

## Small Scale Business Enterprises: A Panacea for Poverty Alleviation in Nigeria

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### Introduction

At the beginning of this millennium, employment and poverty crises have emerged as the most challenging development issues confronting African countries. These issues have occupied prime spot in their development agenda. Actually, all social pathologies can be linked to poverty challenges in Nigerian society. Unemployment and downsizing at the formal labour sector has caused a lot of setbacks for many workers and families in Nigeria society. Many were laid off work prematurely or even retired without compensation or benefits. In spite of the expressed concerns of past governments and the plethora of programmes and policies that have a bearing on poverty, the incidence and scourge of poverty have worsened over the years, which made the goal of millennium development in eradicating extreme poverty and hunger in the developing countries seem unattainable by 2015. However, the fact that the incidence of poverty remains very high, the existence of the various programmes notwithstanding, points to the ineffectiveness of the strategies and programmes. Not only has the failure to ensure the successful implementation of the various programmes and policies made the incidence of poverty also to loom large, the phenomenon has continued to spread and deepen. This development resulted to many finding alternative means of generating income for their survival and that of their household.

As at 2004, informal sector accounts for 90% of low wage employment and underemployment, it also responsible for about 70% of the non-oil exports in Nigeria. In this circumstance, poverty becomes imminent in a condition where unemployed individuals are deprived of necessary financial assistance to start small businesses. Evidence in statistics shows that more than one out of five people in the world, 1.3 billion people struggle to live on less than \$1 a day.

They are trapped in severe poverty and cannot adequately feed, clothe, or shelter themselves along with their household. More than half the global populations 3.2 billion survive on less than \$400 a year per capita (CBN, 2003).

The Central Bank of Nigeria's put the estimate of the unreachable client of microcredit at 40 million in 2004 (CBN, 2004). This shows that the microfinance institutions have not been able to adequately address the financial credit required by this group of entrepreneurs.

The Nigeria 2004 baseline economic survey of Small and Medium Industries (SMIs) by CBN shows that the 6,498 industries employed a little over one million workers. About 18.5 million representing 28% of the available work force in Nigeria were unemployed. Hence, CBN (2005) predicted that Small and Medium Industries objectives might be far from being realized. The sectors inability to provide for adequate employment could be traced to credit constraints and other challenges which has plunged its operators into poverty. With a population of about 150 million and GDP/ capita of \$641, two-thirds of Nigerians are poor (UNDP, 2008). Most of them depend on the sub-sector for their livelihood. As such, their entrepreneurial contributions are strategic to Nigerian economic development and their growth has great potential towards income generation and poverty alleviation (Aliyu and Zubair, 2008).

Today, poverty is widely addressed as a global problem. Poverty affects over four billion people. It is important to know that most of the poor people live in the developing world of Africa, Asia and Latin America. On the average 45-50 percent of sub-Saharan Africans live below the poverty line. And in Nigeria about 43% of the population was living below the poverty line of

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N305 a year in 1985 prices, (World Bank, 1996). Federal office of statistics (FOS), now Federal Bureau of Statistics (FBS) in 1998 emphasized the level of poverty by the aggregate low quality of life of Nigerians as follows:-

1. Only 40% of the population has access to good and potable drinking water;
2. About 85% of Nigeria's population live in the rural areas;
3. Most Nigerians consume less than one third of the minimum requirement of protein and vitamins;
4. Above 75% of Nigerians have no access to primary health care; and
5. Most people in Nigeria especially rural people have families without jobs;

### Literature Review

Poverty is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work. The concept of poverty also tends to encompass a range of nonmaterial conditions, such as a lack of rights, insecurity, powerlessness and indignity. ILO (2003) asserts that poverty is a "vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy" (ILO,2003). The OECD's Development Assistance Committee has defined poverty as comprising multiple "dimensions of deprivation that relate to human capabilities, including consumption and food security, health, education, rights, voice, security, dignity and decent work" (OECD, 2001). World Bank reports on *Attacking Poverty*, accepted that poverty encompassed "not only material deprivation (measured by an appropriate concept of income or deprivation) but also low achievements in education and health" (World Bank, 2001). It highlighted poverty, to include "vulnerability and exposure to risk, and voicelessness and powerlessness." The notion of power and voice has also been accepted by a number of bilateral development agencies.

