TITLE PAGE

THE IMPACT OF SMALL AND MEDIUM SCALE INDUSTRIES ON THE ECONOMIC GROWTH OF NIGERIA (1986 – 2010)

A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ECONOMICS.

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CERTIFICATION

This project has been read and approved as meeting the requirements of the department of economics, faculty of social sciences, Caritas University, Amorji-Nike, Enugu, for the award of Bachelor of Science (B.Sc.) Degree in Economics.

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DEDICATION

This project is dedicated to my very dear parents, Mr. and Mrs. Edmond Offor who were kind enough to have supported me morally and financially during my degree programme and the project.

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Nsianya Queendaline, Miss Ezenwa Chinelo, Chinonyerem and Anabel Adigwe. I am also grateful to my cousin for her contribution.

To my brother who ran around for many items when the need arose, Mr. Onyekachi Offor. Thank you for all your contributions.

ABSTRACT

The study investigates the impact of small and medium scale industries on the Nigerian economy, spanning from 1986 to 2010. The study adopted Ordinary Least Square (OLS) Linear Specification model. Using unit root test, the work shows that small scale industries significantly contributed to the economic growth in Nigeria despite poor funding by commercial banks. The work recommends among others that government should improve its monetary policies so as to reduce to an acceptable level, the rate of interests charged by commercial banks as well as encouraging rural based industrialization, whereby investors are encouraged to establish small and medium scale industries that would be based entirely on local raw materials, machines and equipments.

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CHAPTER ONE

1.0   INTRODUCTION

1.1   BACKGROUND OF THE STUDY.

In recent time, the fortune of small scale 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 are also act as catalyst for restructuring and diversifying the productive base of an economy and for the Industrial 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 scale and medium scale Industry 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 practiced with due regards to the importance of available local raw materials in its environs because the challenges facing small and medium scale Industrialist are enormous.

The importance of small and medium scale Industries to the economic development of any country, whether developing or developed, have been widely acknowledged and acclaimed. They are considered as there stimulate to private ownership and entrepreneurial skills, generate employment, promote 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.

Uayatudeen (2001) said that across the world, small businesses have such a crucial role to play in the development of an economy and that cannot be ignored.   According to William and David, most firms and small and medium scale Industries are compared with companies that economist usually study. But economists have concentrated on large scale Industries. The leading textbooks in economics have title discussions on small and medium scale business or entrepreneurs.

The partial combinations of small and medium scale Industries on the Nigerian economy are; 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 combination to national development. To this end, government has instituted various programs to address the challenges and constraints

facing small and medium scale industries growth. The programs and institutions Include:

a.   Setting up and founding of industrial estates.

b.   Establishment of national directorate of employment (NSE)

c.   Establishment of the Nigerian bank of commerce and industry (NBC), the national economic re-construction fund (NERFUND),the Nigerian Industrial bank (NIDB) which has merged in to one agency in the bank of industry, the world assisted small scale enterprises loan scheme (SNEX), the Nigerian export and import bank (NEXIN) etc.

d.   Setting up a small and medium scale enterprises development agency of Nigerian (SMEDAN); an agency which Co. ordinates development in small business sector.

Unfortunately, all these formal credit schemes have not been able to adequately address the fundamental problems which have constrained small scale enterprises access to credit; and any other enterprise establishing a small and medium scale industry requires capital to take off survive and eventually expand.

Nigeria's major manufacturers produce food and beverages, cigarettes, textiles and clothing, soaps and detergents, footwear, wood products, motor vehicle parts, chemical products and metals while small and medium scale manufacturing engage in leather making, poultry making and wood carving. The smaller industries are often organized in craft guides involving particular families who pass the skill from generation to generation.

People have lived in what is now known as Nigeria since at least 9000BC, evidence indicated that since at least 5000BC, some of them have practiced settled agriculture. In the early (centuries (AD), kingdoms emerged in the drier northern savanna, prospering from trade with north Africa. At roughly the same time, the western and southern forested areas yielded city- state and looser federations sustained by agriculture and coastal trade. These systems changed radically with the arrival of the Europeans in the late 15th century, the rise of the slave era in the 16th Century through the 19th Century. Nigeria achieved independence in the

1960, but has since been plagued by an unequal distribution of wealth and inflation.

The first well documented kingdom was the Yoruba kingdom, which was observed between the 11th -12th centuries. Over the next few centuries, they spread their political and spiritual influence beyond the borders of its small city states. Its artisans were highly skilled, producing among other things, bronze castings of heads in a very naturalistic style. Terra- cotta, wood and Ivory were the common media instruments used.

Shortly after the 12th century, the kingdom of Benin emerged in the mid-western south region. Although it was separate from the Yoruba kingdoms; Benin legends claim that the kingdoms first rulers were descendant from an Ife prince. By the 15th century, the Benin kingdom was large, wood designing was what sustained the city's trade (both within the region and later with Europe). Its legacy includes a wealth of elaborate bronze plagues and statues recording the nation's history and glorifying its rulers.

From the above paragraphs, it can be noted that small and medium scale industries are indeed necessary for the development of any economy. Small and medium scale industries act as the major stepping stone to economic growth. In Nigeria today, small and medium scale industries are common but have no efficiently achieved or attained her goals.

Therefore, to encourage local businessmen and institutions in buying small and medium sized businesses, the government established the Nigerian bank for industry and commerce, which had an initial operating capital of 50 million naira. There was some concern in Nigeria that Nigerians might not be able to raise enough capital to take over the foreign owned businesses affected by the decree and that there might not be enough Nigerians with the technical and managerial skills necessary to replace extricate personnel.

1.2   STATEMENT OF THE PROBLEM

The small and medium scale Industries survey conducted in 2005 by the central Bank of Nigeria (CBN) provides some evidence that apart from the acute short of technology, managerial skills, poor management,

adverse environment, and change in policy, capital is a source of great concern to the entrepreneur in the sector. Since one of the microeconomic goals of the Nigerian government is economic growth, we can assume that the government aims at the expansion of small firms.

