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## REBUILDING NIGERIAN PRODUCTIVITY AND ECONOMY THROUGH SMALL-SCALE ENTERPRISES

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**Abstract:** Nigeria, with its vast resources and growing population, has long sought to harness its economic potential. However, persistent economic challenges, including unemployment and low productivity, have hindered progress. This abstract explores the crucial role of financing small-scale enterprises in increasing productivity and rejuvenating the Nigerian economy, highlights the importance of investing in small-scale enterprises as a viable strategy to revitalize Nigeria's productivity and economy in general. It examined the current state of small-scale enterprises in Nigeria, the challenges they face, and the potential benefits of financial supports to SSEs. A comprehensive review of existing literature and data on Nigerian small-scale enterprises and economic conditions is conducted using qualitative data obtained through the use of questionnaire. The analysis were carried out using simple percentage and Chi-square method of analysis. The result reveals that small-scale enterprises are the backbone of Nigeria's economy, contributing significantly to employment and economic growth. However, they face substantial challenges, including limited access to finance, regulatory hurdles, and infrastructural deficiencies. By addressing these challenges through targeted financing, the Nigerian government and private sector can stimulate productivity, create employment opportunities, and foster economic resilience. Improving access to finance for small-scale enterprises can have a multiplier effect on Nigeria's economy. It can enhance productivity by enabling businesses to invest in technology, training, and expansion. Such investments can reduce unemployment and alleviate poverty, contribute to long-term economic stability. Financing small-scale enterprises in Nigeria is a pivotal strategy for rebuilding the country's productivity and economy. Therefore, there is need for urgent concerted efforts from the government, financial institutions, and the private sector to prioritize and support small-scale enterprises in Nigeria, this will ultimately pave ways for a more prosperous and resilient nation.

**Keywords:** small-scale, enterprises, productivity, economy, economic growth, economic resilience

### Introduction

Nigeria, as one of the most populous nations in Africa, faces significant challenges in rebuilding its economy and enhancing productivity. The quest for increased productivity and overall growth of the country's domestic economy has become significant to succeeding governments in Nigeria since country's independence in 1960 (Ayuba & Zubairu, 2015) SSEs encompass various sectors, such as agriculture, manufacturing, trade, and services. Numerous challenges hinder the growth and development of SSEs in Nigeria. Some of the key issues include inadequate access to finance, infrastructural deficits, regulatory constraints, and a lack of technical and managerial skills. SMES are financed through commercial banks loans, microfinance institutions, and government-supported programs. While these institutions offer structured financial services, the interest rates and stringent collateral requirements can be prohibitive for many SSEs. This leads to a credit gap, where numerous SSEs struggle to access affordable credit to expand and develop their businesses.

A well-financed SSE sector has the potential to spur economic growth by creating jobs, increasing production, and expanding markets. Increased economic activities from SSEs can contribute to a stronger GDP and reduced unemployment rates. Apart from their potentials for ensuring a self-reliant industrialization, in terms of ability to

rely largely on local raw materials, SME's are also in a better position to boost the use of domestic raw materials as input, this has helped in creating so many job opportunities; guarantees even distribution of infrastructural development in both the urban and rural areas in the country and facilitate the growth of non-oil exports (Imoughele, Lawrence & Ismaila, 2012). SSEs have the capacity to reduce poverty levels by providing income-generating opportunities for the marginalized population. With adequate financing, these enterprises can address both urban and rural poverty, offering sustainable livelihoods to many. According to report of the United Nations Industrial Development Organization (UNIDO, 2012) SMEs have a significant role to play in economic development of any nation as they formed the backbone of the private sector; they make up over 90 percent of entrepreneurs of the world and account for 50 to 60 percent of employment generation; they also play an important role in poverty alleviation. The contribution of SMEs to manufacturing output and gross domestic product (GDP) is appreciable. In the area of employment generation, SMEs accounted for about 70 per cent of the industrial employment in 1987 and the situation has remained largely the same (Omwumere, 2000).

