

Small Businesses as Vehicles for Job Creation in North-West Nigeria

Mustapha Shitu Suleiman, Francis Neshamba, Nestor Valero-Silva

Abstract—Small businesses are considered as engine of economic growth, contributing to employment generation, wealth creation, and poverty alleviation and food security in both developed and developing countries. Nigeria is facing many socio-economic problems and it is believed that by supporting small business development, as propellers of new ideas and more effective users of resources, often driven by individual creativity and innovation, Nigeria would be able to address some of its economic and social challenges, such as unemployment and economic diversification. Using secondary literature, this paper examines the role small businesses can play in the creation of jobs in North-West Nigeria to overcome issues of unemployment, which is the most devastating economic challenge facing the region. Most studies in this area have focused on Nigeria as a whole and only a few studies provide a regional focus, hence, this study will contribute to knowledge by filling this gap by concentrating on North-West Nigeria. It is hoped that with the present administration's determination to improve the economy, small businesses would be used as vehicles for diversification of the economy away from crude oil to create jobs that would lead to a reduction in the country's high unemployment level.

Keywords—Job creation, North-West Nigeria, small business, unemployment.

I. INTRODUCTION

ECONOMIC development in most countries is aided by the vital role small businesses play. The development of many developed and developing countries is often measured by such indices as the level of industrialization, modernization, urbanization, gainful and meaningful employment, income per capita, equitable distribution of income, and the welfare and quality of life enjoyed by its citizenry [1]. In the course of the evolution of transitional economies, small businesses carry great hopes and burden, as they can play a key role in the process to lead that transition [2]. In Nigeria, past governments' interventions have failed to create the much needed transformation due to poor coordination and monitoring, as well as policy inconsistencies [1]. Nigeria is in a transition period with the recent change in government. The new government has promised to ensure the coordination of the small business sector, as well as to improve policy and ensure consistency in its implementation. The government has also identified areas such as mining of solid minerals, including barites, gypsum, limestone, bismuth, marble,

feldspar, mica, gold, coal, bitumen, silver and gem stone, which currently accounts for only 0.3% of the country's GDP, generating \$1.5bn, but which has the potential to earn over \$4 billion annually from mining 10 of the over 40 mineral resources available in commercial quantities in the country, [3], [4], as well as dry season farming, mainly irrigation farming of rice and tomatoes, as immediate areas to focus on that would create jobs and help diversify the economy. The government recently launched a 40 billion Naira (\$160m) program for dry season farming in the North-West state of Kebbi [5]. Therefore, small businesses, which are classified under the informal sector jobs, are expected to play a key role in the transition of the Nigerian economy.

In the second quarter of 2015, the total number of jobs created by small businesses in the economy was 141,368, this is a decline of 69.9 per cent (327,702) over the number of jobs in the preceding quarter, and 45.5 per cent less than the total number of jobs recorded in the same period of 2014 [6]. Furthermore, in the second quarter of 2015, under the informal sector, an estimate of 83,903 new jobs were created in this sector, compared to 332,403 new jobs in the first quarter of 2015; this signifies a 74.8 per cent decrease between the two periods [6].

This study is significant and justified on many counts. The first being that previous governments have relied heavily on crude oil in the past. The oil industry has rarely created any jobs and is perceived as not job intensive in the long term, due to dwindling oil prices around the world. Therefore, there is a need to diversify to non-crude sector such as agriculture and mining for job creation. Although, these two areas given their capital intensive nature might not create many direct jobs but their linkages with the broader economy/businesses might help to create jobs. Additionally, through these linkages, the sector is connected to suppliers of inputs and outputs are processed into added value products. This will improve demand for locally produced goods and services, as well as create new businesses. The second point is that this study will unveil the untapped potential small businesses present as drivers of the economy for development. And thirdly, the study will improve the literature on small businesses regarding job creation, with particular reference to North-West Nigeria where the researcher hails from.

II. LITERATURE REVIEW

There is a unanimous agreement amongst researchers [7], [8] that the idea and definition of small business varies due to the diversity of small businesses, which includes size of labour force, size of the business, amount of capital available and the

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type of business. However, there are three parameters that are generally applied in defining a small business by most countries, either singularly or in combination, these are, number of employees, capital including plant and machinery, and profit or turnover of business. Small business definitions are usually derived in each country based on their role in the economy, policies and programme designed by the particular agency or institution empowered to develop the small business [9]. Therefore, for this study, the definition of small business proposed by the Central Bank of Nigeria (CBN), which is the officially recognised definition in Nigeria, would be adopted. It defines small business as an enterprise with an annual income/asset of not more than N500, 000 and staff strength between 11 and 50. Small businesses are characterized by subjectivity in decision-making due to the simple management structure comprised of a management team of one or a few individuals [10].