In a continent where finance is a major constraint on development, the problem confronting the private sector in Nigeria above all small and medium scales Industries standout.

Most large scale industries in Nigeria have reduced their borrowings due to high interest rates and the short term nature of available loans. At the same time, banks are unwilling to lend to the small and medium scale sector with its high perceived rises. In this case, lending is not efficient to the real sector and loanable funds are currently used to finance primary consumer imports and to separate in foreign exchange markets. The research question from the above experience is thus; will small and medium scale contribute much to economic growth in Nigeria when they are not properly funded.

1.3   OBJECTIVES OF THE STUDY.

The aim of this research work is to examine the importance of small and medium scale industries on the Nigerian economy in order to ascertain how small and medium scale is utilized in production using the available raw materials and resources with a view to achieve gradual formalization in the guest for national industrialization. Meanwhile, the specific objectives are:

a.   To determine   the impact of small and medium scale enterprises.

b.   To examine the effect of small and medium scale enterprises.

1.4   STATEMENT OF HYPOTHESIS.

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

Ho: Small and medium scale industries are not catalyst for   economic development and growth in Nigeria.

Hi: Small and medium scale industries are catalyst for economic development and growth in Nigeria.

1.5   SIGNIFICANCE OF THE STUDY

The significance of the study is to establish an extent of growth and development and to expose the immense benefit derivable from small and medium scale industries.

Also, this study will help to redress the belief of the society that small and medium scale industries can bring about economic and development in Nigeria.

1.6   SCOPE AND LIMITATION OF THE STUDY.

The study encompasses the roles and contributions of small and medium scale industries on the Nigeria economy from 1986-2010. The basis of covering this period of time is to ascertain whether there have been any significant impacts of small and medium scale industries on the

Nigerian economy. And also, this study does not consider the medium and large scale industries.

In writing this project, the researcher encountered some limitations, which were; lack of information from appropriate quarter, time constraints, transportation, lack of funds, power outrage etc. However, in spite of all the odds, the researcher was able to come out with a standard work. The project However, contains information which in reliable and authentic.

CHAPTER TWO

LITERATURE REVIEW

2.1 THEORETICAL LITERATURE

Historical facts show that prior to the 19th century, cottage industries, mostly small scale industries controlled the economy of Europe. The industrial revolution changed the status and introduced mass production. The twin oil shocks during the 1970's undermined the mass production model, which triggered the unexpected reappraisal of the role and importance of small sized industries in the global economy. Findings, by economist over the years show that small firms and entrepreneurship play very significant role in economic growth and development.

The history of indigenous business in Nigeria is same as that of small scale and medium scale. Theoretically, business s we know is said to stem the theory of "Laissez faire" capitalism propounded by Adams Smith in 1776 (John, 1999).

It is an established fact that, the developing nations especially in Africa are faced with the dilemma of choosing appropriate development

strategy that could lead to the path of industrialization which would ensure decent living standard in the turning population (Oshinowo, 1997).

The pattern of industrial growth in Nigeria shows that prior to independence, there were little or no manufacturing activities in Nigeria. The predominant economic activity then involved trading imported finished goods both consumer and capital and exportation of primary products mainly agricultural and mineral goods which are locally available in the regions. Some of these exported products includes, cocoa, cotton, coffee, groundnut, coal, timber, gold, and tin.

The post independence era was aimed at industrializing the country by producing what were being exported, thereby conserving foreign exchange. The imported machinery and equipment were financed through the export of domestic raw and semi-processed commodities. The local industries were being protected from foreign competition through high import regimes. Aided by the oil boom of the 1970's government invested in heavy industries such as iron and steel, machine tools, vehicle assembly plants, fertilizer manufacture sugar mills, refineries and petrochemical

industries. In addition, the private sector also advocate import import substitution industries to be involved in what was term MIXED ECONOMY.

However, in order to address the apparent dominance of foreign investment in the Nigerian economy, the indigenization policy was introduced through the indigenization decree 1972 and 1977. The policy was intended to give Nigerians greater opportunities to participate effectively in the productive resources sector of the economy.

2.1.1 CHALLENGES FACING SMALL AND MEDIUM SCARE INDUSTRIES.

The myriad of problems facing the smooth sail of small business in Nigeria have contributed to the said reality of several entrepreneurs closing shows daily. Despite Nigeria's huge human and natural resources on document, small and medium scale business still lags behind their counterparts in many countries. Also, Nigeria with its huge natural and human resources cannot be compared with the progress of small and medium scale business in countries like: Malaysia, India and South Africa.

Below are the various factors confronting and hindering this progress;

a.   mostly informal and highly individualistic

b.   Largely necessity rather than opportunity entrepreneurship (therefore thinks/acts locally).

c.   Ownership and management are intertwined with poor or no organizational structure.

d.   Weak business capacity in terms of knowledge, skills and attitudes.

e.   Hostile prating environment

f.   Weak/ poor access to critical information (business ideas, raw materials, markets, machine equipment, government policy incentives, regulation, etc).

g.   Enterprise development services for skills upgrading and entrepreneurial know how.

h.   Appropriate technology

i.   Finance from formal institutional sources.

j.   Market

Small and medium scale businesses in Nigeria by their ownership and structure operate on a limited scale from the point of view of the resources at their disposal; therefore, the impediment of resource constraints and other peculiar factors inhibit smooth operation of business.

Entrepreneurship can only strive successfully were basic amenities and services are in existence. These include good road network, electricity and water delivery. The small and medium scale business operator cannot do well with all these limitations because a nation's industrialization and entrepreneurial growth are predictable on her ability to provide amongst others this aforesaid infrastructure core her teeming population. Unfortunately, the Nigerian state can hardly boast of the satisfactory delivery of these amenities.

