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## Article 2

# ENTREPRENEURSHIP AND SMEs DEVELOPMENT: ITS ROLE IN REDUCING POVERTY AND UNEMPLOYMENT IN NIGERIA

By

**Iruonagbe, Tunde Charles, (Ph.D)**

Department of Sociology,  
Covenant University, Ota,  
Ogun State, Nigeria

### Abstract

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*Entrepreneurship is a universal phenomenon which constitutes a veritable engine of economic growth and development of any country. Entrepreneurship has its roots in small beginnings. In Nigeria, successive governments have embarked on various strategies towards enhancing entrepreneurship spirit through the development of Small and Medium Scale Enterprises. With the level of Youth unemployment on the increase, it is the belief that the development of entrepreneurs will change the tide of things. Also very compelling is the increasing level of poverty, lack and want especially in the rural areas. In addition, government policies and programmes aimed at the development of SMEs have not been well articulated and sincerely attended to. This paper posits that through massive training in skill acquisition, the citizenry would imbibe the culture of entrepreneurship. This will guarantee wealth creation and poverty alleviation, especially in the informal sector of the economy where majority of the people grapple for survival.*

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### Introduction

Entrepreneurship and issues relating to the development of Small and Medium Scale enterprises have become very crucial in the development plans of most developing countries. According to Ubom (2003), the success of most national economies are based on exploitation of the advantages of entrepreneurship and the enhancement of small and medium scale businesses in forging industrial development.

The importance of Entrepreneurship and SMEs underscores why countries such as the United States of America, India, Bangladesh, China, Taiwan, Japan and a host of others establish apex government institutions solely responsible for the regulation of activities of the **Small and Medium Scale industrial sub-sector in their economies.**

In Nigeria, successive governments have put in place several policies and strategies meant for the promotion of small and medium scale industries. Such programmes include the National Directorate of Employment (NDE), the Family Economic Advancement Programme (FEAP) and the National Poverty Eradication Programme (NAPEP).

In fact in 2002, the executive arm of government in Nigeria sent a bill to the National Assembly for the establishment of Small and Medium Industries Development Agency (SMIDA). Consequently, entrepreneurship and issues on small and medium scale enterprises has become a subject of great importance as formal training in this area is gaining ground in Nigeria with several Non-governmental Organizations becoming highly interested.

Following the thoughts of Prof. Ali Mazuri as contained in his book, "Cultural Forces in World Politics". Prof. Olunloyo (2001) concluded on the need for entrepreneurship by stating that Africa has borrowed the wrong things from the West, even the wrong component of capitalism. He concluded by saying that:

*"To be sure, it can be said that over the years, we have borrowed a lot but learnt a little. We borrowed the profit motive, but not the entrepreneurship spirit. We borrowed the acquisitive appetite of capitalism but not the culture of creating risk-taking. We are at home with Western gadgets but bewildered by Western workshops. The West consumption patterns have arrived, but alas not the West's technique of production. At the end of the day, we find ourselves confronted with incongruous distribution in our socio-economic profile such as urbanization without industrialization, formal education without productive capacity..."*

The role of entrepreneurship in the developing economies has indeed become very significant. In some developing countries like Nigeria, the advantages of entrepreneurship have been well recognised as it forms the bedrock of the process of industrialisation. Considering the contributions of government to the development of entrepreneurship, it is necessary to state that the "road" of entrepreneurship has not been a smooth one. Despite efforts of government at promoting entrepreneurship,

entrepreneurs still face financial, managerial, infrastructural, social, political and other environmental problems.

### **What is Entrepreneurship**

The simple subject of entrepreneurship is a major key to industrialisation and wealth creation. The entrepreneur is the one who conceives the idea of the business, designs the organization of the firm, seeks for capital, recruits labour, and establishes relations with suppliers, customers and the government. So the entrepreneur is a person who undertakes the risk of investing in the establishment and operation of business for the purpose of making profit.

The entrepreneur therefore has to be an originator of profitable business ideas. According to Schumpeter (1934) the single function which constitutes entrepreneurship is innovation. He stated that innovation rather than risk taking is the most important distinction between the entrepreneur and the manager. Hence he further asserted that an entrepreneur's goal is to develop new products or services as well as new methods of production, identify new markets, discover new sources of supply and develop new organizational forms.