The poor are conceived as those individuals or households in a particular society, incapable of purchasing a specified basket of basic goods and services. Basic goods as used here include; food, shelter, water, health care, access to productive resources including education, working skill and tools, political and civil rights to participate in decisions concerning socio-economic conditions.

The analysis of the depth and severity of poverty in Nigeria showed that rural areas were the most affected. Several reasons accounted for the situation viz;

(i) the large concentration of the populace in the rural areas, (ii) many years of neglect of the rural areas in terms of infrastructural development and lack of information on government programmes and policies. The Central Bank of Nigeria and World Bank study on poverty Assessment and Alleviation in Nigeria (1999) attested to the fact that the living and environmental conditions of those living in the rural areas have worsened. Urban poverty is also on the increase in the country. This has been attributed to the non/under provision of facilities and amenities which are already inadequate to match the growing demand of the urban populace as well as the rural-urban movement. Furthermore, most of the existing industrial capacity in the country stands still as factories operate at about 40% to 50% of their production capacities. The consequences are that essential materials needed become scarce, increases in the price of goods and services and mass retrenchment of workers becomes glaring.

The concern over increasing poverty levels in Nigeria and the need for its eradication as a means of improving the standard of living of the people has led to the conceptualization and implementation of various targeted or non-targeted poverty eradication and alleviation-programmes. Both the Nigerian government and donor agencies have been active in efforts in analyzing and finding solutions to the increase of poverty level. Government programmes and agencies designed to impact on poverty include:

- a. The Directorate of Food, Roads and Rural Infrastructure (D.F.F.R.I).

- b. The National Directorate of Employment (NDE)
- c. The establishment of the Peoples Bank of Nigeria in 1989.
- d. The Better Life Programme (BLP)
- e. The Family Support Programme (FSP)
- f. The Agricultural Development Programme (ADP)
- g. National Agricultural Land Development Authority (NALDA).
- h. The Nomadic and Adult Education Programme established in 1986.

And most recently, with the return of democracy on May 29, 1999 the Federal Government embarked on poverty reduction programme specifically, the government put up the National Poverty Eradication Programme (NAPEP) in the year 2000 which took off in 2001. The launching of the National Economic Empowerment and Development Strategy NEEDS, which has poverty reduction as one of the four primary goals (NEEDS documents, 2004). The Launching of the Universal Basic Education (UBE) programme. In spite of all the laudable efforts at addressing poverty, the problem still persist in Nigeria.

However, the fact that the incidence of poverty remains very high, the existence of the various programmes notwithstanding, points to the ineffectiveness of the strategies and programmes. A number of factors have contributed to the failure of past poverty-related programmes and efforts. Some of them are:

- (i) Lack of targeting mechanisms for the poor and the fact that most of the programmes do not focus directly on the poor.
- (ii) Political and policy instability have resulted in frequent policy changes and inconsistent implementation which in turn have prevented continuous progress.
- (iii) Inadequate coordination of the various programmes has resulted in each institution carrying out its own activities with resultant duplication of effort and inefficient use of limited resources. Overlapping functions ultimately led to institutional rivalry and conflicts.
- (iv) Severe budgetary, management and governance problems have afflicted most of the programmes,

- resulting in facilities not being completed, broken down and abandoned, unstaffed and equipped.
- (v) Lack of accountability and transparency thereby making the programmes to serve as conduit pipes for draining national resources.
- (vi) Overextended scope of activities of most institutions, resulting in resources being spread too thinly on too many activities. Examples are DFRRRI and Better Life Programmes which covered almost every sector and overlapped with many other existing programmes.
- (vii) Inappropriate programme design reflecting lack of involvement of beneficiaries in the formulation and implementation of programmes. Consequently, beneficiaries were not motivated to identify themselves sufficiently with the successful implementation of the programmes.
- (viii) Absence of target setting for Ministries, Agencies and Programmes.
- (ix) Absence of effective collaboration and complementation among the three tiers of government.
- (x) Absence of agreed poverty reduction agenda that can be used by all concerned - Federal Government, State Governments, Local Governments, NGOs, and the International Donor Community.
- (xi) Most of the programmes lacked mechanisms for their sustainability.

