

## Small and Medium Scale Enterprises and Economic Growth in Nigeria

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### Abstract

*The study assesses the SMEs contribution to the growth of Nigerian economy. The population of 17.3million SMEs and the value represents the aggregates of all the SMEs in Nigeria. The study used time series data which was collected from CBN statistical bulletin, NBS, and SMEDAN. The study period covered 2006-2017 (. The study used different statistical tools ranging from descriptive statistics, correlation analysis, Unit Root Test and Multiple Regressions. The study found that SMEs contributes insignificantly to the Nigerian economy in terms of SMEs productive output, SMEs sales turnover and an increase in gross domestic product growth rate. The study recommended that SMEs in Nigeria should operate their business by trying to increase their productive output as well as ensuring the increase in sales turnover to see if in the future their efforts will add to an increase in the gross domestic product in Nigeria.*

**Keywords:** Business; Domestic Product Growth Rate; Economic Growth; Financing; SMEs.

### Introduction

Small and Medium Scale Enterprises (SMEs) has continued to be a popular phrase in the history of economic development around the world today. As a result, both the developed and the developing countries are actively engaged in and continue to seek pragmatic ways of improving the activities of SMEs. According to the World Bank (2010), small and medium-sized enterprises constitute 99% of an estimated 19.3 million enterprises in the European Union (EU) and provide about 65 million jobs representing two-thirds of all employment. In the context of the developing world, SMEs in Africa constitute the larger proportion of businesses and employ a significant portion of the population, while Ojo (2003) also attributes the economic success of the Asian countries to the activities of SMEs. In Ghana, official statistics indicate that about 70% of enterprises are micro and small-sized and that about 40% of Ghana's Gross National Income is contributed by the private sector which is dominated by SMEs (Ghana Statistical Service, 2012).

Over the years, Governments of Nigeria encouraged small and medium scale enterprises to ensure the growth of the economy in terms of increase in gross domestic product, by enacting Micro Finance Bank (MFB) Scheme on 16<sup>th</sup> December 2005. There is a low SMEs contribution to GDP in Nigeria. The government of Nigeria frequently formulated policies to help grow the SMEs in Nigeria for the sector to increase gross domestic product, increase its production output, and also realized sales revenue. The output of SMEs is declining, the contribution of SMEs to GDP is low and also there is poor sales turnover on made in Nigeria product by SMEs. Also, the government encourages Nigerian' to patronize and buy indigenous products to increase the sales revenue of the SMEs, yet, many SMEs in Nigeria is deteriorating and declining.

Previous studies such as Abdul-kemi (2015) Akinmulegun and Oluwole (2015) and Paul, Amarachi, Oyedele, Odafe and Juliana (2018) examined the effect of small and medium scale on economic growth in Nigeria using various period of study, but none of these studied used a period that included 2017. However, this study filled the research gap by assessing SMEs' contributions to the growth of Nigerian economy.

## **Literature Review**

### **Conceptual Framework**

The concept of small and Medium Scale Enterprises

In Nigeria, the National Economic Reconstruction Fund (NERFUND), the CBN and the National Council on Industries (NCI) have defined SMEs differently and given different definitions at different times (National Association of Small and Medium Enterprises (2001). The NCI, for example, defines SMEs in terms of several employees (rather than its erstwhile consideration of capital invested). Shaping the Nigerian context, the CBN (as cited in Inegbenebor, 2006) defines an SME as an enterprise with not less than 10 and not more than 300 employees. This definition considers SMEs as a band of enterprises whose main characteristic is that they employ between 10 and 300 persons. This definition necessarily distinguishes SMEs from micro-enterprises and large-scale enterprises. This classification is very widely used in studies as, for example, in the cases of Lai (2007).