According to Drucker (1983) an entrepreneur is "any person who coordinates other factors of production and bears the risk of uncertainty by investing his scarce resources in the business venture. He also takes the managerial decision such as planning, staffing, organising, developing and controlling the business organization. A person who is willing to risk his capital and other resources in a new business venture from which he expects substantial rewards, if not immediately, perhaps in foreseeable future, at least". Also, Osagie et al (1990) affirms that "entrepreneurship as generally associated with or is usually defined to reflect the indigenous traits inherent in an individual". Emmanuel (2002) stated that Entrepreneurship can be seen as the willingness and the ability of an individual to seek out an investment opportunity, establish an enterprise and run it successfully.

### **Defining SMEs**

The acronym "SMEs" refers to Small and Medium Enterprises. In Nigeria, the definition of small business firms has varied over the years and by institution. There is now concern among policy makers and scholars as to what constitutes a small business.

According to the Third National Development Plan (Vol. 1. p353), manufacturing establishments employing less than ten people or whose investment in machinery and equipment does not exceed 600,000 naira are referred to as "small scale industries".

In 1998, the Central Bank of Nigeria (CBN) defined Small business firms as firms (excluding general commerce) whose total investment (including land and working capital) did not exceed 500,000 naira and or/ whose annual turnover did not exceed 1 million naira. The 1990 Federal Government Budget defined small business firms for purposes of commercial bank loans as those with capital investments not exceeding 1 million naira (excluding cost of land). The National Economic Reconstruction Fund (NERFUND) pegged the ceiling for small business firms at 10 million naira; that is firms with fixed assets plus cost of new investment (excluding land) not exceeding 10 million naira. Section 37b (2) of the Companies and Allied Matters Decree 1990, defines a small company as one with value of not more than 1 million naira.

Since 1993, CBN has redefined them as firms whose total cost excluding cost of land including working capital is above 1 million naira but not exceeding 10 million naira. In 1996, the National Council on Industry defined industrial sub-sectors as follows:

**Cottage Industry:** One in which the total cost including working capital (excluding cost of land) is less than 1 million naira and labour force up to a maximum of 10 persons.

**Small Scale:** One in which the total cost including working capital (excluding cost of land) is between 1 million naira and 40 million naira and employing labour force numbering from 11 to 35 persons.

**Medium Scale:** One in which the total cost including working capital (excluding cost of Land) is between 40 million naira and employing between 36 to 100 persons.

**Large Scale:** One that employs more than 100 persons and whose total cost including working capital (excluding cost of land) is more than 100 million.

Globally, the definition of SMEs varies from Country to Country, depending on parameters considered best suitable to promote the sub-sector in each country. However, in general, enterprises employing fewer than 500 workers are regarded worldwide as SMEs (Ubomi 2003).

In the year 2001, the Federal Ministry of Industry completed the review of the Industrial Policy Document. Chief Kola Jamodu (2001) stated among other things that SMEs, micro/cottage, small and medium enterprises, require varying support services and modified strategies. On this note and based on the structure of manufacturing in Nigeria, the SMEs are now defined by the Federal Ministry of Industries on the basis of employment, that is:

Micro/cottage industries are industries with 1-10 workers

Small scale industries are industries with 11-100 workers

Medium scale industries are industries with 101-300 workers

Large scale industries are those with 301 workers and above.

The National Directorate of Employment (NDE) since 1986 has been involved in supporting the activities of some SMEs. It has defined a small-scale industry as an establishment with capital investment as low as 5,000 naira and employing as few as three people (Isemin, 1998).

### **SMEs Development in Nigeria**

Most world economies today are characterised by a large number of micro/cottage, small and medium scale enterprises (MSMEs) mainly in the informal sector. Nigeria is therefore not left out of the changing world economy which yearns for a more articulate policy on the SMEs. In many economies, they accounted for a large segment of productive population. Nigeria falls within this later category of economies. The MSMEs in Nigeria account for over 95 percent of non-oil productive activities outside agriculture which positions them as potentially strong agents of economic growth and sustainable development.