However, the challenges of small and medium scale industries in Nigeria are discussed under the following (sub topics):

a.   **Infrastructural Inadequacies**

This is due to lack of sufficient infrastructure, inadequate provision of essential services such as; telecommunications, good roads, electricity and water sully which constitute one of the greatest constraint to small business development. Most, all medium scale industries resort to private provision of this infrastructure at great expense.

b.   **Poor Management Structure**

Poor management affects small and medium scale industries adversary, most small business are one-man business. This hinders effective control and planning.

c.   **Lack of Access to Affordable Financing**

The banking sector tends to be unknown in meeting the credit requirement of small and medium scale industries. a senior banker in Nigeria was once quoted as saying, "the banks are not charity, so why

should they take risk with small and medium scale industries when they can make good profit elsewhere". The banks also regard many small and medium scale industries as high risk ventures because of absence of succession plan in the event of the death of the proprietor.

More worrisome is the inability of small and medium scale industries to adequately tap available finance from the capital market.

Access to finance allows small and medium scale industries to undertake productive investments to expand their business and acquire the latest technologies thus ensuring their competitiveness and that of a nation as a whole. Despite their dominant numbers of importance in job creation, small and medium scale industries traditionally have faced difficulty in obtaining formal creditor equity. This is because the maturity of commercial bank loans extended to small and medium scale industries are often limited to a period far too short to pay for any sizeable investment.

d. **Lack of Accounting Records**

Many small businesses do not keep proper records of their transactions. This hinders the activities of the enterprise. This lack of

accounting records makes it difficult for credit or investor to assess the credit worthiness of potential small and medium business potentials.

e.   **Risky and uncertain business**

The risky uncertain business environment leads to the fear that small firms will not be able to repay debts and this is reinforced by a history of small and medium scale industries non-payment.

f.   **Unstable macroeconomic variable**

Another major concern that is very worrisome in Nigeria is lack of stable macroeconomic variables. This has over the years reduced the entrepreneur's confidence in doing business in small and medium scale as they are unable to have stable financial plans and budgets.

This has in turn brought inefficiency and technological backwardness. The Nigerian economy suffers distortions by inflation, high interest rates and exchange rate instability culminating in cost escalation. Statistic has it that, the moving average inflation for 2004 was 19.15% whilst the 12

month or period to period inflation was 12% (June 2003 – July 2004) and 13% (August 2005 – August 2004).

Bank interest rates has also remained comfortably high as most banks interest lend at 22.5% apart from about 3% duly charge flat and upfront tagged appraisal and management fee.

With the value of naira on the downward trend, it is nearly impossible for a small scale business to make any impact on the Nigerian economy. Government must continue the current reform policies especially the target to reduce inflation and interest rate to a single digit. Government must pursue other policies that would support the entrepreneur for the small scale business operator to make impact in the economy.

g.   **Taxes and tariffs**

Entrepreneurs in Nigeria are saddled with all sort of unimaginable taxes and tariffs due to the absence of a unified and gazette tax regime amongst the 3 tiers of government, each of them especially the state and local government intending to enact all forms of obnoxious and draconian tax laws to raise money at the taxies of the investing entrepreneur.

Amongst these taxes are;

i.   Warehouse permit

ii.   Radio/Television license fees

iii.   Mobile advertisement tax

iv.   Water borehole tax

v.   Generator tax

vi.   Fuel tax

vii.   Environmental protection tax

viii. Land use charge

ix.   Capital gain tax

Also inclusive are the company income tax, stamp duty charges withholding tax value added tax. The resultant effect of these deductions on the cost of production need not be over emphasized.

The decentralization of tax roles amongst these three tiers of government, will surely lead to reduced taxes and a more efficient and effective taxing system.

2.1.2 FEATURES OF THE NIGERIAN SMALL AND MEDIUM SCALE INDUSTRIES

The varying definition of small and medium scale industries not withstanding their characteristics are universally recognized (von Katarama, 1984). They relatively small owe largely to limit access to financial resources. The following below are the major feature of Nigerian small and medium scale industries.

a.   **Sole proprietorship**

This is a feature of small and medium scale industries in Nigeria which is characterized by single management structure which combines ownership and management in one person.

Over 50% of business in Nigeria are run as sole proprietorship. This is indicated in a business where a person bears the risk of the business as well as the profit. Most small scale businesses in Nigeria are founded by sole proprietors. The single advantage derived from this feature is the dynamism it offers in terms of decision making and administration. More

so, one of the greatest limitation of sole proprietorship is limited access to funds and expertise derived from two or more owners of the business.

The small and medium scale industry operates at such a low scale that is unattractive to banks. Banks in Nigeria are interested in investing in month watering opportunities which leads to the neglect of the small and medium scale industries.

b.   **partnership**

Partnership is another feature of small and medium scale industries. Since partnership spirit in Nigeria is at its infancy, partners in many small and medium scale industries pursues individualistic goals at the expense of the overall interest of the small and medium scale industries. Consequently the mortality among small and medium scale industries is on the rampage as a result mistrust that often develops among the owners (.e poor partnership spirit).

c.   Over dependence on imported materials

Another major feature of many small and medium scale industries is their over reliance on imported materials and spare parts. In fact, no industrial sub-unit under small scale category is immune from this structural weakness.

Some other characteristics of small and medium scale industries in Nigeria are as follows:

a.   They are typically small and are largely limited access to financial resources.

b.   There are known by simple management structure, which generally combines ownership with management.

c.   There is flexibility in decision making and the prevalence of largely informal employer – employee relationship.

d.   They produce their output with less capital and a greater labour input than largely industries.

e. The level of education of the owner/ proprietor is usually low with consequent low level of business management, technical skills and market information.

