

**EFFECT OF SMALL AND MEDIUM SCALE ENTERPRISES ON ECONOMIC  
GROWTH IN NIGERIA**

**BY**

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**NSU/ADM/MBA/BUS/566/15/16**

**BEING A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES,  
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**NASARAWA STATE UNIVERSITY, KEFFI NIGERIA**

**NOVEMBER, 2019**

## DECLARATION

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for Master in Business Administration (MBA). All quotations are indicated and sources of information specifically acknowledged by means of references.

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## CERTIFICATION

This project, “Effect of Small and Medium Scale Enterprises on Economic Growth in NIGERIA” meets the Regulations Governing the award of Master of Business Administration (MBA) of the School of Postgraduate Studies, Nasarawa State University, Keffi and is approved for its contribution to knowledge.

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## **DEDICATION**

I dedicate this project work to Almighty God my creator for the complete success of my MBA programme.

## **ACKNOWLEDGEMENTS**

I want to use this medium to acknowledge God Almighty, the giver of knowledge for giving me the privilege to successfully scale through my academic pursue because it was not by my strength but by His grace.

With deep sense of humanity and profound gratitude and my heartfelt appreciated goes out to my project supervisor, Dr. Abdul Adamu for his affirmative support, constructive criticism, prudent motivation, sane counseling and untiring commitment to the success of this work.

I articulate my sincere thanks and appreciation to the Head of Department Prof. B. E Barde and all the Departmental Lecturers of Business Administration, Faculty of Administration, Nasarawa State University, Keffi for their diverse supports and contributions toward the success of this research work and my programme as well. Thank you and may God Almighty bless you all.

In a special way I want to appreciate Mr. Adams and Dr. Vincent Paul for their supports during my course work and this research work. God Almighty will continue to bless your good hearts, Amen.

## ABSTRACT

*Small and medium scale enterprises sub sector of the economy holds the key to the nation's quest for economic growth. The main purpose of this project research work was to appraise the effect of small and medium scale enterprises on economic growth in Nigerian from 2008-2017. Methodologically, the project work adopted ex-post facto research design. All data used in the project were time series data sourced from the Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics (NBS) annual reports. Ordinary least square (OLS) was used for data analysis. The study revealed that small and medium enterprise, government expenditure to small and medium enterprise, employment generations, commercial bank credit to small and medium enterprise and lending rate to small and medium enterprises have a positive impact on economic growth in Nigeria. The study concludes that there is significant relationship between SMEs and economic growth which require more of government expenditures and a reasonable level of loans from commercial banks with affordable lending rate in order to create more employment among others for economic growth in Nigeria. Hence, the study recommends among others that Federal Government is also advised to ensure minimal interest rate through Central Bank of Nigeria (CBN) with a view to enhancing investment, as this will eventually lead to employment opportunities in Nigeria. Government monetary policies should also be designed to support the SMEs in terms of lending rate, interest rate and exchange rate. Arguably, this will help to boost the economy and create more employment.*

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

The universe has no doubt to accept the fact that Small and Medium Scale Enterprises (SMEs) have been generally acknowledged as the bedrock of the industrial development of any country most especially in developing nations. Small and medium scale business have been fully recognized by government, Non- governmental organizations and development experts as the main engine of economic growth and a major factor of promoting private sector development and partnership. As far as economic development is concern, both small and large firms have special roles to play in order to guarantee the welfare of the economy.

Small and Medium Scale Enterprises occupy a place of pride in virtually every country or state inclusive of Nasarawa State and Keffi LGA. Because of their significant roles in the development and growth of various economies, they have aptly been referred to as “the engine of growth” and “catalysts for socio-economic transformation of any country” (Ogbo & Nwachukwu, 2012). SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Other intrinsic benefits of vibrant SMEs include access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban

migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them (Ogbo & Nwachukwu, 2012).

SMEs as social agents simply implies that SMEs are a good fit within all economies around the world, SMEs are known to be the greatest employer of labor cutting across various strata of employment. They cut across boundaries, and serve as a form of subsistence to families where government's presence is not felt. All nations that have centered on SMEs and guaranteed its quality and sustainability have succeeded vital improvement of the feature and commonplace of living, increase in capital financial gain likewise as rising in GDP (Motilewa, Ogbari & Aka, 2015).

The contributions of SMEs is felt in the various ways like; greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of small and medium enterprises to trigger and sustain process of economic growth. In overall economic development, a critically important role is played by the small and medium enterprises (Muritala, Awolaja & Bako, 2012).

The pursuit to attain economic development has become a major concern for many developing nations of the world. Developing countries are confronted with several problems such as high rate of poverty and unemployment which have continued to hinder

the attainment of socio-economic development. For any nation to attain development, industrialization, gainful and meaningful employment are important indices used as a measurement of economic development. This is often depicted by income per capital, equitable distribution of income, the welfare and quality of life enjoyed by the citizen of that nation. Small and Medium Scale Enterprise (SME) has proved to be a major tool adopted by the developed nations to attain socio- economic development. In recent time, small scale industrial sector is considered to be the backbone of modern day economy (Zacheus & Omoseni, 2014).