The Federal Ministry of Industries defines a medium-scale enterprise as any company with operating assets less than N200 million and employing less than 300 persons. A small-scale enterprise, on the other hand, is one that has total assets of less than N50 million, with less than 100 employees. Annual turnover will not be considered in the definition of an SME. The National Economic Reconstruction Fund (NERFUND) defines an SSE as one whose total assets are less than N10 million but does not refer either to its annual turnover or the number of employees. These and other definitions of the National Association of Small-Scale Industries (NASSI), the National Association of Small and Medium Enterprises (NASME), the Central Bank of Nigeria (CBN). The Small and Medium Industry Equity Investment Scheme (SMIEIS), defined SME as any enterprise with a maximum asset base of N500 million, excluding land and working capital and with the number of employees not less than 10 or more than 300 (Sanusi, 2003) as also corroborated by Eniola, Entebang & Sakariyau (2015)

Small and Medium Scale business is an enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400, 000). The Federal Ministry of Commerce and Industry defines SMEs as firms with a total investment (excluding the cost of land but including capital) of up to N750, 000, and paid employment of up to fifty (50) persons (Mba & Cletus, 2014). Small and medium scale enterprise, small scale industries, and small-scale enterprises are used interchangeably to mean a small-scale industry firm. In Nigeria and worldwide, there seems to be no specific definition of small business. Different authors and scholars have different ideas as to the differences in capital outlay, several employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development (Ayozie, Jacob, Umukoro & Ayozie, 2013).

Since the attainment of independence in Nigeria, every known regime recognizes the importance of promoting SMEs as the basis of economic growth. As a result, several micro-lending institutions were established to enhance the development of SMEs. Such microcredit institutions include the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND), the People's Bank of Nigeria (PBN), the Community Banks (CB), and the Nigerian Export and Import Bank (NEXIM), and the liberalization of the banking sector. Howbeit, the banks in operation in the country are about 89 with more than 50% having a capital base of less than US\$10 million and about 3,300 branches (CNB, 2005).

Bala, Kumar, and Subramanian (2012) defined micro-credit as the extension of small loans to low-income individuals who typically lack collateral, steady employment, and verifiable credit history. Micro Credit is defined as the provision of thrift, credit and other financial services and products of a very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Helms (2007), state that microcredit provides loans to SMEs, who are unable to secure credit due to poverty levels, unemployment, and underemployment, lack of collateral and credit history. Littlefield and Rosenberg (2004), defines microcredit has a powerful tool for poverty reduction among people who are economically active but constrained by financial resources and vulnerable to economic stress.

Onugu (2005) asserted that output is the number of goods and services produced in a system, given all of its constraints. The output is usually a quantitative value, which means it is expressed by a numeric value. Onugu (2005) notes that there are about 8.4 million SMEs operating in Nigeria, with enterprises comprise of 80 percent of the total output or number (about 1.3 million), small businesses constituting 15 percent (around 420,000).

Productivity output is the total amount of goods and services produced by a sector in any economy in a given year or month (Adayi, Agu, Adoli & Inalegwu, 2015).

In 2005, the Malaysian economy output from SMEs registered an average annual growth rate of 5.3 percent, which contributed to an increase in total manufacturing output from 22.1 percent in 1996 to 29.6 percent in 2005. In other aspects, the growth of value-added by SMEs was 9.2 percent, compared with the overall growth of 9.8 percent for the manufacturing sector in 2005. In terms of trade, SMEs exported 25.6 percent of its total output in 2005, compared with 20.8 percent in 1996 (National Productivity Centre, 2004).

Sales turnover is the total amount of revenue generated by a business during the calculation period (Accounting Tools, 2018). The concept is useful for tracking sales levels on a trend line through multiple measurement periods to spot meaningful changes in activity levels. The calculation period is usually one year. The measurement can also be broken down by units sold, geographic region, subsidiary, and so forth. Sales turnover is restricted to revenue generated from operations. Thus, it does not include gains from financial or other activities, such as interest income, gains on the sale of fixed assets, or the receipt of payments related to insurance claims (Accounting Tools, 2018). The amount of sales turnover recognized by a business can vary, depending on whether it uses the accrual basis of accounting or the cash basis. Revenue is recorded under the accrual basis when units are shipped or services provided, whereas revenue is recorded under the cash basis when cash is received from customers (which usually delays recognition, except when there is a prepayment) (Accounting Tools, 2018).