2.1.3 THE ROLE GOVERNMENT OF SMALL AND MEDIUM SCALE INDUSTRIES IN NIGERIA

The following are the role of government on small and medium scale enterprises

a. **Industrial development centers (IDCs)**

The industrial development centers (IDCs) are established to provide extension service to small scale industries in areas such as technical appraisal of loan application, training of entrepreneurs, management assistance, product development, production planning and control as well as other extension services. The first IDC was established in Owerri in 1962 by the then eastern Nigerian government and was later taken over by the federal government. Subsequently, in the second national development plan (1970-1075), the first government initiated the setting up of more IDCs at Zaria, Oshogbo, Maiduguri,

Abeokuta, Sokoto, Benin-city, Uyo, Bauchi, Akure, Ilorin, Port Harcourt, Kano and Ikorodu.

b.   **Small scale industries credit schemes (SSICS)**

A basic thrust of government's financial policy with respect to small and medium industries in the provision of credit facilities to ensure their development and sustenance. Accordingly, the federal government set in 1971, a small industries development program to provide technical and financial support for the small scale industry. This led to the setting up of the small industries committee (SICC) to administer the small industries credit fund (SICF) throughout the country. The SICF was formally launched as the small scale industries scheme (SSICS) in the third development plan (1975-1980). The scheme was operated as a matching grant between the federal and state governments and was designed to make credit available in bilateral terms to small scale industries and was managed by the state ministry of industry, trade and cooperatives through the loan management committees (LMCs). However, the SSICS which was meant to be a revolving loan scheme became increasingly starved of funds arising from

massive loan requirement default, such that the federal government by 1979 extricated itself from the Nigerian bank of commerce and industries (NBCI) as an apex financial body for funding small scale industry.

c.   **The Nigerian bank for commerce and industry (NBCI)**

The NBCI was set up by the federal government in 1973 (through 22 decree) to provide among other things, financial services to indigenous business community, particularly small scale industries, NBCI has been merged with the NIDB and NERFCN to form the new bank of industry.

d.   **The Nigerian industries development Bank (NIDB)**

The NIDB which was set up in 1964, provided credit and other facilities to industrial enterprises especially to the medium and large scale industries. Some small scale industries also have its scope of financing.

e.   **The Central Bank of Nigeria (CBN)**

The central bank of Nigeria has since 1970 been instrumental to the promotion and development of industries particularly in the small scale sub-sector. The CBN credit guidelines required that commercial merchant

bank allocate a minimum stipulated credit, to the sector classified as preferred, including the small scale industries. The CBN in 1971 – 1980 directed that at least 10% of the loans advanced to indigenous borrowers should be allocated to small scale industries. This was subsequently raised to 16% and minimum of 20% of total loans and advances from April 1980 and 1990 respectively.

f.   The small and medium enterprises development of Nigeria (SMEDAN)

This is the major structure designed to provide institutional support for small and medium scale industries established in Nigeria in 2003.

Responsibilities of SMEDAN

- Initiating and articulating ideas for SME's policy thrust

- Overseeing, monitoring and co-coordinating the development of the SME sector.

- Promoting and providing access to industrial infrastructure such as layouts.

- Policy development.

g.   The Family Economic Advancement Program me (FEAP)

The FEAP was not successful primarily of because been exclusive government initiatives; beneficiaries were unwilling to repay loans in the belief that it was their share of the "National cake". There was as the problem of lending to poorly packed projects and complete lack of entrepreneurial skills by the promoters.

h.   The National Economic Re-Construction Fund (NERFUND)

The federal government through decree 2 of the 26th January 1989 established the national re-construction fund (NERFUND). The main focus of NERFUND is the provision of small and medium funds to long term funds to wholly Nigerian owned small scale industries to manufacturing and agro-allied industries, mining, quarrying, industrial support services, equipment

leasing and other projects. The NERFUND decree provides funds for eligible industries under the scheme.

i. **The State Governments**

State governments, through their ministries of commerce and industries also promote the development of small and medium scale industries. Some state governments promote small scale industries through state-owned finance and investment companies which provide technical and financial assistance to small scale industries. However, owing to numerous constrains, some were less active than others.

j. **The national directorate of Employment (NDE)**

This was established in 1986, the NDE is another channel through which government has promoted and initiated the development of small scale industries.

In January 1987, NDE launched a number of programmes to generate self employment. These were:

- Small scale industries (SSI)

- Agriculture

- Youth empowerment and vocational skills development

- Special public works.

k. **Other technical training and extension service program**

This includes activities of Industrial Training Fund (ITF), raw materials research and development council (RMRDCO), federal institute of research, Oshodi (FIRO), Project Development Agency (PRODA) and Centre for Management Development (CMD).

2.1.4 **The Role of Small and Medium Scale Industries of Economic Development in Nigeria.**

It is true that small scale industries are of economic importance and this fact has been recognized world-wide.

Usman (2001), observed that small scale industries are recognized world wide as a catalyst to economic development.

Essien (2001) observed that small scale industries are useful in mobilizing small savings for productive investment and enhancement of the industrial capital formation. In a country with low level of savings such as Nigeria, small and medium scale industries are ideal for the mobilization of resources for economic development.

Carpenter (2001) asserted that small scale industries promote industrial and economic development through the utilization of local resources technology. He further observed that small scale industries provide the best opportunity for job creation and rural development.

The role small and medium scale industries in Nigeria can be categorized into 2 broad groups:

Firstly, small and medium scale industries help to drive economic growth. It has been recognized that development means accumulation of higher wealth in an economy. For the wealth in an economy to grow, it means that many households and business entities in the economy are experiencing increase in their principal resources and assets. One measure of this is the Gross Domestic Product (GDP).

a. Small and scale industries drive economic growth by helping in capital formation. Capital is an essential of factor of production and is important for investment in productive activities. Small and medium scale industries help in capital formation by helping to mobilize financial resources that are hitherto not part of the formal economy.

b. Diffusion of entrepreneurial skills. Scholars of economic development, agree that the economic growth requires entrepreneurial skills. Entrepreneurship goes a long way to determine the productive mix of a country and how far it can be competitive. Ownership of small and medium scale industries provides opportunities for citizens to learn entrepreneurial skills that are required to grow personal wealth.

c. Stimulation of technological development. Small and medium scale industries drive economic development through stimulating technological innovation through a synergetic relationship with big industries. Big corporations are conversant with technological innovation. There have both the incentives and resources to finance cutting-edge technical breakthroughs. But, because there are very

few of such corporations, the impact of such breakthrough may not be diffused throughout the economy.