Keffi is one of the thirteen (13) Local Government Areas of Nasarawa State, Nigeria. Keffi is a humid zone of the Middle Belt of Nigeria, situated between latitude  $5^{\circ} 20'N$  and  $5^{\circ} 27'N$  and longitude  $7^{\circ} 00'E$  and  $7^{\circ} 07'E$ . The area has a minimum and maximum annual ambient temperature of  $20^{\circ}$  and  $32^{\circ}C$  and means annual rainfall of 2500mm, which makes it a temperate zone that is suitable for agricultural activities such as farming of rice, cowpea, maize, groundnut and yam among many others. Residents of Keffi are both indigence and non-indigence. The indigenous residents include Eggon, Mada, Fulani people among others while the non-indigenous residents are individuals from other parts of Nigeria. People of Keffi are mainly known for peasant farming system while some of the individuals are into petty trading for the main purpose of meeting to their basic and daily needs of life. Commercial activities in Keffi are more of small and medium scale ventures of which most of them are into table water, bread baking, nursery, primary and secondary schools, hair dressing, stylist store, herbicide store, provision store, pharmaceutical stores, fuel filling stations, among many others. On these bases, it will be necessary to examine the extent to which commercial activities via SMEs have reduce the

rate of poverty, generate employment and improve the standard of living among residents of Keffi Local Government Area of Nasarawa State-Nigeria.

## **1.2 Statement of the Problem**

Some researchers argued that SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tools, by promoting SMEs and individual countries and the international community at large can make progress towards the main goal of halving poverty level by year 2020 i.e to reduce poverty by half and becoming among 20 largest World Economies (Nigeria Vision 20:2020) (Muritala, Awolaja & Bako, 2012).

From this view point, the development of SMEs can be seen as one of the necessary condition for economic development. Presently, SMEs in Nigeria is sub optimized. These problems have reduced remarkably the volume and variety production and employment possible for SME in the national economy. Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Keffi LGA, Nasarawa State and Nigeria as a whole.

When any government points out grave obligation to the sustainable growth of the SME subsector, the economy of that given government essentially witnesses pregnant transformation and prosperity (Momoh, 2005 cited in Motilewa, Ogbari & Aka, 2015). Unfortunately, this goose that is laying these fantastic golden eggs has not received its prime of place. It is often relegated to the background in policy formulation by government, especially in the developing economies. It is therefore on this ground that

this project research work aims to examine the effect of SMEs on the economic development of Keffi Local Government Area, Nasarawa State, Nigeria.

### **1.3 Research Questions**

In order to effectively investigate the problem of this research, the following research questions are of importance:

- i. Do SMEs have significant effect on poverty reduction in Keffi Local Government Area of Nasarawa State, Nigeria?
- ii. Do SMEs have significant effect on employment creation in Keffi Local Government Area of Nasarawa State, Nigeria?
- iii. Do SMEs have significant effect in improving standard of living in Keffi Local Government Area of Nasarawa State, Nigeria?

### **1.4 Objectives of the Study**

The main aim of the study is to examine the effect of small and medium scale enterprises on economy development of Keffi Local Government Area of Nasarawa State, Nigeria".

The specific objectives are;

- i. To examine the effect of SMEs on poverty reduction in Keffi Local Government Area of Nasarawa State, Nigeria.
- ii. To examine the effect of SMEs on employment creation in Keffi Local Government Area of Nasarawa State, Nigeria.
- iii. To examine the effect of SMEs in improving standard of living in Keffi Local Government Area of Nasarawa State, Nigeria.

## **1.5 Statement of Hypotheses**

**H<sub>01</sub>:** Small and Medium Scale Enterprises have no significantly effect on poverty reduction in Keffi Local Government Area of Nasarawa State, Nigeria.

**H<sub>02</sub>:** Small and Medium Scale Enterprises have no significant effect on employment creation in Keffi Local Government Area of Nasarawa State, Nigeria.

**H<sub>03</sub>:** Small and Medium Scale Enterprises have no significant effect in improving standard of leaving in Keffi Local Government Area of Nasarawa State, Nigeria.

## **1.6 Significance of the Study**

The research work will be of great importance to small scale educationalist on economic development, as such Keffi Local Government Area of Nasarawa State, Nigeria can utilize the findings of this research as a basis for policy formulation, it will also create a good synergy between the government and small business managers with an emphasis to economy and entrepreneurship development in Keffi Local Government Area of Nasarawa State.

This research work will also contribute immensely to the existing knowledge on economy and SMEs development. It is also worthy to note that the research work can be of great help on basis for further research as it will provide researchers with useful information and reference material in one way or the other, for the expansion of knowledge to the already existing knowledge in Keffi Local Government Area of Nasarawa State, Nigeria.

## **1.7 Scope of the study**

This research work will provide insight on effect of small and medium scale enterprises on economic development in Keffi Local Government Area. Keffi is a Local Government Area in Nasarawa State, Nigeria. Its headquarters are in the town of Keffi. It has an area

of 138 km<sup>2</sup> and a population of 92,664 as at the 2006 census. The postal code of the area is 961 (NIPOST, 2009). Keffi town was founded around 1802 by a Fulani warrior leader Abdu Zanga who took the title of emir (Wikipedia, 2019). His small dominion was subject to the Zaria emirate to which it had to pay a annual tribute of slaves (Sciortino, 2019). The jurisdiction of the study is limited to Keffi Local Government Area of Nasarawa State, Nigeria which will lapse for the period of 2018/2019 academic session of Nasarawa State University, Keffi.

## **1.8 Definition of Operational Terms and Acronyms**

**SMEs:** Small and medium scale enterprises or small and medium sized business are firms whose personnel numbers and operational resources fall within certain limits of which they can afford and operate. In other words, SME can be define as a venture that is managed either by the owner or an external individual in which an individual or more individuals are employed and paid for their skillful, mental or/and physical work support toward production of goods/rendering services for the purpose of satisfying human wants and as well contributing to the growth and development of the economy.