### **Nigeria Economy and Gross Domestic Product (GDP)**

Nigeria economy is characterized by economic growth (Ntiamoah, Opoku, Abrokwah, Baah-Frimpong & Agyei-Sakyi, 2014). Economic growth is achieved by the efficient use of the available resources and by increasing the capacity of production of a country, facilitating the redistribution of income between population and society. Increase in economic growth indicates a rise in production of goods and services, decrease in the unemployment rate, an increase in the number of job opportunities and a rise in the population's standard of living (Ntiamoah, Opoku, Abrokwah, Baah-Frimpong & Agyei-Sakyi, 2014).

There is a general dismal performance of the Nigeria economy for most of the period since independence. This may be due to a myriad of the problems confronting the country, the task of achieving economic recovery and sustained qualitative growth is rather daunting as Nigeria appears to be sucked into the vortex of vicious interlocking articles, which have interacted to keep it in a low growth equilibrium trap (CBN, 2013). Kuznets in his Nobel memorial lecture as cited by Iyoha (1996), defined economic growth "as a long-term rise" in the capacity to supply increasingly diverse economic goods to its population, the growing capacity based on advancing technology and the institutional and ideological adjustment that it demands. Iyoha (1996) opined that economic growth is used to describe the process of growth in advanced industrialized countries while economic development is used to describe the dynamics of growth in low-income, non-industrialized countries. He opined further that wherever there is growth, there is likely to be developed and where an economy is developing, it must be growing.

### **Empirical Review**

Paul, Amarachi, Oyedele, Odafe, and Juliana (2018) employed current perspectives to examine the factors affecting investment, productivity and growth of SMEs by employing the World Bank Enterprise Survey in Nigeria. It explored five main factors affecting investment and productivity in Nigeria as follows: the education of the labor force, access to infrastructure, access to finance, size of firms and other business climate variables. Other business climate variables are insecurity, bribe or corruption, the amount of time that businesses spend dealing with government regulation, poor power availability, etc. In a survey of 2,676 firms, access to finance (33.1%), access to electricity (27.2%) and the level of corruption (12.7%) were the most ranked obstacles for business owners. By employing the World Bank Enterprise Survey, this paper presents and analyses the business environment challenges at the national level

Maryam and Bassey (2018) evaluated the industrial sector on economic growth in Nigeria, and the hypothesis formulated was that industrial output does not affect economic growth in Nigeria. The research is a quantitative research and time series, and secondary data were used for the study over 35 years from 1981 to 2016. Secondary

data was used extracted from the World Bank indicators. Stata was used to analyze the results, and the results revealed that industrial output affects economic growth in Nigeria.

Chukwuedo and Ifere (2017) investigated the relationship between manufacturing output and economic growth. The analysis was conducted using time series data from the period of 1981-2013. To quantify the relationship between manufacturing output and economic growth, an eclectic model consisting of both the Kaldor's first law of growth and the endogenous growth model was estimated. Findings from the study showed that manufacturing output, capital, and technology were the major determinants of economic growth. Results also confirm that the quality of institutions and labor force does not exert any impact on economic growth.

Ewetan, Fakile, Urhie, and Oduntan (2017) examined the long-run relationship between agricultural output and economic growth in Nigeria for the period 1981 to 2014 using time series data. Results from the Johansen maximum likelihood co-integration approach and Vector error correction model support evidence of a long-run relationship between agricultural output and economic growth in Nigeria. Granger causality test also confirms the co-integration results indicating the existence of causality between agricultural output and economic growth in Nigeria. The nature of the causality, however, depends on the variable used to measure Agricultural output.

Nwoba and Abah (2017) examined the impact of crude oil revenue on the growth of the Nigerian economy (1960-2010). Hence the specific objectives are to ascertain the extent of economic growth impacted by the oil proceeds and multinational oil companies in Nigeria. And also, to establish the long-run relationship between crude oil proceeds and Gross domestic product (GDP). The findings revealed the extent of economic growth impacted by the oil industries was significantly based on the ordinary least square (OLS) regression analysis result where the calculated F-statistics of (212.1293) is greater the tabulated F-statistics of (5.35147). The study also found the long-run positive relationship between oil revenue and gross domestic product.