Access to financing can facilitate the adoption of modern technologies and innovative practices, allowing SSEs to enhance their productivity and competitiveness. This, in turn, contributes to overall economic advancement. In recent years, several governmental and non-governmental initiatives have been implemented to address the financial challenges facing SSEs in Nigeria. Notable programs include the Central Bank of Nigeria's Anchor Borrowers Program, the National Social Investment Program, and various intervention funds targeted at SMEs. These initiatives aim to provide affordable credit and support for capacity-building but the Challenges related to SSE financing in Nigeria persists, including inadequate financial literacy among entrepreneurs, bureaucratic red tape, and the need for improved risk management by financial institutions. In spite of the important role of SMEs to the development of Nigeria's economy, it is still being constrained by so many factors such as inadequate capital, stringent conditions on bank credit facility, poor management and faulty implementation of government policies on SME's which retards the development of the sector (Abiola *et al*, 2011). Dada (2014) noted that the consistently repeated complaint of SMEs about their problem regarding access to finance is a constraint that endangers the development of the sector in Nigeria. Onwuka (2015) saw the problem facing SMEs as inadequate funding on the part of the commercial banks and other financial institutions and poor management on the part of small business owners. According to Ogujuiba *et al*, (2004) financing contributes about 25% to the success of SMEs. Many SMEs are forced out of business due to lack of adequate capital to sustain their operations. They are in most cases unable to access the required funds needed for adequate operations, expansions and sustainable growth because they are regarded as a high-risk sector and as a result of the above reason, banks resort to heavy asset-based lending rules. A 2001 World Bank survey on Nigeria showed that although 85% of the firms had relationship with banks, most of them had no access to their credit (Terungwa, 2011). This lack of adequate financing for SMEs in Nigeria can be traced to the reluctance of banks to extend credits to them for the following reasons; Inadequate collateral by SMEs operators, weak demand for the products of SMEs as a result of the dwindling purchasing power of Nigerians, lack of patronage of locally produced goods and poor management practices by SMEs operators (Ayuba & Zubairu, 2015). The shortage of finance also limits investment in research on new and available technologies, technical know-how and new skills in expanding operations. impede growth and hinder productivity.

Lack of education on the part of SME owners and inadequate facilities in agricultural, purchasing and supply sector has been a big challenge to SME's (Ukwuagu 2002). Rebuilding Nigerian productivity and the economy through small-scale enterprises is a critical strategy. Addressing the challenges and seizing opportunities in this endeavor requires a multi-faceted approach involving government policy, financial institutions, and more entrepreneurship development programs. This study examines the contribution of the SMEs sector to the economy, the challenges facing the SMEs and level of government support and regulation, it provides insight into the importance of rebuilding Nigeria productivity and economy through SMEs and sets the stage for further research and policy formulation to support Nigeria's economic revitalization.

### **Objectives of Study**

The major objective of this paper is to explore the critical link between SME financing, Nigerian productivity and economic resilience. The broad objectives are;

- i. To ascertain whether a well-financed SME has the potential to spur economic growth
- ii. To determine whether access to financing can facilitate the adoption of modern technologies and innovative practices.
- iii. To find out whether lack of financial literacy is among the challenges facing entrepreneurs.
- iv. To determine whether SMEs have the capacity to reduce poverty levels by providing income-generating opportunities.

### **Hypothesis**

- i. Ho: There is no significant relationship between modern technologies and economic growth.
- ii. Ho: There is no significant relationship between poor financial literacy, poor performance of entrepreneurs, income generating opportunities and a well financed SME.

### **Empirical Review**

Oluyemi and Ayodele (2021) examined the nexus between entrepreneurship through small-medium enterprise (SME) business formation and the growth of the Nigerian economy. The result shows an increasing number of SME formation which has also led to the growth of the economy. The employment elasticity is positive and significant and shows that the contribution of entrepreneurship regarding employment is the most essential factor that advances economic growth and reduction of unemployment.

Dada (2014) investigated the effect of commercial banks' credit on SMEs development employing Ordinary Least Square (OLS) technique to estimate the multiple regression models. The findings revealed that commercial banks credit to SMEs and the saving and time deposit of commercial banks exert a positive and significant influence on SMEs development.

Nwosa and Oseni (2013) examined the impact of bank loans to SME's on manufacturing output in Nigeria for the period spanning 1992 to 2010. Employing error correction modelling technique, the study deduced that bank loans to the SME sector had significant impact on manufacturing output both in the long and short run.

Mamman and Aminu (2013) assessed the effect of 2004 banking reforms on loan financing of SMEs in Nigeria. A sample size of 500 was randomly chosen and chi-square test was used which indicated that there is no significant effect of 2004 banking reform on loan financing of SMEs in Nigeria and suggested that there are some constraints which restricted access to loans from the banks for SMEs in Nigeria.

Qureshi (2012) investigated the problems and constraints facing small and medium-sized enterprises (SMEs) in Pakistan with regard to access to financing using qualitative data and quantitative data, a structured questionnaire, formal and informal interviews. The study finds that Formal financing is the biggest problem of SMEs because a substantial portion of SMEs does not have the security required for collateral. The loan processing time is very lengthy and cumbersome and the loan terms are not clear and thoroughly understood by the borrower which is a similar case to entrepreneurs in Nigeria.

### **Theoretical Review**

Information asymmetry theory propounded by Abdesamed and Wahab (2014) refers to a situation where owner-managers possess more knowledge about the prospects and risks facing their business than lenders. Financial institutions require certain information on firm performance before approving loans to ensure that the project is feasible. However, this information is not readily available from SMEs and banks do not have adequate management information on SMEs and in some cases they are being offered less capital assistance or capital at higher rates compared with large firms. This increases the difficulty SMEs face in obtaining funds from the financial institutions,

### **Methodology**

Data were obtained from primary sources through the use of questionnaires and oral interviews where necessary. Secondary data were obtained from research works and journals.