**Economy Development:** This is the process by which a nation improves the economic, political, and social well-being of its people to become wealthier, healthier and better in terms of standard of living.

**Poverty:** Poverty can be defined as state of individual being poor to the extent he/she find it difficult to afford three square meal and other essential factors of life.

**Employment:** Employment can be define as providing job to one or more individuals who are expected to work in exchange to get paid either daily, weekly or monthly depending on the stipulated agreement.

**Gross Domestic Product (GDP):** is defined as the total market value of all final goods and services produced within a country at a given period.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Conceptual Framework

##### 2.1.1 Concept of Small and Medium Scale Enterprises

Small and Medium Scale enterprises varies with culture and peculiar circumstances of the person attempting the definition. The definitions in use depend on the purposes and the policies which govern the SME sector in a particular country. However, the three parameters that is generally applied by most countries, singly or in combination are: capital investment, volume of production or turnover of business. According to Jamodu (2000) cited in Zacheus and Omoseni (2014), Small and Medium Scale Enterprises is defined on the basis of employment, in micro/cottage industries (1-10 workers), small scale industries (11-100 workers), medium scale industries (101-300 workers) and large scale industries with (301 and above). In Japan, small and medium firms secure capital up to one hundred million Japanese yen and less than 299 employees involve in manufacturing. The Nigeria Minister for Industry noted that enterprises employing less than 500 workers are generally regarded worldwide as SMEs (Zacheus & Omoseni, 2014).

According to (Abereiyo, Ilori, Taiwo & Adegbite, 2007), SMEs can be defined based on the number of employees, capital invested and turnover. The definition of SMEs is usually derived in each country, based on the role of SME in the economy, policies and programs designed by particular agencies or institutions empowered to develop SMEs. For instance, a small business in developed economies like Japan, Germany and United

States of America, may be a medium or large scaled business in a developing economy like Nigeria. Moreover, the definition of SME also varies overtime from agencies or developing institutions to another, depending on their policy focus (Etuk, Etuk, & Baghebo, 2014). Most Small and Medium Scale Enterprises started as a micro business enterprise then thereafter to a large scale enterprise. All these various business sectors contribute in different degrees to the growth and development of the economy.

The Nigeria Bank for Commerce and Industry as cited in Jimah (2011), defined a small scale enterprise as one whose capital does not exceed 750,000 naira. The above definition plays emphasis on the capital requirement in the formation of the business. Though capital is not the only consideration in determining whether a business venture is an SMEs or not. According to Osazee and Anao as cited in Inegbenebor, (2006), a small scale business is any business undertaken, owned, managed and controlled by not more than two entrepreneurs, has no more than twenty employees, has no definite organizational structure (that is, all employees report to the owners) and has a relatively small share of its market. In a similar vein, Inegbenebor (2006), opined that the current industrial policy of Nigeria, Small and Medium Scale Enterprises (SMEs) are now defined on the basis of employment. That is:

- a. Micro/cottage industries 1 and 10 workers
- b. Small – Scale Industries 11 and 100 workers
- c. Medium Scale industries 101 and 300 workers
- d. Large scale industries 301 and above

Agu (2001), defined SMEs as a business which is owned, led by one or a few persons, with direct owner(s) influence in decision making, and having a relatively small share of the market and relatively low capital requirement. The earliest manifestations of SMEs in advanced countries were cottage industries that later transformed into industrial complexes and tech factories. SMEs today account for the bulk of output in most countries today. It is also a proven job creator: the share of SMEs in global productivity is over 30% higher in some countries, but generally growing. In China, SMEs employ over 50% of the workforce while in the United States (US), SMEs account for over 50% of Gross Domestic Product (Ehinomen & Adeleke, 2012). In Nigeria, SMEs employ over 60% of the labour force both in formal and informal sectors. The need to have a regulatory body to control the activities of SMEs in the country led to the formation of Small and Medium Enterprises Development Agency of Nigeria (SMEDEN) in 2004 by an act of parliament towards the realization of the goals and objectives of SMEs.

Central Bank of Nigeria (CBN, 2005) defines the various sectors as follows:

- a. Micro/Cottage Enterprise is a business with a labour size of not more than 10 workers and a capital investment excluding cost of land
- b. Small Scale Enterprise is a business with a labour size of between 11-100 workers and a capital of not more than million excluding cost of land

According to a 2009 definition given by the Federal Ministry of Industries, a small scale manufacturing unit is, one that has a total capital investment of up to ₦600, 000 and employs up to 50 persons. The capital includes building, machinery, land, equipment, and working capital.

According to the World Bank, a small and medium enterprise is defined as; an enterprises whose total fixed asset excluding land plus cost of investment do not exceed N10 million using the 1996 price index.

Another definition of small scale industry is found in section 376 subsection 2 of the Company and Allied Matter Act 2000 (CAMA 2000) which stipulates that an SME must have; The amount of its turnover for that year is not more than ₦2 million (two million naira) Its assets value is not more than ₦1 million.

The Central Bank of Nigeria (2014) in its new definition classified an SME as a firm with a work force between 30 and not more than 300 workers and a capital involvement which range between N50m and N500m excluding cost of land.

Based on the foregoing, the major component is the annexation of resources and overall contribution to the economic well being of developing nations across the globe. In a developing country like Nigeria, the importance of SMEs in the process of social economic development cannot be overlooked. The importance of SMEs in the development of the country has been summarized in Nigeria third national development plan 1975-1980 as the generation of employment opportunities, stimulation of indigenous entrepreneurship, facilitation of effective mobilization of local resources including capital and skill as well as reduction in regional disparities (Rahanaty, 2009).

