems as a result of less dependence on imported inputs. This has an attendant blessing of creating an interest in the promotion or home made products. In this way small business ventures generate revenues and strengthen the Nigeria economy.

### **Problems of Establishing Small Business Enterprise in Nigeria**

Limited resource of capital and skilled labour, a lack of technological and managerial knowledge and limited markets are important handicaps to the acceleration of industrial development in Nigeria. In large industrial establishments, some of these handicaps are alleviated by foreign assistance collaboration. But generally, the following problem have been identified by the researched as the major factor militating against the establishment of small scale enterprises in Nigeria.

(a) **Lack of Start-up Capital:** The early stage financing is usually the most difficult and costly to obtain. There are two types of financing at this stage. Seed capital and start up capital. Seed capital is a relatively small amount of fund needed to prove concept and finance feasibility study. It is the most difficult to obtain because the venture capitalist is usually not interested at this level of funding.

While start-up capital is involved in determining if commercial sales are feasible. It is also very difficult to obtain. No good business ideas can ever surface without funding.

(b) **Lack of Land and Good Locations:** - before any small scale industry is established, there is the need to acquire land on which the factory site or the warehouse will be built. In urban areas, land is not usually available and when available, it will be very expensive beyond the reach of the small scale entrepreneur. In the rural area where land is bound to be available at a reduced cost, other necessary infrastructures will be lacking. Good location of our businesses is very important for the easy survival of the enterprise but it is very difficult to get and where available, the cost will not be affordable for any small business operator.

(c) **Poor Government Policies:** Nigeria government has not been able to help entrepreneurs in the establishment process of small scale business. Instead, one obnoxious policy or the other was used in making things difficult for young entrepreneurs. Government is only interested in revenue generation without noticing how it has hindered the establishment of more small business in Nigeria. Every new business that is still struggling to survive is expected to pay between N5000 to N20,000 as business premises and a lot of other permit. The business is also expected to pay almost the same amount of the local government where it is situated. All these end up pulling the business down.

(d) **Psychological Factors:** Psychological factors such as Lack of Self Confidence, Lack of Creativity, Fear of Failure are other factors that have seriously militated against the establishment of small scale enterprise in Nigeria are psychological factors.

Although it has never been seen as a problem, but it has eaten deep on young entrepreneurs. Most people don't believe in themselves, they think they can't do it. They are always waiting for others to take the lead or nothing for them. They also lack the foresight to think ahead of others, no creativity in them. Always afraid that the business must fail like other ones that failed. They think they cannot make a difference and therefore there is no point in trying to

establish once. They make the money but the fear of the unknown will not allow them to invest.

### **Findings**

The study also find and showed that government tax policies have not been favourable in the establishment of small scale enterprises in Nigeria. Government should know how it will be amending some of these tax policies they feel is affecting the establishment of small business in order to encourage more people into venturing into it. Government should also encourage the growth of small business by giving them the necessary assistance as regards to fund raising and equally advise them on how to utilize it effectively.

The preceding analysis has revealed that small scale business has a vital role in the development of indigenous technology capability in Nigeria and through their wide dispersal. They should provide an effective means of mitigating rural urban migration and resources utilization. And this also will contributes in strengthening industrial linkages by producing intermediate products for use in large enterprise in Nigeria.

### **Recommendations**

The study after discussed the findings then recommended that Government should also encourage the growth of small business by giving them the necessary assistance as regards to fund raising and equally advice them on how to utilize it effectively.

The small scale business contributes in strengthening industrial linkages by producing intermediate products for use in large enterprise in Nigeria. The researcher also showed that government tax policies have not been favourable in the establishment of small scale enterprises in Nigeria for many years now. So government should know how it will be amending some of these tax policies they level is affecting the establishment of small business in order to encourage more people into venturing into it.

Also, small businesses should form mergers: by this their capital would be placed in a better position when dealing with lending institutions. Their tax burden will not be heavily felt again.

### **Conclusion**

Small scale enterprises is vital to economic development for decades as such it attract global recognition because of its importance to agencies and individual stimulations for economic development. Despite its importance, it has limitation

range from funding, technology and commitment of entrepreneurs to pursue their goal. It is pertinent to say that small scale business has played a vital role towards economic development to both individuals, in areas of increase in standard of living and to government in areas of increase in revenue generation that is used to develop other potentials in the society.

### **Bibliography**

- Akpata, B. (1990): *The Role of Entrepreneurship in Business*,  
Broom, and Lonnecker (1972): *The Impact of Entrepreneurial Development in an Economy*.
- Ezeh, J. (1997): *The Role of Small scale Business in Nigeria Economy*.
- Feldman, C. (1989): *The Importance of Small and Medium Scale Enterprises*.
- Harper Boyd, Ralph Westfall and Stanlvcs (1997): *Markctim Research Test and Cases (Illinois Richard D. Irwin Inc)*.
- Huglice. and Musselman (1973): *Small Scale Enterprises and the Economy*.
- Marlin, Shaw and Jack Wright (1977): *Scale for Measurement of Attitude (New York: Mc Graw Hill book company)*.
- Nwakobi, E. (1985): *Small scalc Enterprise and the Economy*.
- Nwobi. F.N. *Statistics I (An Introductory Text) Bon Publishers 1998*.
- Oshagbenius, J. (1985): *The impact of Small and Medium Scalc Enterprises in Nigerian Economy*.
- Wabol, A. (1987): *The Impact of Small and Medium Scale Business in an Economy*.
- Yewande. M. (1991): *The Role of Government in the Development of Small and Medium Scale Enterprise in an Economy*.