In the past, this potential for development of SMEs was not given adequate attention in Nigeria polity. The post-independence development of the industrial sector in the 1960's and 1970's concentrated on Large Scale Industries (LSIs), to which substantial direct government investments were committed in partnership with multi-national companies. The collapse of the oil boom in early 1980's drastically reduced foreign exchange earnings allocated for the importation of raw materials and spare parts for these import dependent industries. Products from these industries comprise consumer goods, intermediate and capital goods such as iron and steel, machine tools, pulp and paper, petrochemicals and automobiles.

According to Owosekun (2001) following the collapse of the oil boom in the early 1980's, Nigeria witnessed a drastic reduction in capacity utilization in most of the manufacturing plants between 1983 and 1996. This led to massive retrenchment, general scarcity of basic/essential commodities and the devaluation of the local currency (Naira). This serious set back in industrial development resulted in a decline to the contribution to GDP from 11.2 percent in 1982 to 6.1 percent in 1999.

This situation of economic depression informed the adoption of the Structural Adjustment Programme (SAP) in 1986 and the new industrial policy in 1988, which accorded pivotal role to the private sector and shifted the priority focus of policy from

large scale industries (LSIs) to Small and Medium Enterprises (SMEs). The new industrial policy recognized the promotion of SMEs as a more appropriate strategy for achieving the target of industrial self-reliance, employment generation and poverty alleviation. The strategy resulted in drastic loss of jobs due to the Structural Adjustment in the country. The population of those in the informal sector also increased creating a situation of alternative ways of survival. Today, the informal sector has risen astronomically and thus has further gone to show that the key to better living conditions lies in entrepreneurship activities.

The major interventions in SMEs development under the new industrial policy occurred between 1987 and 1989 when the Federal Government mobilised substantial loanable funds for SMEs development through the NBCI, NIDB, Community Bank, NACFI, FEAP, NERFUND, the World Bank SMEs project and the People's Bank of Nigeria. By the mid 1990s however, the fund available to these institutions had virtually dried up and most of the SMEs projects set up with these loans had also collapsed due to the inflated foreign exchange debt burden and the local currency devaluation. The above scenario explains why the contribution of SMEs to the industrialization process in Nigeria is generally low compared to their counterparts in South East Asia. Using India as a reference point, it should be clear in Nigeria the potential that the SMEs hold for Industrial development of a nation.

According to Pradham (2001) the Small Scale Industries (SSIs) in India has recorded phenomenal growth not only in a protected environment but also in the open economy market. "In 1991-92, the growth of Small Scale Industries in India was 3.1 percent which increased to 9.9 percent in 1998-1999 while growth in overall industrial sector grew from 0.6 percent in 1991-92 to 3.6 percent in 1998-99".

### **Policy Framework for SMEs Development**

Small and Medium Enterprises (SMEs) are universally recognized as catalysts in the socio-economic development of any country. They are veritable vehicles for the achievement of macroeconomic objective in terms of employment generation at low investment cost and the development of entrepreneurial capabilities, indigenous technology, stemming rural-urban migration, local resource utilization and poverty alleviation.

Osoba (1987) reports that the first attempt of the government to develop small scale industries in Nigeria dates back to 1946. "A Ten year Plan of Development and Welfare of Nigeria, 1946" was presented to the Legislative Council on 13 December 1945 and approved with some amendments by the Legislative Council of 7th December, 1946.

At post Independence, the Federal Government's major aims in the area of trade and industries at that time were summarized in the National Development Plan, 1962-68 to include:

- i) The establishment and growth of industries which contribute both directly and materially to economic growth.
- ii) To enable Nigerians participate to an ever increasing extent in the ownership, direction and management of Nigerian Industry and trade.

The Nigeria Enterprise Promotion Decree (NEPD) was promulgated to give legal backing to the Federal Government's Indigenization policy. This decree had positive effect on SMEs development in Nigeria. The decree which came into effect in 1972 and subsequently amended in 1977 had as its prime objective, the promotion and protection of indigenous participation in all sectors of the nation's economy.