Considering country like Nigeria with an adverse balance of payment situation, the growing contribution of the small scale industries sector in Nigeria's export portfolio goes a long way in generating foreign exchange and smoothening out the adverse balanced of payment situation. This is important to the economy in that large percentage

of their production inputs are sourced locally thus, reducing the pressure on the limited foreign exchange earnings and helping to eliminate some of the deficit in the balance of payment.

According to Ikherehon (2002), SMEs constitute the very basis of the national economy in terms of development of local technology, stimulation of indigenous entrepreneurship, mobilization and utilization of domestic savings, employment creation, structural balancing of large and small industry sectors in both rural and urban areas, supply of high quality intermediate products thereby strengthening the international competitiveness of manufacturer's goods, stimulate technological development and innovations, provide the capacity to expand export possibility and substitute import effectively. Research has also shown that the expected role of large scale enterprise to the economy in terms of improvement in the GDP, employment generation, increasing local value added, technological development among others are been resolved by SMEs (Nwoye, 2010 cited in Zacheus & Omoseni, 2014).

### **2.1.2 Concept of Economic Development**

Economic development could be viewed simply as implying increased output, improved efficiency in output generation and changes in the technical and institutional arrangements by which it is produced and distributed. According to Olajide (2004) sees economic development as the process whereby the real per capita income increases over a long period of time. Also, Dudley (1982) cited in Olajide (2004), however view development from the perspective of what has been happening to poverty, unemployment and inequality over time. Where there is reduction in the three variables in an economy

from high level to low level, then the country could be said to be experiencing development (Olajide, 2004).

Economic development is defined as the expansion of capacities that contribute to the advancement of society through the realization of individuals', firms' and communities' potential. Economic development is a sustained increase in prosperity and quality of life realized through innovation, lowered transaction costs, and the utilization of capabilities towards the responsible production and diffusion of goods and services. Economic development requires effective institutions grounded in norms of openness, tolerance for risk, appreciation for diversity, and confidence in the realization of mutual gain for the public and the private sector. Economic development is essential to creating the conditions for economic growth and ensuring our economic future ((Feldman, Hadjimichael & Lanahan, 2016).

According to Feldman, Hadjimichael and Lanahan (2016), economic development is predicated on long-term investments in the generation, dissemination, and absorption of new ideas, as well as infrastructure. Economic development requires collective action and large-scale investments with long time horizons. Infrastructure projects, a traditional concern of economic development, now extend to the digital realm. The standard of literacy is expanded at a time when labor force participation requires a bachelor's degree with the expectation of continued lifetime education and training. Economic development is predicated on cooperation between the public sector and private enterprise, but is defined by conditions established by government and public investments. Though it is certainly possible to have growth without development in the short or even medium term, economic development creates the conditions that enable long-run economic growth.

Economic development is view as the development of capacities that expand economic actors' capabilities. These actors may be individuals, firms, or industries. While actors have different perceived potential, it is difficult to predict the next new idea or to understand how genius may arise. In contrast to a resource-based economy, where location was constrained to natural endowments, a modern, knowledge based economy depends on capacity that is constructed over time (Feldman, Hadjimichael & Lanahan, 2016).

In Schumpeter (1961) cited in Feldman, Hadjimichael and Lanahan (2016), views economic development is a fundamental transformation of an economy. This includes altering the industrial structure, the educational and occupational characteristics of the population, and indeed the entire social and institutional fabric.

According Satope and Akanbi (2014), economic development generally refers to the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and qualitative changes in the economy. The actions can involve development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy and other initiatives (Satope & Akanbi, 2014).

The consideration of economic development emphasised the sources of growth. Economic development generally refers to the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and

qualitative changes in the economy. The actions can involve development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy and other initiatives (Satope & Akanbi, 2014).

Economic development differs from economic growth. Growth on a general term could be confined to increase in output (per unit of input) while development implies increase in output together with a change in technical and institutional arrangement involved in production. Growth can take place without development but, a nation cannot achieve economic development without having achieved economic growth. Thus, economic growth is a subset of economic development as economic development is not purely an economic phenomenon. According to Tejvan (2011) cited in Satope and Akanbi (2014), in economics, economic development is a gradual increase in real GDP which means an increase in the value of goods and services produced in an economy. The rate of economic development measures the annual percentage increase in real GDP. In the long run, economic development is determined by factors which influence the growth of Long Run Aggregate Supply (LRAS) (the PPF of the economy). If there is no increase in LRAS, then a rise in Aggregate Demand will just be inflationary (Tejvan, 2011). LRAS can be influenced by:

- i. Levels of infrastructure: Investment in roads, transport and communication can help in reducing firms' costs and expand production. Without the needed infrastructure it may be difficult for firms' competitiveness in the international markets. The lack of infrastructure is mostly a factor holding back some developing countries like Nigeria (Satope and Akanbi, 2014).