Small businesses are predominant in most developed economies representing more than 99 per cent of all companies [11]. Small business (with employees between 10 – 49 persons) cover much of the same spectrum of enterprise types, but are concentrated in the more modern, more sophisticated end, for instance, electronic and information technology enterprises. While most of small businesses are sole proprietorships, a significant number are incorporated businesses. The sector has a large reservoir of educated manpower and technical skills, as well as improved access to the banks [12]. Small businesses offer a viable option to fight poverty and unemployment [13] and contribute to national development by positively influencing the distribution of income both in functional terms, wages and profits in nominal terms [14]. For example, the usage of burnt bricks for building due to the existence of clay along the river-banks, the favourable climate conditions, the widening market for burnt bricks and the durability of burnt bricks indicates that bricklaying in this field could be a viable tool for poverty alleviation and job creation [13]. Stressing further, small businesses help to decentralize industries, thereby not only accelerating rural development, but also stem urban immigration and the consequent problems of congestion in cities [14].

III. SMALL BUSINESS AND ECONOMIC DEVELOPMENT

The importance of small businesses to economies of the world has been accepted worldwide [15], [16]. Both developed and developing economies see the prospect of small businesses serving as instruments of economic growth and development, they are the launchers of new ideas and the more effective users of resources [17]. Furthermore, the involvement of small business in economies is important due to their contribution in the development and influence of other enterprises outside the small business sector, such as offering complimentary services to larger enterprises. For example, in the UK, small business accounted for 99.3 % of all private sector businesses at the start of 2015, and of those, 99.9 % were small or medium-sized [18].

According to [19], small businesses make at least four single contributions to industrial markets. First, they play an important role in the process of technological change. He added that, building on the Schumpeterian tradition, small firms make a significant contribution because they are the source of considerable innovative activity. Second, they generate much of the market turbulence that not only creates an additional dimension of competition not captured in the traditional static measure of market structure, but also provides a mechanism for regeneration. They serve as agents of change in a market economy. Third, the promotion of international competition through newly created niches. Finally, small firms around the world have created a preponderant share of the newly created jobs.

Reference [1] identified the major advantage of the small business sector in Nigeria as its employment potential of manpower at low capital cost, and concludes that besides the growth potential of the sector and its crucial role in manufacturing and value chain, it also has a multiplier effect on the rest of the economy. Additionally, [20] stated that small businesses have the propensity to drive the Nigerian economy. This can be achieved when policies are formulated and implemented to support their innovative ways of building the capacity to engage in entrepreneurial activities. For example, the promotion of new entrepreneurs through training at colleges and universities, as well as, by creating job opportunities, and thus playing a central and invaluable role in helping Nigeria realize the potential of its population advantage.

In recognition of small business contribution to Nigeria's economy, past and present governments' economic development plans have featured strategies and initiatives to promote small business development. These governments have created a clear path for accelerating the development of small businesses through the establishment of agencies and initiatives, such as Bank of Agriculture (BOA), the Youth Enterprise with Innovation in Nigeria (YouWin) Programme, the Train to Work (TRATOW) Initiative, and the Counterpart Funding Scheme of the Bank of Industry (BoI) [21]. However, most of these agencies and initiatives have failed to achieve the desired result. Reference [22] believes that, poor systemic coordination of government incentive support programs, lack of national strategy and monitoring, leads to these institutions and programs failing to perform to expectations.

IV. SMALL BUSINESS AND JOB CREATION

The progress of a nation is a function of the level of resourcefulness of the people. This can only occur when individuals in society are gainfully employed [23]. In the United States of America (USA), the small business sector employed about half of the 56.1 million of the nations' workforce in 2012, created over 2.1 million new jobs, providing 99.7 per cent of all employers nationally [11]. In the United Kingdom (UK), small businesses represent 99 per cent of businesses, employing 47.9 per cent of the national workforce and generating 33.2 per cent annual turnover [24].

Governments in Latin America see the small business sector as a real source of creating job opportunity. According to [17], governments reduced bureaucracy in order to make sure the requirements for the small businesses were considered promptly.

According to [25], the value of goods and services created or generated by small enterprises in Uganda was 1,363,733 million USD, employing 2,704,127 people, and representing 56 per cent of total employment. While in Algeria, small businesses employ 1.06 million people, an average of 3.64 jobs per small business [26]. While the small business sector in Kenya has both the potential and the historic task of bringing millions of people from the survivalist level, including the informal economy, into the mainstream economy [27].

South Africa, with an official estimate of approximately 25.2 per cent unemployment rate, makes it one of the highest in Sub-Saharan Africa [28]. Reference [29] indicates that in South Africa small businesses represent about 91 % of all formal businesses, provides almost 60 % of total employment and contributes from 51 per cent to 57 per cent of GDP. Hence, job creation is fundamental to economic growth and political stability in the country.