Secondly, apart from being drives of economic growth, small scale industries increase human capital investment which tends to reduce poverty by;

a. Provide gainful employment to citizens who otherwise may have been gainfully employed. By equipping thousands and millions of citizens with financial resources and knowledge to begin their own business, small and medium scale industries also reduce the population of the community that is extremely poor.

b. Small and medium scale industries also help to reduce people's dependence on state resources for welfare payments.

c. Small and medium industries help poor persons to gradually acquire physical and financial assets which could be a defense against poverty.

d. Small and medium scale industries further help economic development by the process by which a country moves her resources

i.e. dependent economy to the one that is manufacturing and service oriented.

In Nigeria, small and medium scale industries constitute about 80% of the total industries in Nigeria.

2.1.5 **The Contributions of small and medium scale industries to economic growth**

The benefit of small and medium scale industries in any economy, is easily noticeable, there include:

a.   The contribution to the economy in terms of output of goods and services.

b.   Creation of jobs at relatively low capital cost; especially in the fast growing service sector.

c.   The provision of a vehicle for reducing income disparities.

d.   Developing a pool of skilled and semi-skilled workers as a basis for the future industrial expansion.

e. Improving the forward and backward linkages between the economically, social and geographically diverse sectors of the economy.

f. Providing opportunities for developing and adapting appropriate technological approaches.

g. Small and medium scale industries, offer an excellent breeding ground for entrepreneurial and managerial talent.

Below is the socio-economic contribution of small and medium scale industries in the growth process of the Nigerian economy.

a. Stimulation of indigenous entrepreneurship

Social benefits of small and medium scale industries are derived from their stimulating influence on indigenous entrepreneurship and technology. Here, there provide opportunities for the expression of the latent entrepreneurial ambition, asides serving as a vehicle for the propagation and diffusion of innovative ideas both indigenous and foreign.

b. **Employment creation**

A very important rationale for promoting small and medium scale industries is their job creating potentials. This stems mostly from their labour intensive and consequently capital saving methods of operation.

c. **Wealth distribution**

They achieve this by providing paid employment or remunerative economic activities to a great number of rural and urban people on one hand and supplementing their income from the regular jobs on the other hand, small firms contribute significantly to the reduction of income disparities.

d. **Utilization of local resources**

Small scale industries can be said to be a greater local resource user than their larger counterparts. Their local resource utilization encompasses the use of local raw materials and discarded by products of large firms or primary output in their production process. Their employment of local resources includes the opportunities afforded people with limited formal

training or educating a large number of which can be found in developing nation.

e.   **Disposal of economic activities.**

Small scale business constitute a sector of the industrial sector offering easy entry to prospective entrepreneurs making low demand on capital intensity and not dependent on significant economies of scale of production and marketing for take-off survival. Rather there look for greater demands on the skills and the ingenuity of their owners.

f.   **Mobilization of Savings**

Another important role of small scale and medium scale industries is that there helps in tapping idle financial resources, which ordinarily would not be brought into the banking mechanism.

g.   **Transformation of Traditional/ Indigenous industry**

The critical engine of this change has often been the small scale firms, especially household or artisan industries that metamorphosed into large firms as both the skills of their owners improve and their scale of operations grow.

2.2 EMPIRICAL LITERATURE

With the issue of small and medium scale industries, a new industrial atmosphere and economic growth has begun.

Ogundipe (1987), posed it that small scale industries have further advantages of offering opportunities for a considerable number of persons in a geographical location that is varied and diverse.

According to Otumba D. A. Smith (1992), all the world small scale industries are the most dependable source of growth and sustainers of the nation's economy.

Akinomu (1988), stated that small scale industries have vita roles to play in achieving a sustainable growth in Nigeria. He maintained that not only are they capable of generating more employment per unit of capital input, there also provide the best chance of industrializing our rural areas.

According to Nwoga H.I. (2007), he opined that small scale industries stimulate indigenous industries, providing employment to a great number of people, not withstanding in role in mobilizing and accelerating savings, which is geared towards the growth and development of the economy.

Odungbemi (1987) indicates a foundation stone to every large and developed economy.

In the same vein, Olagbenji (1986) lamented "our hope in this country is in the development survival of the small scale industry which helps to provide the necessary raw materials for the bigger industries. He explained the strength of any industrious country in the variety, number and efficiency of her small scale sector.

Similarly, Philips (1984), said that regardless of the political philosophy under which it operates, small and medium scale industries, remains a strategic element in the structure of the society, because of their direct use of resources and their impact on the other aspect of economic and social life.

Kioinyan (1987), maintained that given our wide range of natural resources, small scale industries can have its major activities apart from it normal range of goods, produced for free.

Adam Smith (1776) spoke more on investment and the need to invest as a source of capital accumulation. According to him, investment is essential to economic growth. Capital accumulation is also very important for self interest and economic freedom, and also very important for rapid progress and growth.

Ricardo (1980), suggested devices to be used for economic policies which would lead to economic growth and most of his assumptions includes that the land is major resource; and that there is capital homogeneity in the economic system.

2.3 **LIMITATIONS OF PREVIOUS STUDIES**

Previous studies have it that the small and medium scale industries have advantage than disadvantage. But on one hand, there are other limitations to what we had in the past.

Ogundipe (1987), believed that small scale industries have further advantages of creating and offering job opportunities but these opportunities are limited when there are no adequate industries for business.

Small and medium scale industries are unable to access the funds given to them, the fact remains that the target beneficiaries are not excited about the scheme; hence their impact in Nigeria is not felt as in other developed economies.

Other limitation of previous studies inconsistency in government policies or no policy at all, lack of adequate government attention and actions to create enabling environments amongst themselves and others.

In 2001, the bankers committee of the Central Bank of Nigeria (CBN) floated the small and medium scale industries equity investment scheme, with the aim of reviving the Nigerian small and medium scale industries.