- ii. **Human Capital:** Human capital refers to the productivity of workers which will be determined by levels of education, training and motivation. Increased labour productivity can assist the efficiency of firms and enable them to take on more sophisticated production (Tejvan, 2012)
- iii. **Development of Technology:** In the long run development of new technology is a key factor in enabling improved productivity and higher economic growth. Other factors that can affect growth in the short term (Tejvan, 2011), they are:  
Commodity Prices- A rise in commodity prices such as a rise in oil prices can cause a shock to growth. It causes SRAS to reduce leading to higher inflation and lower growth; Political Instability- which can provide a negative shock to growth; Weather- the exceptionally cold weather can lead to a shock fall in GDP and Interest rates- while higher interest rates can have negative effect on growth by reducing borrowing and same effect as lower government spending (tight fiscal policy); High economic growth can be caused by relatively low real interest rates, Rising wages and rising consumer confidence (Tejvan, 2011). Economic growth is an increase in real GDP. It means an increase in the value of goods and services; it is one aspect of the process of economic development. Development has to do with and improving human welfare which essentially involve increasing the amount of goods and service available to people. The more the output produced the more the wealth and benefit. Development is therefore basically about increasing the volume of business revenue, i.e. the volume of production for sale (Satope & Akanbi, 2014).

- iv. **Role of Business:** Economists expect business ventures to improve the economy by improving the quality of goods and services produced through competition, thereby contributing to Gross National Product (GNP) and a country's level of economic development is determined by its GNP. Also, businesses are expected to encourage Innovations by seeking to improve their Products and services (William, James, & Susan, 2005; Karen, 2008).

Due to its ability to facilitate market adjustments (eliminating market disequilibria) by spotting opportunities for profitable arbitrage, Kizner (1973) recognizes the need of entrepreneurship through SMEs in developing countries. Kanbur (1979) dwells on the risk-taking dimension of SMEs, and its impact on economic development of emerging countries, which are usually characterized by high risk and uncertainty. Accordingly, Wiggins (1995) hypothesized the predominance of small firms in developing countries as an indication of economy-wide ambiguity, with low likelihood of success. However, theoretical and empirical evidences have not been able to strongly accept the hypothesis that SMEs are a major source of economic development and growth. Leveraging on three “grand” ideas in development economics according to Naude (2013):

- i. Development requires a structural information of what, how and where production and consumption takes place: following the law of production of goods and services where low-value added, low productivity and rural based activities are transformed to higher value added activities in services and manufacturing located in cities.
- ii. Development is a multi-dimensional concept that requires more than just the eradication of poverty.

- iii. Market failures are prevalent and the state has an important coordinating and regulatory role to play in development” Some analysts have argued that a lot of assumed strategic advantages of tiny corporations are also “myth” instead of “reality”.

The relationship between policy and SMEs’ operation varies across nations. Dutz, Ordoover, and Willig (2000) cited in Oteh (2009) explore the relationships between SMEs and economic development in low-income countries. In this context, they suggest that two policies are critical to promote development. First, to arrest the diversion of entrepreneurial talent toward nonproductive activities, an increased emphasis on preserving rewards from productive innovation is needed through the protection of commercial freedom, property rights, and enforceable contracts. Second, given that essential local inputs are vulnerable to monopolization, fostering opportunities for grassroots entrepreneurship is paramount through an active supply-side competition policy emphasizing access to essential business services and other required local inputs.

Studies suggest that the path to development might vary between mature and emerging countries. In mature industrial economies, growth is driven by the process of technological advancements and knowledge accumulation brought about by R&D efforts of firms (Peretto, 1999). In emerging economies, growth is driven by the accumulation of human and physical capital and increasing specialization (Oteh, 2009).

### **2.1.3 Life Cycle of Small and Medium Enterprises**

The general idea of small and medium enterprises life cycle as posited by Udhe (1999) cited in Safiriyu and Njogo, (2012), can be divided into four phases viz: start up, accelerated growth, stable growth and maturity.

- I. **Start up Phase:** usually lasts for a period of one of three years during which the founder supervises the whole business activities that may be carried out by family members, friends or small number of employees.
- II. **Accelerated Growth Phase:** usually lasts three to four years. During this period, the founder or a management expert handles management. At this point, a corporate organization is developed thereby leading to separation of ownership from management.
- III. **Stable Growth Phase:** typically has duration of two to five years. During this period, management expertise and the corporate organization are divided into numerous departments and inflow of stable, long-term venture capital from corporate investors begins to appear.
- IV. **Maturity Phase:** this stage may start after several years of beginning in the business adopts the same type of management as stable growth phase but major difference being that sources of funding may become more diverse.

### **2.1.4 Effect of SMEs on the Economic Development of Selected Economies**

Empirical studies as highlighted in SMEDAN (2010) show that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries, and account for over 60% of GDP and over 70% of total employment in low income countries, while

they contribute about 70% of GDP and 95% of total employment in middle income countries. Edminston (2007), opines from the viewing platform of economic development that small businesses generate virtually half of new jobs in the economy, and it is presumed that they are good jobs. SMEs are the growth engines of the economy due to their ability to create jobs, foster entrepreneurship, alleviate poverty, accelerate growth bridge the gulf of income inequity and formation of forward and backward linkages and provide depth to the industrial base of the economy (Ahmad, Nenova & Niang, 2009 cited in Motilewa, Ogbari & Aka, 2015).