### **Data Presentation and Analysis**

Twelve (12) SMEs managers, eight (8) government officials from Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) Awka branch and ten (10) credit officers from different financial institutions in Awka, Anambra state were given questionnaires to fill, all questionnaires were properly filled and returned.

Table 1: Frequency Distribution of Respondents

| Categories           | Frequency | Percentage(%) |
|----------------------|-----------|---------------|
| SMEs Managers        | 12        | 40            |
| SMEDAN staff         | 8         | 27            |
| Bank credit managers | 10        | 33            |
| <b>Total</b>         | <b>30</b> | <b>100</b>    |

Authors' Field Survey, 2023

Question one

Table 2: A well financed SME has the potential to spur economic growth.

| Categories   | Frequency | Percentage(%) |
|--------------|-----------|---------------|
| YES          | 28        | 90            |
| NO           | 1         | 3             |
| INDIFFERENT  | 2         | 7             |
| <b>Total</b> | <b>30</b> | <b>100</b>    |

Authors' Field Survey, 2023

Table 2: 90% of the respondents agreed that a well financed SME has the potential to spur economic growth.

Question two

Table 3: Does access to adequate funds facilitate the adoption of modern technologies and innovative practices which can lead to increase in operations, outputs, expansion and sustainable growth of the firm.

| Categories   | Frequency | Percentage(%) |
|--------------|-----------|---------------|
| YES          | 30        | 100           |
| NO           | 0         | 0             |
| NOT SURE     | 0         | 0             |
| <b>Total</b> | <b>30</b> | <b>100</b>    |

Authors' Field Survey, 2023

Table 3, shows that 100% of the respondents were of the opinion that access to adequate finance can facilitate the adoption of modern technologies and innovative practices which can lead to increase in operations, outputs, expansion and sustainable growth of the firm.

Question three

**Table 4: Is lack of financial literacy among the challenges facing entrepreneurs?**

| Categories   | Frequency | Percentage(%) |
|--------------|-----------|---------------|
| YES          | 17        | 57            |
| NO           | 9         | 30            |
| NOT SURE     | 4         | 13            |
| <b>Total</b> | <b>30</b> | <b>100</b>    |

Authors' Field Survey, 2023

Table4: Shows that 57% of the 30 respondents agreed that lack of financial literacy is among the challenges facing entrepreneurs. 30% was against while 13% were not sure.

Question four

**Table 5: Does SMEs have the capacity to reduce poverty levels, rebuild Nigerian productivity and economy in the present socio-political dispensation?**

| Categories   | Frequency | Percentage(%) |
|--------------|-----------|---------------|
| YES          | 26        | 87            |
| NO           | 3         | 10            |
| Not SURE     | 1         | 3             |
| <b>Total</b> | <b>30</b> | <b>100</b>    |

Authors' Field Survey, 2023

Table 5 indicates that 87% of the respondents agreed that SMEs have the capacity to reduce poverty levels, rebuild Nigerian productivity and economy in the present socio-political dispensation, 10% said that SMEs does not have the capacity while 3% were not sure.

## TEST OF HYPOTHESIS

Chi-square test statistics was used to compare the observed frequency distribution with the expected frequency distribution. The formula

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

E

Where

O = observed frequency value

E = expected frequency value

E = Total Number of responses divided by number of the types of responses

$$E = 30/3 = 10$$

#### Decision Rule

Accept null hypothesis (Ho) if the calculated chi-square value is less or equal to the critical value or tabulated value but reject if the calculated value is greater.

#### Hypothesis one

**Hi:** There is a significant relationship between modern technologies and economic growth.

Table 6. Respondents View

| Response | SMEs<br>Managers | SMEDAN staff | Bank credit<br>managers | Total | Percentage |
|----------|------------------|--------------|-------------------------|-------|------------|
| Yes      | 9                | 5            | 9                       | 23    | 77         |
| No       | 3                | 2            | 1                       | 6     | 20         |
| Not sure | 0                | 1            | 0                       | 1     | 3          |
| Total    | 12               | 8            | 10                      | 30    | 100        |

Authors' Field Survey, 2023

Table 7. Chi-square table

| Response | O  | E  | O-E | (O - E) <sup>2</sup> | $\frac{(O - E)^2}{E}$ |
|----------|----|----|-----|----------------------|-----------------------|
| Yes      | 23 | 10 | 13  | 169                  | 16.9                  |
| No       | 6  | 10 | -4  | 16                   | 1.6                   |
| Not sure | 1  | 10 | -9  | 81                   | 8.1                   |
| Total    | 30 | 30 | 0   | 266                  | 26.6                  |

Authors' Field Survey, 2023

The critical value at 25% level of significance based on 20 degree of freedom is 23.8, the calculated value is 26.6 and it is greater than the critical value obtained from the critical value of X<sup>2</sup> Distribution table. Therefore, we reject the null hypothesis(Ho) and accept the alternative hypothesis(Hi). this proves that there is a significant relationship between modern technologies and economic growth.