Nweze and Greg (2016) empirical study examined oil revenue and economic growth in Nigeria between 1981 and 2014. Secondary data on the gross domestic product (GDP), used as a proxy for economic growth; oil revenue (OREV), and government expenditure (GEXP) which represented the explanatory variables were sourced mainly from CBN publications. In the course of empirical investigation, various advanced econometric techniques like Augmented Dickey-Fuller Unit Root Test, Johansen Cointegration Test and Error Correction Mechanism (ECM) were employed and the result reveals among others: That all the variables were all stationary at first difference, meaning that the variables were not integrated of the same order justifying cointegration and error correction mechanism test. The cointegration result indicated that there is a long-run relationship among the variables with three cointegrating equation(s). The result of the error correction mechanism (ECM) test indicates that all the variables except lag of government expenditure exerted a significant impact on economic growth in Nigeria. However, all the variables exhibited their expected sign in the short run but exhibited a negative relationship with economic growth in the long run except for government expenditure, which has a positive relationship with economic growth both in the long run and short run.

Folorunso, Abodunde, and Kareem (2015) examined the impact of SMEs growth on economic growth and development and also identified factors that contribute to the development of SMEs in Nigeria. A structured questionnaire was used to collect data from seventy (70) respondents in different sectors through the judgmental method. The method of analysis is that of correlation coefficient and multiple regressions while the method of estimation is Ordinary Least Squares (OLS). The result revealed that SMEs growth has a significant impact on economic growth and development in term of poverty alleviation and employment generation. The study also indicated that access to finance is a major problem for SMEs development in Nigeria. The study concluded that SMEs development in Nigeria is an antidote to unemployment and poverty.

### **Theoretical framework**

Various authors have postulated theories on business growth. The oldest and the most used theory, according to Elhiraika and Nkurunziza (2006) is Gibrat's law of proportionate effect (LPE); (1931). Here, Gibrat stipulates that the rate of growth of a firm is independent of its initial size. By implication, it would mean that large firms are preferable in the context of private sector development given that they create more employment than small firms. Conversely, Jovanovich (1982) states in his learning model that younger firms learn over time, which helps them

improve their performance as they accumulate market knowledge. According to this model, young firms grow faster than old ones.

Moreover, given that younger firms are usually smaller than older ones (businesses) for the reasons discussed earlier; Jovanovich deduces that small firms grow faster than large ones. This is a convergence process where small firms will eventually become as large as any other longer firm in the same sector as time goes by Church and Lewis (1983) as cited in Olawale and Garire (2010) on the other hand claim that as a new small firm start and develops, it moves through some growth stages. He also identified the stages of growth as; existence, survival, success, take-off and resource maturity. In each stage of development as different set of factors is critical to the firm’s survival and success the Churchill Lewis model gives an insight into the dynamics of SMEs growth including the distinguishing characteristics, problems and requirement of growing SMEs and explains business growth process amongst SMEs, The precise moment in time in which a startup venture becomes a new business has not yet been theoretically determined. However, the ideal business survival could be equated with a firm that has fully completed the transaction to stage -two organizations in the five stages of small business growth.

**Methodology**

**Research Design**

The research design adopted for this study is an *ex-post facto*. It relied on past data which is documented, and the research cannot manipulate it. The population of this study comprises of all the SMEs in Nigeria. According to SMEDAN and NBS (2013), there are 17.3 million SMEs in Nigeria. However, the population of 17.3million SMEs is used, and the value represents the aggregates of all the SMEs in Nigeria. However, the sample size of this study is the entire 17.3million SMEs in Nigeria. The study used time series data which is a secondary source of data. The data was collected from CBN statistical bulletin, NBS, and SMEDAN. The study period covered from 2006 to 2017 (17 years). The study used different statistical tools ranging from descriptive statistics, correlation analysis, Unit Root Test and Multiple Regressions. However, these statistical tools are discussed below:

Stationarity (unit root) test was carried out to test for the order of integration. The Augmented Dickey-Fuller (ADF) test was used. The ADF test runs a regression of the first-difference of the series against a first-lagged value, constant, and a time trend as the following:

- Without intercept and Trend  $\Delta Y_t = \phi Y_{t-1} + U_t$ ..... 1
- With Intercept  $\Delta Y_t = \alpha + \phi Y_{t-1} + U_t$ ..... 2
- With Intercept and Trend  $\Delta Y_t = \alpha + \beta t + \phi Y_{t-1} + U_t$ ..... 3

Multiple Regression analysis was used to express the relationship between the two variables, and since the observation (n) is less than 50, the T-test statistic was used to test the significance of the relationship between the two variables.