The Third National Development Plan 1975-80 contained a sub-sectoral policy framework which focussed on the development of the small scale Industries. The policy stated that:

*"The main objectives of the Government programme for the development of small-scale Industries are the creation of employment opportunities, mobilization of local resources, mitigation of rural-urbanization of local resources, mitigation of rural-urban migration, and more even distribution of industrial enterprises in different parts of the country. These will be achieved through suitable incentives designed to give complimentary assistance in financial management and technical aspects of the business. The main vehicles for administering the incentives are the Industrial Development Centres and the States Small-Scale Industries Credit Scheme".*

Due to the difficulties encountered in the administration of the Small-Scale Industries scheme, it was stated in the Fourth National Development Plan, 1981-85 that the Nigerian Bank for Commerce and Industry is to be increasingly involved in the administration of the programme with the expectation that the bank will instil financial discipline into the borrowers, assist better with project appraisal, and offer advisory service to small scale businesses.

The National Directorate of Employment (NDE) was established by government as part of the institutional framework on November 22, 1986. It was expected to help promote entrepreneurship and small business development.



At inception in 1987, the NDI developed four core programmes:

1. Youth Employment and Vocational Skills
2. Small-Scale Enterprise and Graduate Employment
3. Special Public Works
4. Agricultural and Rural Employment Promotion.

The Family Advancement Programme (FEAP) was also established as a poverty alleviation programme. Its funds were provided by the Federal Government and channelled through participating commercial and community banks as well as the People's Bank of Nigeria. Its targets of beneficiaries were co-operative societies and families of Armed Forces and the Police, which received micro-finance for productive ventures.

FEAP also provided training to potential loan beneficiaries in collaborative arrangements with Industrial Training Fund (ITF); Federal Institute of Industrial Research (FIRO) Oshodi; PRODA, Enugu and the Industrial Development Centres (IDCs). FEAP had a total of 8.6 billion naira available to meet the financial needs of micro enterprises with a view to transforming the rural areas and achieving poverty alleviation.

The People's Bank of Nigeria was established in 1990 to cater for the needs of micro enterprises owned by under-privileged Nigerians in rural and urban areas. At inception, loans to a single borrower were limited to 2,000 naira, but this was later reviewed upwards to 5,000 naira. The People's Bank of Nigeria however suffered from problems of inadequate funding by the Federal Government and high rate of loan default. Also, Community Banks were introduced in the Nigerian Banking system in 1990 to also provide credit to MSMEs. Some of the banks were adversely affected by the distress in the financial sector, including poor management and unstable macro-economic environment.

The National Poverty Eradication Programme (NAPEP) was established in 2001 to replace the Poverty Alleviation Programme established in year 2000. The programme has four main components, which include:

- i. Youth Employment Scheme
- ii. Rural Infrastructural Development Scheme (RIDS)
- iii. Social Welfare Services Scheme
- iv. National Resource Development and Conservation Scheme.

The National Poverty Eradication is primarily aimed at expanding the Nigerian economy, with emphasis on the development of SMEs, and for the provision of macro-

credit to entrepreneurs. For the enhancement of this programme, the Federal Government committed a total sum of 25 billion naira as its funding, out of which a maximum limit of 500,000 naira would be given to an approved entrepreneur without collateral security and with 5% interest rate.

Some Non-Governmental Organisations (NGOs) have also been involved in the development of SMEs. One of such is the **FATE** Foundation. According to the Anchor (2001) its mission is to create wealth by equipping aspiring entrepreneurs with necessary skills to be self-sustaining by establishing their own business. Also, the Guardian (2002) noted that the Fate Foundation regularly organizes workshops to enlighten entrepreneurs on availability of high quality Locally-produced tools and resources to aid business growth. There is also the Institute of Poverty Eradication (IPE) which was promoted by late Maria Sokenu, former Managing Director of People's Bank of Nigeria. It is aimed at poverty eradication among the poor masses of Nigeria. Also, there is the Enterprise Nigeria Foundation (ENF) which is promoted by Mrs Owanari Duke, the wife of the former Cross River State Governor, Donald Duke. The ENF is the Nigerian arm of the continental body, Enterprise Africa (EA), an initiative of UNDP Africa designed to provide a regional framework for facilitating and coordinating private sector support services in Africa and enhance indigenous African entrepreneurship.

