

Strategies for Economic Growth: Micro, Small and Medium Enterprises in Rural Areas of Nigeria

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Abstract

This paper examines the contributions of Micro, Small and Medium Enterprises (MSMEs) in rural areas of Nigeria as crucial drivers of economic growth. Micro, Small and Medium Enterprises are crucial to the development of a country's economy, especially countries in emerging economies like China, Brazil, Thailand, India, Nigeria, South Africa, Indonesia etc. Micro, Small and Medium Enterprises is sine qua non to national development, poverty eradication and employment generation. This article is a research into the concept of Micro, Small and Medium Enterprises in rural areas given the wide spread misconception that rural areas in Africa are synonymous with agricultural food and animal production which is far from reality. The study collected data from a sample of Micro, Small and Medium Enterprises in the tie and dye industry in the rural communities of Ogun State, Nigeria to determine the relationship between MSMEs and Nigeria's economic growth. This paper deals with the following four issues: firstly, it sets out the reasons why promoting MSMEs in rural areas are vital strategies to promote the economic growth of Nigeria; secondly it examines the policies by the Federal Government of Nigeria to create enabling environment for micro enterprises in rural areas to thrive; thirdly, this article explores the successes and challenges of Micro, Small and Medium Enterprises in rural communities of Ogun State. Fourthly, this article deals with the global implications of Micro, Small and Medium Enterprises in the rural areas of Nigeria.

Keywords: MSMEs; SMEDAN; NEDEP; Rural; Culture; Tie and die; N (Nigerian Naira);US\$ (United State dollars); Enterprises; Business ventures

Introduction

Micro, Small and Medium Enterprises (MSMEs) are generally referred to as enterprises with up to 250 employees. MSMEs are defined as follows: micro enterprises 1-9 employees; small: 10-49 employees; and medium: 50-249 employees.

Micro, Small and Medium Enterprises in the rural areas of Nigeria is viewed as a new concept especially in traditional African societies where rural areas are synonymous with subsistence farming by male folks to cater for the needs of their immediate family and women roles in rural areas according to the culture of many tribes in Nigeria is to cater for the children at home, cook meals and do the laundry. In a male dominated society especially in African countries, issues of women involvement as entrepreneurs driving Micro, Small and Medium Enterprises generates a lot of attention. Apart from the traditional roles ascribed to women by various cultures in Nigeria, women entrepreneurs are stereotyped by other women as ambitious and rebellious for stepping out of their traditional roles.

Research in Nigeria shows that entrepreneurs in rural areas start new businesses due to the quest for financial autonomy; passion; power and determination to succeed. Most of the rural population provide for their families through subsistence farming and other agricultural practices such as fish farming, poultry supplemented by petty trading [1].

According to Index Mundi [2], rural population refers to people living in rural areas. It is calculated as the difference between total population and urban population. Aggregation of urban population and rural population may not add up to total population because of different country coverages.

Rural development is a burning issue in Nigeria given the trend of rural-urban migration by the productive work force especially youths in search for greener pastures including better live in urban areas of

Nigeria. The value for rural population in Nigeria was 81, 860, 550 as of 2011 and total population in Nigeria is 162, 470,737 according to World Bank Report [3].

Omonigho, Olaniyan [4] defines rural – urban migration as the movement of people from rural areas to cities. Todaro and Smith [5] states that reports from both developed and developing countries indicate increase in rural –urban migration which has put pressure on social amenities and infrastructure of cities including housing, health care and employment.

Micro, Small and Medium Enterprises that are start ups either in rural or urban areas faces high business failure rate in their first year of operation. This is not different from statistics from other countries.

Concept of Micro, Small and Medium Enterprises in Rural Nigeria

The Small and Medium Enterprises Development of Nigeria (SMEDAN) reported that the Micro, Small and Medium Enterprises (MSMEs) represents one of the important sector of the Nigerian economy. It currently represent 96% of the businesses in Nigeria and contributes 75% of the National employment. Of the 17.2 Million MSMEs in Nigeria over 17 Million are micro enterprises. Thus, the growth in this sector is directly correlated with the growth in the economy and in the increase of employment in Nigeria.