To estimate the regression model, E-views econometrics and the statistical package was used. The dependent variable is measured with GDP, while the independent variable is measured with microcredit, SMEs output, and SMEs turnover

The model is  $y = a + bx$

y = dependent variable

a = constants

b = intercept / coefficient

x = independent variable.

The statistical models are state below:

$$GDP_t = \alpha + \beta_1 MCFin + \beta_2 SMEsOpu + \beta_3 SMEsto + \mu_t$$
.....4

Where:-

GDP= Gross Domestic Product

SMEsopu= SMEs output

SMEsto=SMEs turnover

McFin = microcredit financing of SMEs

$\alpha$  = constant;  $\beta$  = coefficient;  $\mu$  = error term

**Results**

**Data Presentation**

Table 1 Data used in the study

The table below shows various data used in analyzing the variables.

Years	GDP Growth (%)	SMEs Output	SMEs Sales Turnover(million)	Micro Credit (Million Naira)
2006	5.4	1471821.60	576.78	16
2007	6.2	1310023.30	737.82	22
2008	6.5	1338923.74	165.78	26
2009	6	1726172.34	489.78	28
2010	7	1827372.44	678.40	30.42
2011	7.8	1789283.57	652.72	32.55
2012	6.7	1573672.67	667.81	44.81
2013	10.6	1823030.53	547.11	52.42
2014	12.6	1728180.89	762.89	39.39
2015	8.9	1283724.67	738.74	62.53
2016	9.73	1589273.77	728.42	58.13
2017	12.72	1782093.78	862.70	65.13

Source: CBN Statistical Bulletin 2006-2017

### Data Analysis and Results

SMEs (SMEs financing, SMEs productivity output, and SMEs sales turnover) and Gross Domestic Product Growth

Table 2: Regression Result

GDPG	Co-efficient	Standard error	T-Test	Probability
C	-1.94	4.08	-0.47	0.64
MICFin	0.09	0.03	2.81	0.02
SMEsopu	3.26	2.55	1.27	0.24
SMEsot	0.002	0.00	0.61	0.55
R <sup>2</sup>	0.70			
R2 Adjusted	0.58			
F-Statistics	5.658912			
Prob(F)	0.02			

Source: Researcher's computation, E-views 9.0, 2019.

The Fisher-statistics (F) is 5.658912 with an associated P-value of 0.02 which suggested that the model is a good fit and is used to test the contribution of SMEs financing on gross domestic product growth in Nigeria. The contribution of Small and Medium Scale enterprises productivity output (SMEsopu) on gross domestic product growth in Nigeria and the contribution of Small and Medium Scale enterprises sales turnover (SMEs to) on gross domestic product growth in Nigeria.

The coefficient of microcredit financing is positive and significant in enhancing gross domestic product growth in Nigeria. The  $GDPG = 1.96 + 0.09MICFIN$  which indicates that microcredit financing will increase by 9% for every

1% increase in the gross domestic product in Nigeria. The p-value of 0.02 is less than the t-statistic value of 2.81, and the standard error value of 0.03 is less than the t-statistic value which implies that there is a significant contribution of microcredit financing on the gross domestic product in Nigeria. The coefficient of Small and medium scale enterprises productivity output (SMEs<sub>opu</sub>) is positive and significant in enhancing gross domestic product growth in Nigeria. The  $GDPG = 1.95 + 3.26SMEs_{opu}$  which indicates that Small and medium scale enterprises productivity output (SMEs<sub>opu</sub>) will increase by 3.2% for every 1% increase in the gross domestic product in Nigeria. The p-value of 0.24 is less than the t-statistic value of 1.27, and the standard error value of 2.55 is more than the t-statistic value which implies that there is the insignificant contribution of Small and medium scale enterprises productivity output (SMEs<sub>opu</sub>) on the gross domestic product in Nigeria.