It is necessary to state that the new Industrial policy of Nigeria which commenced in 2003 and mid-wived by the Federal Ministry of Industry will help remove the constraints which hinder the competitiveness of local industries. This will help assist entrepreneurs and SMEs operators including stakeholders in large-scale industries.

### **Role of Entrepreneurship and SMEs in Reducing Poverty and Unemployment**

Two of the major challenges in Nigeria today are the crucial question of poverty and unemployment. Poverty is a social problem that is widespread in Nigeria. According to Oyeneye and Peil (2004) "Poverty implies inadequate resources to satisfy one's basic needs or the inability to buy or otherwise secure essential foods, housing, clothing, transportation, education and health care." Ukwu (2002) also asserted that absolute poverty refers to human existence below a reference standard of living. On the other hand, unemployment refers to "enforced idleness of wage earners who are able and willing but cannot find jobs (Goldstein, 2006). Opportunities for jobs, especially for the youth and the active labour force are hardly available. This has heightened the level of unemployment and contributed to various vices in the country.

Insensitivity and adequate comprehension of the problems are synonymous with leadership in the country and this has affected the policies and programmes of the government towards the development of Entrepreneurship and Small Scale Enterprises.

Government has a responsibility to the people by first creating an enabling environment for business to thrive while the citizenry especially those in the private sector must take advantage of the situation to ameliorate the sufferings of the people.

Nigeria is a nation rich in both human and natural resources yet the people are poor. According to the World Bank (2004), close to 70% of the people live on less than \$1 per day. It is therefore the belief that Entrepreneurial activities especially SMEs will help the overall development of the people. Unemployment is rampant among the youth and government is hardly ever able to attend to their needs. Government therefore has emphasised on “the need to do it yourself programs” as millions of young persons go into the labour market having graduated from school. It is therefore imperative that the entrepreneurial skills of our youth be developed as this will lead to the economic well-being of the individual and society. In Nigeria, entrepreneurship is not perceived as a viable option for young people seeking employment. This implies that the perception that entrepreneurship is a strong opportunity for young people must be nurtured so as to gain experience, self esteem and employability and create wealth. Usually, there is stigma attached to failure in a commercial venture and this is a strong disincentive to starting a business.

In Nigeria, a lot of people have no jobs or secured sources of income hence poverty is on the increase. Indeed, there is an urgent need in Nigeria for employment creation which according to the African Union (2004) “is an explicit and central objective of our economic and social policies”. The fight against unemployment must involve reducing poverty by generating employment. One cannot forget the devastating Oil Pipeline vandalization at Abule-Egba area of Lagos which occurred on December 26, 2006 due to a fire explosion for which hundreds of persons lost their lives with some others in hospital for different degrees of burns including the loss of property worth millions of naira. Part of the reasons for the vandalization is due to poverty, unemployment and hopelessness.

### **Benefits of SMEs**

It is expected that entrepreneurship development in Small and Medium Scale Enterprises in Nigeria will promote:

1. **Employment Generation:** This will help both in our urban and rural areas to reduce the rate of migration, poverty and criminality in the society. The National Directorate of Employment (NDE) has been in the vanguard of promoting this and bringing relief to some Nigerians who have declared their interest in things like sewing, computer training, carpentry, mechanical and electrical training, etc.

2. **Promotion of Use of Local Resources:** This is also very important so that we can put to use a lot of our raw material resources.
3. **Foreign Exchange Earnings:** Through entrepreneurial development, our level of Importation and reliance on products coming from the Western World will be reduced and this will in turn boost our country's Gross National Product (GDP)
4. **Equitable Distribution of Income and Wealth Generation:** This also will be achieved as the gap between the rich and the poor will be gradually reduced as a lot of people would be gainfully employed in one business or the other.

### Conclusion

It is imperative to finally state that poverty and unemployment have been on the increase due to our low industrial state and level of underdevelopment with severe implications for the people, especially those in the informal sector who suffer from very low living conditions. And so, the development of entrepreneurial activities and the creation of small and medium scale enterprises will bring to an end all of these vices as more persons will be engaged in some productive work no matter how small. Nigerians will be able to live more meaningful, rewarding and comfortable life. This definitely will increase the standard of living of the citizenry and reduce the level of criminality, hopelessness and insecurity in Nigeria.

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