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Received September 24, 2016; Accepted October 21, 2016; Published October 31, 2016

Citation: Osunde C (2016) Strategies for Economic Growth: Micro, Small and Medium Enterprises in Rural Areas of Nigeria. Bus Eco J 7: 259. doi: [10.4172/2151-6219.1000259](https://doi.org/10.4172/2151-6219.1000259)

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According to Onyenechere [1] men and women in rural areas of Nigeria are engaged in various activities in the informal sector such as petty trading, vocational enterprises, handicraft, farming to agro processing. There are many examples of Micro, Small and Medium Enterprises in rural areas of Nigeria despite the misconceptions that rural areas in Nigeria are synonymous with agricultural food and animal production. In Nigeria, there is enormous diversification of Small and Medium Enterprises in rural areas into non-agricultural micro business ventures such as wood and furniture, blacksmithing, fashion design, petty trading, carpentry, tie and dye, cyber cafe, business centres, restaurants, hotels, transportation, mechanic workshops, fish and meat mongers, GSM recharge card/service, metal fabrication, hair dressing/barbing salon, local juice and 'akara' (bean cake) production etc. [6].

Micro, Small and Medium Enterprises in rural areas is similar to businesses in the urban areas. A rural entrepreneur operating an enterprise is an individual who resides in the rural area and establishes a business venture in the community that contributes to the economic development of his or her rural area. Thus, Micro, Small and Medium Enterprises in rural areas is community based and since Nigerians are collectivists, enterprises in rural areas are tied to ones extended family, friends, relatives [7,8] and it has a huge positive impact on local or rural communities.

Supports from Nigerian Government and Challenges of SMEs

In the recent times, Nigerian Government has established numerous programs including health care, micro finance credits, training to boost the quality of life of the rural population and those engaged in operating Micro, Small and Medium Enterprises. Such initiatives by the Federal Government of Nigeria includes granting of licences to individuals or groups to operate community banks, Better live for Rural Women established in September, 1987 under the General Ibrahim Babangida Administration [9].

The Federal Government recently established the National Enterprise Development Programme (NEDEP) in 2013 to provide loans, skills acquisition, entrepreneurship training/business development service to business owners in Nigeria. Interestingly, NEDEP is designed to assist entrepreneurs in the rural areas in Nigeria to boost employment and industrialization of Nigeria.

There are numerous challenges that confront entrepreneurs engaged in Micro, Small and Medium Enterprises in rural areas of Nigeria such as poor road network, high cost of borrowing, epileptic power supply, low levels of education, inadequate family planning methods characterised by high birth rates and poor health facilities.

Umebali and Akubuilu [10] research found out problems in rural communities includes: poverty, poor infrastructure, high population density, high level of illiteracy, rural – urban migration, low social interaction and local politics.

Owners of Micro, Small and Medium Enterprises in rural areas of Nigeria find it difficult to obtain loans from financial institutions such as community banks and commercial banks; and when they are able to access such funds, they are faced with high interest rates and short term loans from commercial banks. Constraints in aspects of financial, marketing production, work place facility and health problems. There is the problem of poor road networks and high cost of transportation in Nigeria to convey their finished products to urban areas. Nayyar, Pooja et al. [11] identifies finance problems including marketing difficulties

owing to transportation cost and poor road networks as problems that confronts entrepreneurs in rural areas.

Previous researches

Shaikh et al. [12] examines SMEs business growth and rural development of Sindh, a rural area in Pakistan. The research found out that MSMEs are the only source of more than 14% of earnings in rural Sindh from MSME's export business in Pakistan. According to Shaikh et al. [12], The Exports from Sindh contributed to the increase of employment as well as poverty reduction in Pakistan. This research identified problems faced by the exporters in rural areas of Pakistan such as challenges to access credit facilities, frequent changes in government policies and multiple taxation.

VitalRuralArea [13] published a research on 'Promoting and Empowering Small and Medium Sized Enterprises in Rural Areas'. This study identifies four levels of empowerment that encourages the growth of Micro, Small and Medium Enterprises in rural areas: (1) self-empowerment (2) interpersonal and interorganisational (3) community relations (4) bridging structures.

Punitha et al. [14] research examined the challenges faced by Micro, Small and Medium Enterprises in rural communities. Using a population of women entrepreneurs, a sample of 120 women entrepreneurs were interviewed from June to July 1999 out of which 42 women entrepreneurs operated in rural communities and 78 women entrepreneurs resided in urban areas.

The study found that the major challenges faced by rural owners of Micro, Small and Medium Enterprises are competition from better quality products finding its way to rural communities from cities and foreign countries and marketing problems owing to poor infrastructure in rural areas. In addition, problems faced by rural operators of Micro, Small and Medium Enterprises are ignorance and high levels of illiteracy, distance from market and ignorance about governmental agencies that are established to support their micro business ventures.