The growth of these industries had been stagnated or life stuffed out of them. In floating the scheme, the banks acknowledged that small and medium scale industries are engines of growth of any nation. Banks are giving reasons why small and medium scale industries are unable to access the funds, yet the money is meant for them. This is one area that should interest the government and spur them to act.

It is not enough to make policies that will be better and more appreciable by the entire citizenry of this great nation, if the authority will act swiftly for the small and medium scale industries. The neglected state of the real sector has affected the small and medium scale industries. The small and medium scale industries are known globally to be pivotal to the development of any economy; hence it is purposely set up to strategically enhance its development.

When will out small and medium industries wake up? They are the only ones that can solve the unemployment problems we are facing in Nigeria. Small and medium scale industries are of great importance in the

area of low capital and employment ratio, optimal utilization of local inputs and other multiplier effects per unit of investment.

The capability of small and medium scale industries to achieve their goals is undoubted because they promote the use of local resource raw materials, technologies and manpower as well as promote industrial dispersion and balanced growth.

The fear of loosing ownership of their business or sharing powers with outsiders or venture capitalists is one of the reasons the entrepreneur are keeping their distance from the scheme. For the small and medium scale industries to grow, they must be macroeconomic stability, fiscal prudence, easy accessibility to credit and availability of goods and modern technology.

The government should produce industrial demarcation areas with the entire necessary infrastructures such as; access roads, electricity, communication, water supply etc as a necessary condition for efficient and effective industrial clustering of small scale in the country.

According to Baumbacks, attempts made small business in terms of employment, assets value or sales value have proved unsatisfactory because a firm in one industry may loom large relatives to its competitors, yet be small in employments, assets and sales relative to firms in other industries and in some circumstances, the firm may be small on the basis of employment, and large in assets and sales vice versa.

Adam Smith asserted that the greatest hindrance to economic growth and progress is the government. This is because of the public ownership of the means of production. According to him, government should not be involved in the ownership of the means of production i.e. the means of production should be in private hands.

Other limitation to economic growth includes; low income which brings about low investment, there is capital deficiency and low productivity and there is also low savings. Furthermore, there are other economic and social attitudes towards ways of doing things especially in the business industries towards ways of handling money towards ways of investing and productivity.

What is more damaging however is that this lack of support for small businesses has been negatively complemented by misplaced government intervention in what is seen as the commanding heights of the economy. This intervention manifests in the concentration of efforts and resources on large, wasteful and white elephant public projects and industries and also creating large import substitution manufacturing businesses managed or partly owned by foreign partners. The woeful failure of such capital projects like the Iwopin paper mill, the Ajaokuta steel complex, the Bachita sugar factory and the Leyland Daf, all come to mind.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

Here, the multiple regressions will be used to annalyse the impact of small scale industries on the economic growth of Nigeria.

The data to be used will be secondary data and all will be from the Central Bank of Nigeria (CBN) bulletin (2010).

3.2 METHODOLOGY

The method to be used for this research work is the ordinary least square (OLS) method. This is because OLS has the Best, Linear, Unbiased, Estimator b is Blue, it is linear unbiased and has smallest variance as compared with all other linear unbiased estimators of the true b.

Another reason for the use of OLS is that the computational procedure of OLS is fairly simple as compared with other econometric techniques and the data requirements are not excessive.

Again, the mechanics of the OLS are simple to understand. It is also an essential component of most other econometric techniques. The OLS

will be used so as to use figures from several independent variables of the commercial bank loans to small scale, small scale industries output, real interest rate and regress them against economic growth which will be measured with the log Gross Domestic Product (GDP).

3.3   MODEL SPECIFICATION

This is the mathematical relationship that exists between the dependent and the independent variables and the model for the parameters of the function.

Model I: This model shall capture objectives one.

The model based on the following functional relationship.

The econometrics form of the model can be stated thus:

Log RGDP = $\beta_0 + \beta_1 CBLS$ +REIR Ut

Where Log RGDP = Real Gross Domestic Product at the Current market Price

SMSO   =   Small Scale Industries Output

CBLS   =   Real Interest Rate

Ut   =   Error term

β0   =   The coefficient of there repentance variables

t   =   Time period

Model 2:   This model will be used to capture objective 2. the model is specified in its functional form as follows:

UNP =   f (SMSO, CBLS)

UMP =   unemployment rate in Nigeria

SMSO and CBLS are as defined above

        The econometrics form is stated below:

UMP =αo +   x1   SMSO   +   α2 + Ut

α1 ,an   =   The parameters to be estimated

Ut   =   The white noise error term

3.4 METHOD OF EVALUATION

In evaluating the results of the regression, econometric tests and statistical tests are employed.

3.4.1 **Statistical Criteria: First Order Tests**

The theories of statistic prescribe some tests of finding out how accurate he parameter estimates of a model are. These tests helps to suggests whether or not the parameter estimates of the model will be evaluated on the basis of the statistical significance.

The coefficient of determination, r^2 will be used to test the goodness of fit of the regression line to sample observations or the explanatory power of the independent variable.

The F-test: will be used to test the overall significance of the regression model.

The T- test: Coefficients of the model will be tested for significance using the T-testing procedure is based on the assumption of the error term Ut follows the normal distribution i.e. to tests for the exact level of statistical significance of the coefficients.

3.4.2 **Econometric Criteria: Second Order Test**

These are set by the theory of econometrics and are aimed at investigating whether the assumptions of the econometric method

employed are satisfied or not. Thus, the assumptions of the Ordinary Least Square (OLS) will be investigated; here the time series properties of the variable of the model will be tested.

a.   The econometric test involved in the Durbin Watson (D.B.) statistics which is to test for the randomness of the residuals.

b.   Stationary test: It will be tested to see whether the variable of the model are stationary. This will be done using the ADF (Augmenting – Dicky Fuller) test.

c.   Normal test: It will be tested to see if the error term of the model normal is distributed, for the purpose Jarque-Bera test of normality will be employed. This necessary because, the T and tests require that the error follow the normal distribution.

d.   e employed. This is necessary because, the T and F tests require that the error term follow the normal distribution.

e.   Heroskedasticity Test: This shall be used to test whether the error her lies constances variance

3.4.3 **Estimation Procedure**

The method advisable for this study is the simple linear regression, applying the Ordinary Least Square (OLS) technique, OLS is chosen its basic property of Best, Linear, Unbiased, Estimator (BLUE).

