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Impact of Small and Medium Scale Enterprises Development on Poverty Reduction in Nigeria

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ABSTRACT

Small and Medium scale business (SMEs) are considered to be the engine and tool of growth and development of modern economies and serve to provide more employment opportunities to a large portion of the population in a given economy and this leads to poverty reduction in most developing countries. This study examines Impact of small and medium enterprises development on poverty reduction in Nigeria. Two (2) research questions were posed for the study and two hypotheses formulated in line with the goals. 142 questionnaires were administered randomly to the entire employee population of the SMEs companies that registered with SMEDAN in Lagos states- Nigeria. The sample size was determined using Taro- Yamane (1967) formula. Data was analyzed using manual and electronic based methods with the aid of data preparation grid and statistical package for the social sciences, (SPSS) statistical package version 21.0. The study made use of statistical tools which include: analysis of variance (ANOVA), correlation efficient and simple regression analysis in testing hypotheses where applicable. the study revealed that provision of credit facilities affect small scale business creation. It was also revealed that government policies affect SMEs income- generation. The study Shows that small scale business (entrepreneurship) has a positive impact on poverty reduction. The study recommends that there is urgent and dire need for the government to revamp the small business sector of the economy in order to redress the growing unemployment rate in the country, reduce poverty level, enhance standard of living and stimulate economic growth and development among the populace.

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Introduction

Popoola revealed that one of the major concerns of leaders and development practitioners in developing countries of the world is that economies in recent years has not only been the promotion of economic growth but also the provision of a formidable institutional framework for establishing, developing and sustaining viable small business as a strategy for sustainable poverty reduction among people [1,2]. An important feature among small business sector is its ability to create job. Vibrant Small business sector are considered crucial in solving multivariate socio-economic problems in developing economies (i.e Nigeria, Ghana) including unemployment, low growth and poverty. Adeosun and Shittu revealed that productive employment is the key to anchoring sustainable reduction in poverty and the fact those small business have potential of creating mass employment, income generation and enterprise creation [3].

Many scholars revealed that most small business are mostly affected by inadequate capital base and low managerial and technical skills mainly caused by their poverty situation and inaccessibility to adequate capital and most of them are in informal sector of the economy because they lack requisite tools of integrating with formal structure. Again, some organizations right size their market force due to harsh economic situations caused by poor global economy meltdown which adversely affect economy and business activities [4-6].

Omotayo revealed that small business in nigerian are still at low level of development, especially in terms of number of jobs creation [7]. Also, prior to 2005 these challenges were not able to adequately address the gap in terms of credit facilities, savings and other financial issues [8-10].

Research Methodology and Data Analysis

In this study, small business that are registered with SMEDAN in Lagos are used in determining the role of Small business on poverty reduction and the survey method is adopted for collection

of relevant data. Thus, the opinions of the study population concerning the research topic were gathered by administering questionnaires that ask questions concerning the role of small business on poverty reduction. The ex-post facto method which involved the use of secondary data from the internet, journals, articles, and so on was also used [11]. The data collected will be used for intensive analysis and conclusion will be based on the data collected. For the purpose of this research, the study population refers to the entire number of employees in small business Sector that are registered with SMEDAN in Lagos. The study population includes employees of genders, various age groups and educational qualifications, and employees at various levels of management.

For this study; it is determined using Yaro's formula. This formula is concerned with applying a normal approximation with a confidence level of 95% and a limit of tolerance level (error level) of 5%.

To this extent the sample size is determined by $[n = \frac{N}{1+Ne^2}]$
 Where: n = the sample size

N = population
 e = the limit of tolerance

$$\begin{aligned}
 \text{Therefore, } n &= \frac{220}{1+220 (0.05)^2} \\
 &= \frac{220}{1+220 (0.0025)} \\
 &= \frac{220}{1+0.55} \quad \frac{N}{1+Ne^2} \\
 &= \frac{220}{1.55} \\
 &= \mathbf{142 \text{ respondents}}
 \end{aligned}$$

The sample size of one hundred and forty two (142) Small business out of the two hundred and twenty (220) Small scale business population of the selected SMEs that are registered with SMEDAN in Lagos state, Nigeria as calculated above. All members of the population had equal chance to be chosen as part of the sample because one hundred and forty two (142) questionnaires were administered randomly and properly to the entire employee population of the SME companies that are registered with SMEDAN in Lagos state, Nigeria. The data was analyzed properly with statistical packages of Social science (SPSS) using manual and electronic based methods. The study used correlation analysis to test hypothesis.