Since the formal sector of Nigerian economy cannot fully employ the Nation's active population, degeneration of human condition in the society becomes inevitable and this leads to poverty in all ramifications. The immanent condition has spurred creative and innovative individuals to embrace entrepreneurial endeavours as a sanctuary from nascent unemployment, underemployment and the general economic quagmire. Small-scale enterprises is believed to provide easy entry into entrepreneurship as it may require relatively little financial capital especially when put against the travails of securing favourable employment in the formal sector of Nigeria. The poor, unemployed and the retrenched in both developed and

developing nations have continually embraced entrepreneurship as a means of job creation and income generation.

In Nigeria, the Third National Development plan (1975-1980) defines small business as a manufacturing or service organization whose employee is not more than 10. The individual research unit of Obafemi Awolowo (1987) defines it as "one whose total assets or capital is less than N50, 000 and employee fewer than 50 full time workers". A study by the Federal Office of Statistic (2001) shows that 97% of all business in Nigeria employed less than 100 employees. Going by this definition of SMEs, an umbrella term for firms with less than 250 employees, it means that 97% of all businesses in Nigeria are to use the term 'Small Business'. The SME sector provides an average of 50% of Nigeria's employment, and 50% of its industrial output (Ariyo, 2005).

Nonetheless, of the several challenges confronting Nigerian entrepreneurs, access to micro-credit constitutes the biggest problem as it is crucial to the economic empowerment of small business entrepreneurs. Its people's access to financial assistance is laden with bureaucratic barriers and illiteracy, debarring potential and existing operators to function optimally. Banks are of little relevance to these categories of entrepreneurs. Entrepreneurial development is therefore important in the Nigeria economy which is characterized by heavy dependence on oil, low agricultural production, high unemployment, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructural base. These constraints limit the rate of growth of entrepreneurial activities in Nigeria. Other Challenges to the development of SMEs include:

**(i) Lack of Education and skills acquisition**

Education and skills training are important for enhancing the productivity of small scale entrepreneurs, who generally lack education and skills. Many in urban areas are migrants from rural areas and have few opportunities to receive a formal education. In addition, children of poor people in urban areas find it difficult to attend school for economic reasons and end up as small

business operators at a young age. Small scale entrepreneurs usually acquire skills through on-the-job training or a traditional apprenticeship system. The problem with these methods is that trainers pass on obsolete skills from generation to generation.

**(ii) Physical infrastructure**

A general lack of access to physical infrastructure and services, such as roads, electricity, water supply and public transport, dampens the productivity of both the small scale entrepreneurs. Improving access to the physical infrastructure can enhance productivity and reduce the operating costs of the informal sector. Providing such facilities is essential for the integration of the small scale entrepreneurs into the rest of the economy.

**(iii) Harassment**

Various types of regulations are enforced by different government agencies dealing with the establishment and operation of businesses. In many cases, government officials utilize these regulations to harass business owners and exhort money from them.

**(iii) Lack of information and awareness**

Lack of awareness of the laws and regulations in the informal sector is a major reason for informal workers' susceptibility to the harassment. Information about regulations and laws should be publicized and made easily accessible to informal businesses. The formation of informal business associations should strengthen the capability of the business owners to articulate their interests and to protect themselves from harassment. Issuing a membership card for a small fee to association members can be a useful mechanism for reducing harassment, since the low-level government officials would be more careful when dealing with a member of an organized group.

**(iii) Self-help groups business and workers associations**

The heterogeneity of the small scale enterprises makes the establishment of associations or groups a difficult task. Small scale entrepreneurs have similar problems or who are from the same subsector can form associations or self-help groups to protect and promote

their interests. They can improve their productivity and incomes through their own organized efforts and through group solidarity. Such organizations can facilitate credit for informal enterprises, arrange training for informal sector workers, and assist in introducing modern technologies and in dealing with harassment from regulatory authorities. They can also exert collective pressure on the Government to remove unnecessary regulations and to design favourable policies for the benefit of the sector. Governments should encourage and facilitate the formation of such groups and associations by directing assistance, such as credit and training, through them. NGOs can contribute to the formation and efficient running of such groups.

#### **(iv) Empowerment for women**

Women face more or less the same constraints and problems as men do. However, these problems and constraints are much more severe for women. Women should be given priority in the provision of credit. Day-care centres for the children of poor working women should be established through both government and NGO initiatives. Women should be assisted and encouraged to form associations or groups for discussing their problems and taking collective action. In many countries, women's organizations provide assistance for women in the informal sector. In India, the Self-Employed Women's Association has contributed to enhancing women's bargaining capacity by making women aware of their exploitation and by uniting them to demand higher wages. Similarly, the Orangi Pilot Project in Karachi, Pakistan, has established women's work centres to reduce the exploitation of women engaged in home-based piecework in the garment industry.