#### Hypothesis two

**Hi:** there is a significant relationship between poor financial literacy, poor performance of entrepreneurs, income generating opportunities and a well-financed SME

Table 6. Respondents View

| Response | SMEs<br>Managers | SMEDAN staff | Bank credit<br>managers | Total | Percentage |
|----------|------------------|--------------|-------------------------|-------|------------|
| Yes      | 8                | 7            | 9                       | 24    | 80         |
| No       | 3                | 1            | 1                       | 5     | 17         |
| Not sure | 1                | 0            | 0                       | 1     | 3          |
| Total    | 12               | 8            | 10                      | 30    | 100        |

Authors' Field Survey, 2023

Table 7. Chi-square table

| Response | O  | E  | O-E | (O - E) <sup>2</sup> | $\frac{(O - E)^2}{E}$ |
|----------|----|----|-----|----------------------|-----------------------|
| Yes      | 24 | 10 | 14  | 196                  | 19.6                  |
| No       | 5  | 10 | -5  | 25                   | 2.5                   |
| Not sure | 1  | 10 | -9  | 81                   | 8.1                   |
| Total    | 30 | 30 | 0   | 302                  | 30.2                  |

Authors' Field Survey, 2023

The critical value at 25% level of significance based on 20 degree of freedom is 23.8, the calculated value is 30.2 and it is greater than the critical value obtained from the critical value of  $X^2$  Distribution table. Therefore, we reject the null hypothesis( $H_0$ ) and accept the alternative hypothesis( $H_1$ ). this proves that a significant relationship between poor financial literacy, poor performance of entrepreneurs, income generating opportunities and a well financed SME.

## Discussion of Results

Improved access to financing for SMEs can have a transformative impact on productivity. When adequately funded, SMEs can invest in modern technology, staff training, and infrastructure, leading to increased efficiency and higher productivity levels. The extent to which SMEs promote economic growth depends on the enabling environment created through the provision of funds, infrastructural facilities such as good road networks, fuel, telecommunication, power supply, political stability, security etc.

The issue of SME financing has received lots of attention from various researchers. Some works in these respects includes Arnold (1998), Dorn (1998), Inang and Ukpong (2002) and Aruwa(2004). Their findings revealed that four problems in financing SMEs have become recurrent and these problems are, the cost of capital, risk, the inappropriate terms and conditions attached on bank loans and the shortage of equity finance. finally it is important to know that financing strength is the main determinant of small and medium enterprises growth in developing countries and the financial systems in every country play the key role in the development and growth SMEs and the economy.



### **Recommendation**

To rebuild Nigerian productivity and the economy, a comprehensive approach is required. This includes: Strengthening financial institutions and policies that support SME financing. Promoting financial literacy and entrepreneurship education, Encouraging public-private partnerships to facilitate SME growth, Implementing policies that reduce regulatory burdens and create a more conducive business environment for SMEs.

Rebuilding Nigerian productivity and the economy through SMEs demands concerted efforts from policymakers, financial institutions, and the SME sector itself. This paper underscores the need for proactive measures and reforms to support SMEs, as their success is intricately tied to the nation's overall financial policies and they also contributes to the country's growth and prosperity.

Nigeria is blessed with huge and numerous kinds of mineral resources, some of these resources have not been adequately tapped for the benefit of the citizens. The growth of SMEs will engage these resources and thereby avoiding wastages and under-utilization. All these will in turn lead to economic development of the nation.

The growth of SMEs also plays a major role in reducing food insecurity in the nation. Hunger is one of the indices of a poor and economic less developed nation. Food insecurity incorporates a measure of resilience to future disruption or unavailability of critical food supply due to various risk factors including droughts, shipping disruptions, fuel shortages, economic instability and terrorism. With the establishment of more SMEs in the country, more food is made available to the population at a reasonable price. This trend in turn will lead to better standard of living which is tied to economic development.

The establishment/ growth and adequate financing of SMEs in the country reduces the level of dependency of the country. In other words, there will be some level of self-reliance in the nation. It implies that the country is able to utilize her local technologies in getting things done in order to meet her economic demands. This scenario is a very healthy way of checking an unfavourable balance of payment position which has an adverse effect on economic development of the nation. Once the country has less dependence on other countries as regards goods and services, the lesser the country's expenditure; and thereby making more resources available in executing people-oriented projects.

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