According to data from the European Observatory (ENSR, 1997 cited in Motilewa, Ogbari & Aka, 2015), SMEs employing up to 250 people accounted for 68 million jobs in the European Union in 1995. SMEs represent 99% of all enterprises in Europe, and contribute more than two thirds of European GDP and provide 75 million jobs in the private sector, thus acting as keys to implementation of the renewed Lisbon strategy for economic growth and employment. The German SMEs employs about 72.6 percent of its labor force (Ismaila, 2012). In New Zealand, SMEs accounted for 96% of all enterprises and 39% of the entire worth-added output in 2004, uphill of 2% points from the preceding year. SMEs remain the main growing strength behind the fastest growing economy of China, in terms of involvement to the nationwide GDP accounting for forty percentages, measure of properties, and variation of product and the making of employment. China has tenaciously studied these facts and aggressively competitively capitalized on it (Horn, 1995; Pang, 2008). The SMEs with less than 300 workers account for 99.5% of the factories in Tokyo and employs 74 percent of work force there. Korea and Taiwan prospered as both countries of manufacture and export with the help of its

SMEs. SMEs establish nearly 90% of all the enterprises in Pakistan; employ 80% of the nonagricultural labor force; and their share in the annual GDP is 40%, approximately (Harvie and Lee, 2003; Neumark et al., 2008). In the United State of America, the SMEs account for 87 percent of the countries workforce. In 2004, there stood an estimated 23,974,000 businesses in the US, of which 5,683,700 were small trades who hired about 5,666,600 people (Longley, 2006). Furthermore, available data from some African countries show that in 2003 SMEs in Kenya employed 3.2 million people and accounted for 18 percent of the national GDP. In Pakistan, there are 3.2 million SMEs which make up over 90 percent of all private enterprises in the industrial sector, and employs nearly 78 percent of the non-agricultural labor force, contributing over 30 percent to gross domestic product (GDP) (Motilewa, Ogbari, & Aka, 2015).

### **2.1.5 Overview of Small and Medium Scale Enterprises in Nigeria**

Nigeria remains a country with very high potential but an equally high inertia to develop. The country is blessed with abundant supply of enormous human, agricultural, petroleum, gas, and large untapped solid mineral resources (Obadan, 2003 cited in Eze & Okpala, 2015). Since her independence from British rule in 1960, the country has gone through decades of political instability and this has brought with it a climate of social tension and an unpredictable market for business. The successive forceful takeover of government by the use of military coup and the indigenization policy of the late 70's has put off investors who hitherto saw the country as a large and growing market. Due to the nature of these governments, there is perceived corruption, policy instability, poor infrastructural development and lack of accountability of public funds. For these reasons, the World

Bank described Nigeria as a paradox (World Bank, 1996). This is also true for most Sub-Saharan African countries as industrial production has declined or stagnated over the past decades (Lall, 1992 cited in Eze & Okpala, 2015).

According to Mambula (1997) cited in Eze & Okpala (2015), since its independence, the Nigerian government has been spending an immense amount of money obtained from external funding institutions for entrepreneurial and small business development programs, which have generally yielded poor results. Unfortunately these funds hardly reach the desired business because they may be lost to bureaucratic bottle necks and end up in accounts of public office holders. Despite these setbacks, the role of small business owned by middle class Nigerians, set up by individual savings, gifts and loans and sometimes sustained by profit cannot be ignored. According to Asmelash (2002) cited in Eze & Okpala (2015), countries that have made economic breakthroughs in the last two decades demonstrated beyond doubt that the development of entrepreneurship has been the sine qua non of economic growth and development. According to Asmelah (2002), the significant role SMEs play in development is acknowledged world over. He cited the work of Schell, (1996), who noted that in developed countries such as the USA, where big corporations are dominant, SMEs still play enormous role in the country's economy (Eze & Okpala, 2015).

#### **2.1.6 Problems Impeding the Development of SMEs in Nigeria**

SMEs are known worldwide to encounter some structural difficulties, problems or limitations, which if confronted can drive them to promote economic growth and

development. Some of the principal problems SMEs face in Nigeria include the following:

**i. Inadequate Funding**

It is a known fact internationally that SMEs are funded by their owners' personal or family savings. Nonetheless, the high level of poverty and consequently low level of savings in Nigeria and other Less Developed Countries have made this source of funding for the establishment, growth and development of new and existing SMEs inactively low. This perhaps explains why most SMEs in Nigeria more often than not start off with inadequate funding and afterward start warming up for shut down if external funds from either the government or financial institution do not come (Ilegbinosa & Jumbo, 2015).

According to Ezeh and Onodugo (2002), the unpreparedness of small business owners in terms of capital prior to going into business is said to be accountable for their untimely failure (Ezeh & Onodugo, 2002 cited in Ilegbinosa & Jumbo, 2015). Therefore, most SMEs in Nigeria are not adequately capitalized and as such are not capable to raise funds in the capital market owing to their inability to meet the stipulated strict conditions (i.e. registering as limited liability company) which is regarded as somewhat on the high side (Ireghan, 2009). Inadequate collateral is a key restraint for access to credit in SMEs from banks and other financial institutions. Other factors that hinders SMEs from accessing credits from banks and other established schemes like the SMIEIS, NEPAD, ACA, AGOA etc, include their incapability to raise the necessary equity contribution (a maximum of N500 million exclusive of land and working capital), which is very high. Others include scantily prepared project proposal as well as feasibility study of the

project, incomplete and inaccurate financial records and lack of succession plan in event of the entrepreneur's exit (Aremu, 2010).

**ii. Inadequate Infrastructural Facilities**

The problem of unstable and unreliable supply of electricity, dilapidated roads, inadequate supply of water for both home and industrial use, inefficient and costly communication system, among others, have for long hindered the growth and development of SMEs in Nigeria. Nearly all SME operating in Nigeria have one or more power generating plants as an alternative source of power supply. The cost of obtaining, maintaining, sustaining and managing such generating plants are more often than not very expensive and this has made cost of production as well as prices of product very expensive, with the latter turning out to be more and more uncompetitive in comparison with the imported equivalent. It is estimated the cost of providing basic infrastructural amenities at 5% to 20% of the total cost of setting up a manufacturing and processing industry in Nigeria (Osoba, 2003, Ilegbinosa & Jumbo, 2015). This cost will be significantly higher today taking into account the rapid rate of inflation in the economy.