Not only has the failure to ensure the successful implementation of the various programmes and policies made the incidence of poverty to loom large, the phenomenon has continued to spread and deepen. And very many factors have tended to compound the poverty situation, among which are: slow economic growth, economic mismanagement, infrastructural deficiencies, weak political commitment to poverty alleviation programmes and measures, and a host of macroeconomic and sectoral problems such as inflation,

rising unemployment, exchange rate depreciation, external debt overhang. While the formal Government sector continues to play an important role, it is the growth of private participation in providing employment, especially to the socially and economically underprivileged that appear to have provided the impetus for growth in qualified professionals and reduce poverty.

A number of policy and other interventions aimed at raising the productivity and earnings of the small scale enterprises are listed hereunder. These include:

- Providing credit
- Providing education and skills training
- Improving access to physical infrastructure
- Extending social protection
- Encouraging and assisting in the formation of self-help groups and business and workers associations
- Strengthening linkages with the formal sector
- Creating special measures of assistance for women
- Enhancing awareness of available programmes for the benefit of the informal sector.

Overall, a holistic approach is needed for dealing with the multidimensional problems of the small scale entrepreneurs.

A two-pronged strategy could be adopted. Individuals involved in marginal and subsistence activities should be assisted in such a way that their incomes rise, their working conditions improve, and they move out of poverty. Policy interventions to achieve this include the provision of credit, education and skills training, improved access to physical infrastructure, the extension of social protection, assistance in the formation of self-help groups and business and workers associations, and the strengthening of linkages with the SSEs. Policy interventions include the removal of excessive barriers to entry into busines in terms of registration costs, regulations and bureaucratic requirements.

However, in order not to pre-empt the outcome of this study, this is aimed at finding out the role of small scale business enterprises on poverty eradication in Nigeria.

## Methodology

This paper tries to identify the role played by small scale business enterprises in poverty alleviation in Nigeria and the factors that militate against its growth and development. The study was conducted using a sample of 360 respondents derived from both rural and urban dwellers. Both primary and secondary sources of data were utilized. Though this study used three local governments each from the six geographical zones in Enugu state comprising Udi, Udenu and Nkanu East local government areas of Enugu state including Enugu capital city as a case study, the conclusions derived shall be used to generalize on its role on poverty eradication of the whole country. Registered SMEs operating in these local governments, as shown on the register of National Association for Small Scale enterprises in the Enugu State, constituted our target population. They are categorized into production, agro based, and services. In order to confirm the greatest drawback for SMEs and their relevance in poverty eradication in Nigeria, we had postulated the following hypotheses:

- Ho1: There is no significance relationship between SMEs and poverty eradication in Nigeria.  
 Ho2: There is no challenge faced by SMEs in eradication of poverty in Nigeria.

Primary and secondary sources of data were the main data used for analysis. The primary data were collected using a 5-point Likert scale questionnaire, administered to the selected SME operators through the secretariat of National Association office in Enugu State. Stratified random sampling technique was adopted.

## Conclusions :

It was found that small scale business enterprises are indispensable in socio-economic development of any nation. This was evidence in employment generation, training for skill acquisition, use of local raw materials for their production. Small scale entrepreneurs usually acquire skills through on-the-job training or a traditional apprenticeship system. The problem with these methods is that trainers pass on obsolete skills from generation to generation. A general lack of access to physical infrastructure and services, such as roads,

electricity, water supply and public transport, dampens the productivity of SSEs. The study further revealed that some of the challenges facing small scale business enterprises include non access to credit facilities, illiteracy, lack of skills. Some other factors were, economic mismanagement, infrastructural deficiencies, corruption, weak political commitment to poverty alleviation programmes and measures. The study concludes that provision of micro credit loans, training in human resources programme and packages and improved infrastructure are likely to increase the capabilities for job-seekers, and alleviate poverty and hunger, which in turn would change the socio-economic structure of the people. This paper therefore, recommends that the three tiers of government should make available credit facilities to both disfranchised rural and urban populace, improve infrastructural deficiencies and establish skill acquisition centers without which the achievement of the goal of eradication of extreme poverty and hunger will continue to be a mirage in Nigeria.

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