Data Presentation, Analysis, and Interpretation

The research questionnaires was administered to one hundred and forty-two (142) respondents which is the sample size representing the study populations of small and medium enterprises agency in Lagos- Nigeria. After distribution, one hundred and twenty-one (121) questionnaires representing 85.21% were returned, and nineteen (21) questionnaires representing 14.79% were not returned in the course of this study. The table below shows the details.

Table 1: Analysis of Response Rate

Questionnaire	Respondents	Percentage (%)
Returned	121	85.21%
Not returned	21	14.79%
Total distributed	142	100%

Hypothesis 1
 H₀ provision of credit -facilities do not affect Small business creation.
 H_a provision of credit- facilities affects Small business creation.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Errors of the Estimate
1	.968 ^a	.937	.937	.29473

a. Predictors: (Constant), CREDITFACILITIES
 Field Survey 2025

Table 3: ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1Regression	154.721	1	154.721	1781.188	.000b
Residual	10.337	119	.087		
Total	165.058	120			

a. Dependent Variable: BUSINESSCREATION
 b. Predictors: (Constant), CREDITFACILITIES
 Field Survey 2025

The results from the model summary tables above indicated that the extent to which the variance in small business creation can be explained by properly provision of credit facilities is 93.7% i.e. (R square = 0.937). The ANOVA tables revealed the Fcal 1781.188 at 0.0001 significance level. Provision of credit-facilities affects small business creation.

Table 4: Coefficients^a

Model	Unstandardized Coefficient		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.204	.099		2.047	.043
CREDITFA CILITIES	.949	.022	.968	42.204	.000

a. Dependent Variable: BUSINESSCREATION
 Field Survey 2025

However, coefficient table above shows the simple model that expresses how provision of credit-facilities seriously affect small business creation. The model is shown- mathematically as follows:

$Y = a+bx$ where y is small business creation and x is provision of credit-facilities facilities, a is a constant factor and b is the value of coefficient. From this table therefore, Small business creation = 0.204 +0.949 provision of credit facilities was indicated. This means that for every 100% change in Small business creation has provision of credit facilities that contributed 94.9%. The significance level below 0.01 implies a statistical confidence of above 99%. This implies that provision of credit-facilities affect Small business creation. Thus, the decision would be to reject the null hypothesis (H₀), and accept the alternative hypothesis (H_a).

Overview of Small-Scale Business

Small scale business has been variously defined by many scholars. So, there are as many definitions as there are authors or scholars depending on the purpose, objectives and use of definition. The Small and Medium Industries Equity Investment Scheme

(SMIEIS) in Nigeria defined Small scale business as enterprises with a total capital employed not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300. The definition of small business using size and scale of operation within the fixed co-ordinates of national boundaries might be relatively easier [1,12,13].

Small scale business as defined by the National Council of Industries refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200,000,000.00) only. A lot has been said and written about small business all over the world. some governments had formulated policies aimed at facilitating and improving the growth and development and performances of the SMEs, others had focused on assisting the SMEs to grow through soft- loans and other fiscal incentives [1].

International agencies and organizations (World Bank, United Nations Industrial Development Organization (UNIDO), International Finance Corporation (IFC), United Kingdom Department For International Development (DFID), European Investment Bank (EIB) just to mention a few are not only keenly interested in making SMEs robust and vibrant in developing countries and heavily invested in them. Locally in Nigeria, the several Non-Governmental Organizations such as Fate foundation, Support and Training Entrepreneurship Programme (STEP), the Nigerian Investment Promotion Commission (NIPC), the Association of Nigerian Development Finance Institutions (ANDFI), as well as individual Development Finance Institutions (DFIs) have been promoting the growth of Small business in Nigeria through advocacy and capacity-building initiatives, and have continued to canvass for better support structures for operators in the SME sub-sector [7,10,15].

Challenges of Small-Scale Business

According to Popoola, Most Small business dies within their first five years of existence [1]. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity [16]. Many factors have been identified as to the possible causes or contributing factors to the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, highly-concentration on one or two markets for finished products, lack of succession plan etc [1,6,17].

Also, poor budget implementations over the years account for the unsavory impacts of Small business on the Nigerian economy, which has had a record sluggish growth and declining future as measured by the population of Nigerians becoming literate, having more access to better healthcare, shelter, food, and other necessities of life such as access to more and better paying jobs as well as declining per capita income. Other parameters usually used to measure the performance of SMEs include percentage of working population employed by the SMEs in a given country or economy, the percentage contribution to the country's GDP, managerial and technical capacity building, percentage of revenue internally generated or percentage of total-PAYE accruing to the government from the SMEs employees, years increases in average household income, etc [18,19].