Scope of this Current Study

This paper deals with the following four issues: firstly, it sets out the reasons why promoting Micro, Small and Medium Enterprises in rural areas of Nigeria is vital to enhance development and survival of rural communities which is rift with rural – urban migration; secondly, it deals with the regulatory policies in Nigeria to create a conducive environment for Micro, Small and Medium Enterprises in rural areas of Nigeria; and thirdly, it considers successes and challenges of Micro, Small and Medium Enterprises in rural areas of Nigeria. Fourthly, this article deals with the global implications of Micro, Small and Medium Enterprises in rural areas of Nigeria.

Research Method

This study focused on entrepreneurs in Ogun State, Nigeria operating tie and dye enterprises which consist of clothing traditionally referred to as 'Adire' in Yoruba Language which is the local language in Ogun State, Nigeria. The 'Adire' is mainly clothing material consisting of cotton dyed into various attractive designs worn by people within and outside Nigeria [15]. The primary aim was to examine the growth of the tie and dye enterprises in Ogun State which contributed to the development of their host communities in rural areas and its impact in the economic growth of Nigeria.

Using a research model developed by Reijonen and Komppala [16], the author identifies five main factors or key indicators in this

research to determine the growth in the tie and dye enterprises which is part of the textile industry in Ogun State, Nigeria which were:

- Motivation and personal expectations
- A desire to be independent
- Education and managerial experience
- An ability to spot market opportunities, innovation and risk-taking
- Attitudes towards change

The population of the study is based from rural communities in Ogun State. Consequently, the population used for this study consisted of 56 Micro, Small and Medium Enterprises (MSMEs) operating tie and dye business ventures. 30 entrepreneurs operating MSMEs involved in the tie and dye enterprises responded to the structured questionnaire. The author used stratified random sampling technique for the purpose of this research to identify the potential respondents.

From the research, 54% of entrepreneurs responded to the questionnaire which is inherent limitation of the study. 95% entrepreneurs who were surveyed wanted to succeed in their business. This is a positive outcome of the study.

Results

The age of the respondents varied from 21 to 57. However, 68% of the respondents were over the age of 28. The level of education among the respondents was fairly low. 38% had attended primary school which is a basic form of education in Nigeria. 52% stated that they had no basic form of education but received vocational training from peers and non governmental organisations (NGOs). 8% of the respondents had completed their secondary school education while 2% of the entrepreneurs who responded to the questionnaire had completed their university education.

The entrepreneurs involved in the tie and dye businesses were at very different stages if one considers the time they had been conducting their businesses. They were, however, fairly evenly segregated between those who had commenced their businesses less than 4 years ago and those whose enterprises had lasted longer than 4 years.

All of these business ventures engaged by entrepreneurs in the selected population in rural communities of Ogun State, Nigeria can be referred to as Micro, Small and Medium Enterprises considering the size, number of employees and turnover of their enterprises. 20% had only one employee (the entrepreneur), 35% had 8 employees, 42% had 25 employees and 3% had above 35 employees. The largest firm, in terms of employment, had 78 employees. It was difficult to convince the entrepreneurs involved in this present research to divulge details of their annual turnover. There were differences in the levels of annual income ranging between N750,000 or US\$3846 to N2, 800, 000 or US\$14 359. In only 4 firms was the turnover of above N17, 800,000 or US\$91,282.

The respondents were asked to mark (on a scale: 1-extremely important to 5-fairly insignificant) how important they felt the given factors to as entrepreneurs [16]. These factors are listed in order or scale of importance, according to their mean (Table 1).

The two most important factors were quite distinctive. 87% of the respondents felt that it was extremely or very important for an entrepreneur to be able to produce high quality products and services and at the same time work in the field of her education. Most of the other factors were also considered to be at least fairly important. The “high profit” factor seemed, however, to be somewhat less significant than the others. Only 20% regarded this factor as extremely or very important.

The entrepreneurs were given a list of possible business goals and they were asked to rank them in order of importance (1- the most important goal, 2- the second most important goal ... 8- the least important goal) [16]. The final list of goals in order of their importance according to their means was as follows (Table 2).

Also, 75% of the entrepreneur respondents stated living a life and survival of their business ventures were among their business goals. At the same time, 60% of the entrepreneur respondents regarded expansion of the market area of the business as a significant goal in their businesses. The importance of the growth in turnover varied from one entrepreneur to another but it was the fourth most important goal for the respondents of this current study.