**iii. Low Capacity Utilization**

This is perpetually gotten from the low demand for SMEs products owing to their poor quality as well as exorbitant prices. Therefore, sales as well as profits have remained relatively low leading to poor returns on investment. A study of about 39 SME's performance in Nigeria illustrated that a majority of them operated at between 30%-35% of their established capacity between 1995-1996 with sales and profit volume showing little increase (NCI, 2001). Erratic supply of power as well as inadequate infrastructural

amenities has contributed directly to low capacity utilization of the SMEs in the manufacturing sector in the country (Ilegbinosa & Jumbo, 2015).

#### **iv. Poor Planning and Management**

Management involves planning, coordination, organization and control of both human and natural resources in an organization to attain its set aims and objectives (Basil, 2005). Therefore, it involves getting things done appropriately and efficiently through people. Nonetheless, a survey of SMEs operating in LDCs showed that owners practically get everything done by themselves without seeking consultation from professionals or experts. This has resulted to incompetence, inefficiency, wastage and under-utilization of resources available to the organization. In actual fact, planning is the essential function of management (Gold, 2005). Most SME operators venture into business on impulse without adequate feasibility study on the project or business (Mogano, 2001). The problem of poor planning and management in Nigeria's real sector has been traced to inadequate relevant and appropriate information or data relating to the proposed business ventures (Ilegbinosa & Jumbo, 2015).

#### **v. Poor Education and Experience**

Closely associated to the problem of planning and management is the low level of education and inadequate business experience among SME operators in Nigeria (Alasan & Yakubu, 2011). These have given an explanation for the lack of pioneering, inventive, innovative, dynamic, vibrant and entrepreneurial skills and abilities necessary to effectively confront and tackle issues as they emerge. Human resources therefore, constitute the foundation for wealth of nations (Cosson, 2003 cited in Ilegbinosa & Jumbo, 2015). According to him, "human resources make up the fundamental basis for

the wealth of a nation”. Capital and natural resources are inert factors of production, human beings are the active agents who accrue and amass capital, exploit natural and material resources, put up social, economic and political organization and carry forward national development. Without a doubt, a country which is incapable to build and develop the skills and knowledge of its citizens and utilizes them effectively in the economy will not be able to develop anything else. In the view of Essien and Udofia (2006), effective and successful formal education is the only way to build as well as develop the human skills, expertise and competence required for the growth and development of SMEs in Nigeria and other LDCs.

**vi. Raw Material Management and Choice of Appropriate Technology**

These are fundamental for growing and developing any business, be it large or small. The difficulty relating to small enterprises is the unavailability of quality and superior raw materials as well as its organization at the suitable price and time (Nigerian Economic Summit Group, 2002). In Nigeria, the majority of these raw materials are not produced in the country but imported. In addition, a general assessment made about domestic or locally made goods is the non existence of uniformity and standardization in them. Classification, categorization, cataloging as well as comparison is not feasible or impossible when the quality of the raw materials employed changes from article to article (Ilegbinosa & Jumbo, 2015).

The SMEs in agro-allied industries encounter the peculiar difficulty of procurement, maintenance, conservation and storage of materials. Furthermore, the selection of suitable technical knowledge and expertise that would produce superior, quality and standard goods capable of challenging with their international equivalent, as well as meeting both

domestic and foreign needs has to be appropriately addressed (Oyinlade, 2005). Most SMEs are confronted with the difficulty of marketing, advertising and selling. Their expansion relies by and large on the size and accessibility of markets for their output. The lack of ability to locate such multi outlets both in the local and international markets is a major setback. The cause for this consist of low standard and poor quality of their output, inadequate marketing skills and techniques resulting from high cost of advertising, promotion, branding, canvassing etc.

**vii. Inadequate Conducive and Enabling Environment**

The Federal Government fiscal and monetary policies in Nigeria as it relates to business issues have been unpredictable, contradictory, inconsistent and from time to time conflicting (Adebayo, 2003). This has generated a lot of problems for domestic investors as against their foreign participants who have the alternative of making Nigeria a dumping ground for their output. Associated to this is the problem of unlawful taxes (business development tax, business registration tax, business premise tax, sanitation fees, signboard fees, stickers etc) most often than not by state and local government agencies (tax force on this or that). As a result of this, SMEs in Nigeria carry out their operations under high cost and unfavourable business environment (Ilegbinosa & Jumbo, 2015).

**2.1.7 Government's Contributions towards Financing of Small and Medium Scale Enterprises in Nigeria**

Over the years, the federal government has discovered SMEs as the cradle for industrialization and a prerequisite for rapid economic growth and self reliance. As a result, the government enunciated a number of policies and programmes/incentive that

would create a conducive environment for the development and promotion SMEs. The government for instance, enunciated a number of financial policies through national development plans and budgets as well as through its agencies to fund and provide necessary extension service to SMEs. The purpose of the government financial policy thrust is to ensure adequate financing of SMEs through loans or equity participation and to provide fiscal incentives designed to aid their growth and rapid development. Among these policies/programmes is the small industries credit committee (SCC) set up to administer to the country between 1975 and 1980, the establishment of the Nigerian bank for commerce and industry (NBCI) in 1973 to provide financial services to small scale businesses, the establishment of national directorate of employment (NDE) in 1986 to promote the development of small scale enterprises. Other agencies which includes the Directorate of Food, Road, and Rural Infrastructure (DFRRI), Better Life for Rural Dwellers, Peoples Banks, Community Banks, New Micro Finance Banks (MFB), Working for Yourself Programme, the Centre for Management Development was established to enhance the growth and development of SMEs (Zacheus & Omoseni, 2014).