The coefficient of Small and medium scale enterprises sales turnover (SMEs<sub>to</sub>) is positive and significant in enhancing gross domestic product growth in Nigeria. The  $GDPG = 1.95 + 0.02SMEs_{to}$ , which indicates that Small and medium scale enterprises sales turnover (SMEs<sub>to</sub>) will increase by 2% for every 1% increase in the gross domestic product in Nigeria. The p-value of 0.55 is less than the t-statistic value of 0.61, and the standard error value of 0.00 is less than the t-statistic value which implies that there is the insignificant contribution of Small and medium scale enterprises sales turnover (SMEs<sub>to</sub>) on the gross domestic product in Nigeria. The coefficient of determination ( $r^2$ ) of 0.70 indicates that about 70% variation in the gross domestic product can be explained by SMEs (SMEs financing, Small and medium scale enterprises productivity output and Small and medium scale enterprises sales turnover) in Nigeria. The remaining 30% can be explained by other related factors not noted in the regression model. The Fisher-statistics (F) is 5.658912 with an associated P-value of 0.02 which suggested that there is a significant contribution of SMEs on gross domestic product growth in Nigeria.

### Conclusions

The following conclusions were drawn from the result analyzed.

This study critically assesses small and medium scale enterprises contributions to the growth of the Nigerian economy from 2005 to 2017. During these periods, the Nigerian economy has undergone many economic reforms over the years considering the microfinance banks scheme. The empirical result indicates that there is a significant contribution of microcredit financing on the gross domestic product in Nigeria and there is a significant contribution of SMEs financing on gross domestic product growth in Nigeria. It must be noted that SMEs sales turnover is the engine that drives the growth of the Nigerian Economy in terms of increase in gross domestic product. However, SMEs financing leads statistically to increase in the gross domestic product in Nigeria which implies that an increase in SMEs financing will ensure correspondence increase in the gross domestic product of the economy.

In the same vein, the study further confirmed the existence of insignificant contribution of SMEs productivity output on the gross domestic product in Nigeria which implies that there is an insignificant contribution of SMEs productivity output on the gross domestic product in Nigeria. The availability of fund to SMEs in Nigeria will encourage the sector to invest by so doing employable men who are ready and willing to work at agreement conditions to increase the output of the sector. However, SMEs productivity output ensures an increase in gross domestic product. Similarly, the result also indicates that there is an insignificant contribution of SMEs sales turnover on the gross domestic product in Nigeria which implies that there is a significant contribution of SMEs sales turnover on the gross domestic product in Nigeria. The SMEs sales turnover does not enhance the growth of the gross domestic product in Nigeria due to lack of sustainability of the SMEs and poor business environment that is characterized by frequent death and increase in security which does not allow business firms to market their goods to obtain adequate sales in Nigeria.

### Recommendations

The study suggests that small and medium scale enterprises in Nigeria should operate their business freely by trying to increase their productive output as well as ensuring the increase in sales turnover to see if in the future their efforts will ensure an increased increase in the gross domestic product in Nigeria. Government of Nigeria should try to monitor the microfinance institutions on issues relating Microcredit financing (SMEs financing) to ensure that the fund issued by the Central Bank of Nigeria reach appropriate medium and also monitored the microfinance institutions to ensure that they implement the policy of giving loans to small and medium scale enterprises in order to improve the economic growth of Nigeria (gross domestic product). Also, the government of Nigeria and Microfinance instructions should reduce the conditions associated with obtaining a small loan since these loans obtain can aid to reduce unemployment in Nigeria when it invested in the country. Micro-Finance institutions should continue in giving microcredit to SMEs in the rural and urban business owners since the invested money will increase gross domestic product in Nigeria.

SMEs in Nigeria should try to improve on their productivity output by investing or establishing new business through proper management and control to ensure that in the future, these SMEs in Nigeria may contribute to economic growth in terms of gross domestic product in Nigeria. SMEs in Nigeria should put more effort in marketing their ideas, goods, product, and services to the customers to increase sales turnover in the future since presently the sales turnover of the sector does not ensure an increase in the gross domestic product in Nigeria. They should employ more sales force to ensure that sales increase in the sector so that in the future it may increase gross domestic product in Nigeria.

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