The respondents were also asked to review how they evaluated their

	Mean	Standard Deviation
The product and services are of high quality.	3.75	1.936
One can work in a field equal to one's education and /or know- how.	3.50	1.871
One can do what he likes best.	2.85	1.688
One can supervise and control the activities in the business.	2.70	1.643
One has enough time for family and leisure.	2.45	1.565
The independence and freedom of the entrepreneur: one can be one's own boss.	2.60	1.613
The business supports the entrepreneur and her family.	2.80	1.673
The business makes high profits.	1.65	1.285

Table 1: Factors to as entrepreneurs.

	Mean	Standard Deviation
The owner obtains a reasonable living and a good quality of life from the business.	7.80	2.793
Increase in the overall profitability and returns on capital.	4.78	2.186
Renewal of the product mix.	4.56	2.135
Higher quality products	9.46	3.076
Expansion of the market area of the business	6.50	2.550
Business growth through increase in turnover	5.75	2.398
Business growth through increase in the number of employees.	1.80	1.342

Table 2: The final list of goals in order of their importance according to their means.

own success and what were the factors that determine the success in the tie and dye enterprises. 95% measured their own success primarily by the quality of the product and 98% stated that high quality was an important factor in the tie and dye business venture. Moreover, 80% believed that their products met the demand for high quality. The second most general meter of their own success was the respect of the customers. 73% of the entrepreneurs thought this was an extremely important meter.

Entrepreneurs involved in the tie and dye businesses were fairly eager to succeed in their business venture. About 65% agreed that they had always wanted to succeed and gain something during their lifetime. Moreover, 62% disagreed with the statement that they should be content with the things they have gained in their lives and support of their family members was important and lacked the desire to acquire more profit.

Business growth through the increase in employees was the least important factor for the entrepreneurs obviously because the business owners felt that a significant increase in employees could lead to increase costs for their enterprises.

Global Implications

In this current study of entrepreneurs in Ogun State, Nigeria, education did not seem to have a significant effect on attitude towards growth in the rural communities. Passion, training, previous experiences and support from agencies were significant contributing factors in the successes of entrepreneurs in rural communities. The global implication is that of support from agencies to assist in the growth of Micro, Small and Medium Enterprises established by entrepreneurs in rural communities since the growth of the MSMEs had a significant impact in the development of local communities and provided employment for rural dwellers.

Majority of entrepreneurs in Ogun State, Nigeria had knowledge and skills in their tie and dye enterprises and believed that skills coupled with innovations in their finished product was essential for sustainability of their enterprises. The implication for entrepreneurs whether male or female either in urban or rural areas is that innovative products are essential for the survival of business ventures given the increase in competition from competitors in local markets locally and internationally.

Successful entrepreneurs in this current study were less likely to rush into decision making, concerned about the risk involved in their business ventures, prudent in allocating resources and spending income accruing to their tie and dye enterprises. The implication for entrepreneurs is that identifying risk of a business and managing the risks are vital to sustainability of MSMEs. Managing risks entails being prudent use of resources and avoiding wasteful spending which can lead to serious consequences on the finance and operations of MSMEs.

Growth oriented and successful entrepreneurs in this study had a passion for their micro businesses and a desire to succeed and experienced high level of profits. On the other hand, entrepreneurs who had no desire for growth perhaps their business were established lacked passion for their businesses and did not experience appreciable increase in profits. The global implications for entrepreneurs is that passion and a desire to succeed are necessary for sustainability of the business venture considering the high level of business failures especially start ups.

Conclusion

MSMEs in rural areas is vital to enhance the economic development of rural communities and has contributed immersely to the growth of Nigeria's economy. There are a number of challenges that confronts owners of MSMEs in rural areas such as poor infrastructure, poor road network, high cost of loans from financial institutions, epileptic power supply, low levels of education, inadequate family planning methods characterised by high birth rates and poor health facilities. Given the importance of MSMEs in the development of rural communities, governments especially in emerging economies should address the challenges faced by MSMEs through actions and initiatives. Pro-active Government support is required by entrepreneurs in rural areas for industrialisation of rural communities. This present study found out that the desire to succeed and passion exhibited by an entrepreneur were essential for the growth of the business venture. Majority of the entrepreneurs involved in the tie and dye businesses that experienced increase in profit levels were also eager to succeed in their business venture which was paramount to the entrepreneurs.

Therefore, the main conclusion of this study is that MSMEs in rural areas have a significant impact in the growth of Nigeria's economy.

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