Poverty Reduction

This is a term that describe the promotion of economic growth that will permanently lift as many people as possible over a poverty line. Poverty is the state of human being's poor [14]. That is, they

have little or no material means of surviving like food, shelter, clothes, healthcare, education, and other physical means of living and improving one's life. Some definitions of poverty, are relative, rather than absolute, poverty reduction would not be considered to apply to measures which resulted in absolute decreases in living standards, but technically lifted people out of poverty [13,16,20].

Poverty reduction measures have no role in regard to voluntary poverty. Poverty occurs in both developing countries and developed countries. While poverty is much more widespread in developing countries, both types of countries undertake poverty reduction measures [12].

The dawn of industrial revolution led to high economic growth, eliminating mass poverty in what is now considered the developed world. World GDP per person quintupled during the 20th century. In 1820, 75% of humanity lived on less than a dollar a day, while in 2001, only about 20% do. Today, continued economic development is constrained by the lack of economic freedoms. Economic liberalization requires extending property rights to the poor, especially to land. Financial services, notably savings, can be made accessible to the poor through technology, such as mobile banking [21,22].

Inefficient institutions, corruption and political instability can also discourage investment. Aid and government support in various health, education and infrastructure helps growth by increasing humans and physical capital. Poverty alleviation also involves improving the living conditions of people who are already poor. Aid, particularly in medical and scientific areas, is essential in providing better lives, such as the Green Revolution and the eradication of smallpox. Problems with today's development aid include the high proportion of tied aid, which mandates receiving nations to buy products, often more expensive, originating only from donor countries [23,24].

According to Aribaba et al interest in the role of small business in the development process continues to be in serious debates in developing-countries. due to the relevance of SMEs in 2006 the government of Taiwan launched a \$62million "branding" initiative, which is aimed to push the economy from being production-based to knowledge-based [25-36].

Discussion of Findings

To crown it all, this study clearly revealed that Small businesses are contributed immensely to poverty reduction in the developing nations. An important feature among Small business sector is ability to create jobs among the populace.

Based on the above reviews and studied, therefore the study concluded in Hypothesis 2

H₂Government policies do not affect Small Business income-generation H_a 2 Government policies affect Small Business income-generation

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.975 ^a	.950	.950	.26805

a. Predictors: (Constant), GOVERNMENTPOLICIES
Author Field Survey 2025

Table 6: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	163.137	1	163.137	2270.504	.000 ^b
Residual	8.550	119	.072		
Total	171.687	120			

a. Dependent Variable: INCOMEGENERATION
 b. Predictors: (Constant), GOVERNMENTPOLICIES
 Author Field Survey 2025

The results from the model summary table above revealed that the extent to which the variance in small business income generation can be explained by government policies is 95.0% i.e (R square = 0.950). The ANOVA table shows the Fcal 2270.504 at 0.0001 significance level. Government policies affect the income generation of small business.

Table 7: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.047	.092	.975	.511	.610
GOVERNMENT POLICIES	.983	.021		47.650	.000

a. Dependent Variable: INCOMEGENERATION
 Field Survey 2025

The coefficient table above shows the simple model that expresses how government policies affect Small business income generation. The model is shown mathematically as follows $Y = a+bx$ where y is SMEs income generation and x is government policies, a is a constant factor and b is the value of coefficient. From this table therefore, SMEs income generation = 0.047 +0.983 government policies. This means that for every 100% change in small business income generation, government policies contributed 98.3%. The significance level below 0.01 implies a statistical confidence of above 99%. This implies that government policies affect small business income generation. Thus, the decision would be to reject the null hypothesis (H_0), and accept the alternative hypothesis (H_1).

Conclusion and Recommendations

As Indicated above, it's clearly revealed that small business enterprises has great impact on economy growth and development of any nation and this leads to extremely poverty reduction among the populace. The study shows how small and medium enterprises development has positive impact on poverty reduction in developing nations. Data were analysed properly in order to obtained real effect of SMEs(entrepreneurship) on poverty alleviation in the study area.

The study hereby recommends that government at all levels should put more effort in boosting the credit facilities and improve the social amenities in rural and urban areas in the country in order to create more employment and income generation among the populace. Also, entrepreneurial mindset curriculum should be introduced to educational sector in order to boost creativity and innovatively of the populace.

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