Secondly, the estimates obtained from these procedures have optimal properties, linearity and minimum variance and also the least square method has been used in a wide range of economic relationship with fairly satisfactory result and it has an essential component of most other econometric techniques, koutsoyiannis (2001:48)

3.5   DATA REQUIRED AND SOURCE/ SOFTWARE PACKAGE

The data that will be used for this research is a SECONDARY DATA. The data set shall come the point between 1986 – 2010.

The data shall be obtained from the National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN).

The software package for estimation is E-view 3.0.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF RESULT

4.1 PRESENTATION OF REGRESSION RESULT

TABLE 4.1A

UNIT ROOT TEST

In this study, the augmented Dicrey Fuller (ADF) unit root test was employed to test for the stationary of the model variables. The null hypothesis is that the variable under consideration has a unit root against the alternative that it does not. The decision rule is to reject the null hypothesis if the ADF statistic value exceeds the critical value in absolute term at a chosen level of significant. The result is presented in the table below:

VARIABLE	ADF STATISTIC	1% CRITICAL VALUE	5% CRITICAL VALUE	ORDER OF INTEGRATION
D(UMPR, 2)	-3. 865250	-3.7497	-3.0038	I(1)
D(SMSO)	-4.622160	-3.7343	-3.0038	I(1)
D(CBLS,2)	-3.84196	-3.7497	-3.0038	I(1)
D (RGDP,2)	-3.095923	-3.7497	-2.9969	1(1)
D (RE1R,2	-5.004109	-3.7497	-3.0038	I(1)

The result from the table above shows that al the variables are non stationary in level form but became stationary after first difference. Thus, we conclude that all the variables are integrated of order one. Since all the variables are integrated of the same order (ICI), we suspect the presence of co-integration between the dependent and the independent variables.

We therefore, test for co-integration using Enule-Granger procedure. That is we test for the order of integration of the residuals.

ADF TEST RESULT FOR RESIDUALS

ADF TEST	CRITICAL VALUE
ADF STATISTICAL – 2.128547	1% - 3.7497 5% - 2.9969 10% - 2.6381

Observe that ADF statistic is less than the critical value at 1%, 5% and 10%, there is conduct that there is no co-integration in the model.

4.2 EVALUATION BASED ON ECONOMIC CRITERIA

As already pointed out in chapter three, our parameter estimates are expected to be conformed with the priori expectation, consequently, the table summarizes the outcome of our model parameters on a priori ground.

TABLE 4.2.1a

VARIABLE	EXPECTED SIGNS	OBTAINED SIGNS	CONCLUSION
D(SMSO)	Positive	Positive	Conforms

D(CBLS,2)	Positive	Positive	Not Conforms
D(REIR,2)	Negative	Negative	Conforms

Small and medium scale output and real interest rate therefore conforms with the theoretical postulates while commercial bank, loans and saving is not consistent with a priori expectation.

B.   THE STATISTICAL T-TEST

The student t-test involves comparing t-cal (calculated) with its tabulated value which define the critical region in a two-tailed test, with n-k degrees of freedom (n = sample size and k = total number of estimated parameters).

The summary of the student t-test is presented below:

Table 4.2.1.

Variables	t^* calculated	T-tabulated	Decision	Conclusion
Constant	406.2811	1.721	If $t^* <1.721$	Significant
CBLS	3.001462	1.721	If $t^* <1.721$	Significant

SMS0	22.39473	1.721	If t^* <1.721	Significant
REIR	-0.452006	1.721	If t^* >1.721	Not Significant

The above results shows that all the variables are significant execute REIR that is not significant in the model.

This implies that a small and medium scale industry has a significant impact on economic growth in Nigeria.

B. **THE STATISTICAL T-TEST**

Variables	t^* calculated	T-tabulated	Decision	Conclusion
Constant	2.151016	1.721	If t^* <1.721	Significant
CBLS	5.356004	1.721	If t^* <1.721	Significant

SMS0	1.140456	1.721	If $t^* < 1.721$	Significant

The result shows that the small and medium scale output and the commercial Bank Loans and Savings are significant to the unemployment in Nigeria.

R^2 it tells the level of variability on dependent variables adequately. This is evidenced in the high value of R^2, which is 0.975411, showing that commercial banks loan to small scale industries, small scale output and real interest rate pointedly accounted for at least 97.3% of the variations in real GDP of Nigeria within the period of study.

F-Test

F ratio is used to test for the joint interest of the explanatory variables on the dependent variable. It tests for the statistical significance of the entire regression line. It is given as

$$F \quad = \quad R^2/ k - 1$$

$$(1 - R^2)/ N - K$$

The computed f-ratio fx , is compared with the theoretical f at 0.05 with v = k − 1 and v 2 = N − K degrees of freedom where v1 = degrees of freedom for numerator

V2 = degrees of freedom for denominator.

K   =   numbers of bs (including bo)

N   =   Sample Size

If fx > f0.05, reject the Ho, otherwise accept the Ho.

From our regression result fx =   256.2701 while F -tal number V2 = 25, V1 = 3 = at 5% = 2.99.

Since F-cal = 2562701 > F-tab = 2.99, we reject Ho and conclude that at 1% level of significance, the overall regression is statistically significant. The significant nature reaffirms the liquidity of R^2.

ECONOMETRIC TEST (SECOND ORDER TEST)

A test for autocorrelation

One of the assumption of (OLS) ordinary least square regression model is that errors are independent in the context of time series analysis,

this means that an error U is not correlated with one or more of previous errors ut −i.