Reference [30] examined the contribution of small business to job creation in Nigeria. He sees the efficacy of small businesses as a vibrant tool for job creation. However, his study found that the sector is unable to fulfil this goal due to its inability to obtain adequate business financing, and the need to resort to informal sources of finance to start a business. However, [31] posits that small businesses serve as the right vehicle for job creation because of their flexibility, innovative capacity and profitability. While [32] believes that small businesses can provide jobs to a greater number of people due to their ability for greater utilization of raw materials, mobilization of local saving and linkages with bigger industries. This will further improve standard of living and quality of life by fostering social inclusion of economic activities in the region.

According to [33] Nigeria needs to create 25 million jobs over the next 10 years if it is to offer work to new entrants and halve the current employment rate. To achieve this, the government, agencies and individuals need to create new businesses or expand existing enterprises. However, [34] argues that, the balance between these two is strongly influenced by the country's macroeconomics state. He further stresses that, when the economy is strong, small businesses thrive and expand by engaging additional employees to the existing work force, thereby creating more jobs from net firm expansion. By contrast, he further argues that, when the economy is languishing, small businesses also face hard times and only a few would be expanding, while many maybe laying off workers. However, this would lead to increased pressure on people to start new businesses, even if these yield only marginal returns. He concludes that, in this case more jobs will be created from net firm creation than from net firm expansion. This statement by [34] appears to be too general, it does not indicate what type of business would help in

generating more employment and does not offer ways on how the expected growth would be achieved.

The arguments proposed by [34] were based on earlier studies by [35], [36] who found that the impact of macroeconomics on the pattern of employment growth in Dominican Republic and Zimbabwe respectively, is quite remarkable. Whereas in periods of rapid growth both countries experienced a contribution in overall employment growth due to expanding employment from existing enterprises, overall employment from net firm creation remained negative. However, when the macroeconomics were languishing, overall employment growth declined from existing enterprises, but employment growth from net firm creation switched from negative to positive and contributed more to overall employment than from expansion of existing firms. These case studies are relevant in the Nigerian context, for example, when the telecommunication sector was privatised and the economy became stronger, more jobs were created through net firm expansion. Also, with the lack of infrastructure, such as a stable electricity supply which resulted in high operational costs for most of the telecommunications companies, they were forced to outsource certain services which forced people to start new businesses.

Nigeria is said to have one of the highest rates of youth unemployment in the unindustrialized world [33]. Therefore, there is an urgent need for the government and other private individuals to create more jobs to cater for the high unemployment rate. Reference [37] believes that the desired employment generation in Nigeria can be achieved through the development of small businesses. Additionally, [38] posits that, when jobs are created through the establishment of small businesses, entrepreneurs do not only identify but also mobilize resources to tap the inherent opportunities by combining the four Ms (Man, Money, Machine and Material) to explore the opportunity.

V. CONCLUSION AND RECOMMENDATION

The importance of small businesses to job creation has been highlighted in the reviewed literatures above. Reference [19] concisely highlights the importance of small business and thus, stated that, small businesses in most countries have outpaced large firms in innovation and job creation, and economists should pay more attention to the role small businesses play in today's global economy. Hence, small businesses are relevant economic catalysts in developed nations, and more relevant to developing nations, especially those with huge unemployment, income distribution, as well as regional and local development challenges. With the right support in terms of financing, a good policy framework, monitoring and training, small businesses in North-West Nigeria can set in motion a new wave of impact in terms of job creation that can support the employment of youths who are consistently seeking white collar jobs.

Entrepreneurs in North-West Nigeria should be encouraged to create enterprises that will produce goods and render services, and further generate jobs for others. This could include firms manufacturing locally made mining equipment

and refining products, agrochemical products like pesticide, storage and processing firms for perishable produce, as well as providing consultancy services for local indigenous mining companies and farmers. Government should help small businesses by tackling issues of poor infrastructure, including unstable power supply and poor access roads. This would ease the issue firms providing electricity privately and transporting their finished or processed products over distances to market places. Access to finance is the most important assistance government and wealthy individuals can offer to support small businesses in North-West Nigeria to encourage start-ups and expansions. Access to long-term capital that will facilitate the long-term sustainability of small businesses to grow and expand should be a focal point. Adequate financial support for small businesses would mean more employment for individuals in the region, because they will be willing to engage in small scale business as a means of providing a source of living in the absence of white collar jobs. Also, the aim of small businesses in the region is not only to create jobs, but to improve the provision and access to other services in various parts of the North-West. Finally, state and local governments in the region should support and strengthen the productive capacities and market competitiveness of small businesses. Large firms in the region can also help in creating or improving opportunities for small firms through subcontracting or outsourcing some of their activities to small firms. This would lead to expansion of small businesses, boost employment opportunities and tackle the issue of rural – urban migration.

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