The Durbin Watson d test compares the empirical dx value, calculated from the regression residuals, with di, and du in D-w table with their transforms $(4 - dl)$ and $(4 - du)$

DECISION RULE

i. F dx < d1, we reject the null hypothesis of no auto-correlation and accept that there is positive auto-correlation of first order.

ii. IF dx > $(4 - dl)$, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.

iii. If du < dx $(4 - du)$, we accept the null hypothesis of no autocorrelation.

iv. If dl − dx (du or if $(4 - du) < dx < (4 - dl)$, the test is inclusive from our regression result, the:

dl = 0.83)

du   =   1.523

4 − dl   =   3.169

4 – du =   2.477

dx = 1.471890

Hence, 3.169 < 1.523cl. 471890

We concluded that there is a positive autocorrelation among the variables.

B.   NORMALITY TEST FOR RESIDUAL

The JB test of normality is an asymptotic, or large sample, test and it is based on the OLS residuals. This test computed the shrewdness and tortoises measures of the OLS residuals and uses the chi-square distribution (Gujarati, 2004). The null hypothesis for the test is:

Ho: $U1 = 0$ (The error term follows a normal distribution) against the alternative.

H1: $U1 = 0$ (the error term does not follows a normal distribution) at 510 with k degree of freedom.

NORMALITY TEST TO RESIDUAL

JARQU BERA	PROBABILITY	DECISION	CONCLUSION
2.611343	0.270	Reject H0: If P<0.05	Accept Ho.

From the table above, observe that the probability of dargue-dera = 0.270 > 0.05, we accept Ho and conclude that the residual follow normal distribution.

TEST FOR HETEROSE DASTICITY

Heteroscedasticity has never been a reason to throw out an otherwise good model. But it should not be ignored either (man kw. 1990). This test was carried out using Wholes general Heteroscedasity test (with cross terms).

This test asymptotically follows a chi-square distribution with degrees of freedom equals to the numbers of regression (including the constant terms) The auxiliary model can be stated as thus:

$$U_t = GDP - \beta_0 - \beta_1 SMSO - \beta_2 CBLS - \beta_3 REIR - \beta_4$$

Where Vi = Pure white noise error. This model is run and auxillary R^2 from it is obtained. The hypothesis to be tested is

HO: $\beta_1 = \beta_2 = \beta_3$ .... $\beta_4 = 0$ (Homoscedasticity)

H1: $\beta_1 = \beta_2 = \beta_3$ .... $\beta_4 \neq 0$ (Heteroscedasticity)

NOTE: The sample size (n) multiply by the R^2 obtained from the auxiliary regression asymptotically follow the chi-square distribution with degree of freedom equal to the number of regressions (excluding the constant term) in the auxiliary regression using P.C. give software package serve as the above rigour by calculating the chi-square valued.

DECISION RULE

Reject Ho If x2 Cal > x2 tab at 510 level of significance, if otherwise accept Ho from the obtained result we conclude that there is no evidence of heteroscadasticity.

WHITE HETROSEDASTICITY TEST

Statistics	Problems	Decision rule	Conclusion

2.469956	0.0077740	Reject H0: If<0.005	Reject Ho.

Here is shows that there is Heterocedasticity in the Result.

If the correlation is 0.8,$\geq$ there is multi-collinerity on the model.

MULTI COLLINEARITY RESULT

	GRGD	UMPR	CBLO	REIR
RGDP	1.000000	0.754152	0.215998	0.533848
UMIR	0.754652	1.000000	0.332296	0.640146
CBLS	0.215995	0.332296	1.000000	0.104820
REIR	0.533848	0.640146	0.164820	1.00000

The result above shows evidence of no multi-collinearity in the model since there is no correlation is grater or equal to 0.8

TEST FOR CO-INTEGRATION

VARIABLE	ADF STATISTIC	1% CRITICAL VALUE	5% CRITICAL VALUE
Residual	-2.084531	-3.7497	-2.9969

The residual is not stationary at both 1% and 5% levels, we observe that the RDF of the residual is less than the critical value, hence, we conclude that there is no co-integration in the model.

CHAPTER FIVE

5.0 SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY

Following the findings, it can be seen that commercial bank loans to small and medium scale industries in Nigeria has come to a point where it will stimulate investment in small and medium scale industries of economic growth. This may be due to the use of collaterals and other requirement by commercial banks for small scale investors to borrow.

A small and medium scale industry has significantly contributed to the real gross domestic product (RGSF) of Nigeria, within the period under study. This has supported the idea that if given adequate support, small scale industries will enhance economic development faster than any other sector of the economy. We also observe that most of the investors in small and medium scale industries rely on borrowing FWM commercial banks and little of their personal savings.

With the outcome, we should reject all hypothesis that small and medium scale industries output in Nigeria has significant impact on the

economy. This has also answered the research question whether small and medium scale industries can strive well in Nigeria with commercial banks funding? From our findings, it was observed that if more commercial banks credits are made available to investors in small and medium scale industries, the sector will perform better and thus enhanced the growth of the economy.

The research result shows that the real interest rate has a negative and insignificant affect on the real GDP. The finding supports the need to reduce the interest rate in Nigeria in order to encourage investors in large, medium and small scale industries.

The results also show that SMEs has a positive and significant impact on unemployment in Nigeria.

5.2 RECOMMENDATIONS

Based on the above findings, some possible recommendations are as follows:

a. Government should pursue, with vigour, the total deregulation of the financial seeks and fine its monetary policies so as to reduce the rate of interest charge by banks as well as bring about a more realistic exchange rate for naira.

b. Government should as a deliberate policy, encourage rural based industrialization whereby investors in different communities should be encourage to establish small and medium scale industries that would be based entirely on local raw materials, including machines and equipments.

c. Government should formulate policies that will enhance agricultural development and productivity so that resources can be transferred from this sector to facilitate growth of the non-agricultural sector especially to small and medium scale industries.

d. There should be policies that focused on technical education at all levels, for the development of human capital.

e.   Government should formulate polices aimed at dealing the problems of specific sectors, for example, substituting protecting, favoring, or fostering small scale industries at one time or the other.

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