However, the performance of the small scale industries credit scheme (SCC) was unfortunately rather poor in the sense that many unviable projects were funded (Ikherehon, 2002 cited in Zacheus & Omoseni, 2014). Nevertheless, the Nigerian bank for commerce and industry (NBCI) loans and equity investment in small business continued to be of immense help in the development of SMEs in the country (Anyanwu, 2001). The activities of the national directorate of employment resulted to the creation of over 148,000 new jobs which were directly created through the founding and setting up

of small scale enterprises (Philips, 2001). In addition, the National economy recovery fund (NERFUND) was established to promote SMEs by providing medium to long term loans (5-10years) to those in Agro-Allied industries, industrial support services mining, quarrying, equipment leasing and other ancillary projects. The federal government provided N190 million while CBN contributed N100 million. African development bank contributed the remaining counterpart fund (Izedomi, 2011). In addition, the formation of small and medium scale industries apex unit within the Central Bank to assist in the disbursement of World Bank \$270 million loan to small scale entrepreneurs and the latest official concern by the federal governments towards encouraging the creation of small scale industries has been encouraging. Therefore, attempt to console the effects of poverty and unemployment in the country, further led to the establishment of Poverty Alleviation Program (PAP), Youth Empowerment Scheme (YES), National Economic Empowerment and Development Strategy (NEEDS) at federal level, State Economic Empowerment and Development Strategy (SEEDS) at state level and Local Economic Empowerment and Development Strategy (LEEDS) at local government level (Zacheus & Omoseni, 2014).

#### **2.1.8 Shortfall of Government Efforts towards the growth of SMEs in Nigeria**

The Nigerian Government has made substantial effort on the development of small scale industries, nevertheless, part of the huge SMEs problems could be traced to the government. This is mostly in the area of improper implementation of its policies towards SMEs and a serious neglect in the area of incentive and infrastructural development to facilitate business activities of SMEs. Government policies seem to have constituted a

serious problem area for SMEs. The beginning of harsh government policies toward SMEs can be traced back to 1982 with the introduction of “stabilization measures” which resulted in import controls and drastic budget cuts. These, in turn, adversely affected the subvention to the financial institutions established to provide financial assistance to the SMEs. For example, in 1983, out of a total of 8,380 applications for loans received from the SMEs for a total of 46.66 million naira was disbursed (Alasan and Yakubu, 2011).

As the economic situation deteriorated, the government introduced the Structural Adjustment Programme (SAP) in 1986. Since the strategy of liberalization and deregulation of interest rates was implemented, interest rates have continued to increase. The SMEs, which prior to the SAP had been granted concessionary rates of interest (particularly for agricultural and housing loans), experienced great difficulties obtaining credit of a Stabilization Securities Account (SSA) whereby the banks were debited with liquidity in their accounts with the Central Bank (Zacheus & Omoseni, 2014).

The frequent changes, and sometimes conflicting government monetary policies, have also tended to hurt the SMEs. For example, while the government increased total credit allocation to SMEs from 16 to 20 per cent, the same government removed excess liquidity in the banking industry through increase in the Minimum Rediscount Rate (MRR), transfer of government and parastatals accounts to the Central Bank and the creation of Stabilization Security Account (SSA) whereby the banks were debited with excess liquidity in their accounts with central bank (Zacheus & Omoseni, 2014).

Another shortfall of government is the misappropriation of funds and wrong allocation of credit facilities. Obi (2001) cited in Zacheus and Omoseni (2014), pointed out was that the plan to provide, modest loan to small scale business operations was a flop, because

loans were granted in most cases on political rather than on commercial or project viability considerations. What was supposed to be revolving fund designed to benefit so many SMEs owners ended up as a bonanza for a few and it become virtually impossible to recover most of the loans. Another factor is the government improper implementation of its policies. Its inability to recruit trained manpower and adequate equipments to aid the extension services it put in place to support the SMEs.

According to Obi (2001), the development centers were not endowed with adequate manpower to carry out technical appraisal of applications for loans from surging applicants. In the same vein, an empirical study on the analysis of the impact of government policies on SMEs (entrepreneurial development) noted that government policy programs on SMEs are concentrated in the cities where there is strict competition between the SMEs products and large scale business. While rural areas where their activities will impact on the macro economy environment through provision of in employment rate, reduction in rural-urban migration and overall contribution to the GDP where neglected (Ireghan, 2009 cited in Zacheus & Omoseni, 2014).

### **2.1.9 Roles of SMEs to Economic Development**

The following are the role of SMEs in economic development of any country. They are:

#### **a. Bridging the gap between Science and Market Place**

Scientists are individuals that invent and develop electricity, computer, transistor radio, television, camera, calculator etc. These scientists are inventors whose inventions had commercial value until entrepreneurs came in to knit social need and technology (Udu,

Udu & Eze, 2008). It is therefore the entrepreneurs through SMEs who successfully founded a way of introducing an invention into the realm of human needs.

Unemployment refers to a situation where people who are willing and capable of working are unable to find employment/jobs to do. It is one of the macro-economic problems which every responsible government is expected to monitor and regulate. The process of entrepreneurship through SMEs activity reducing unemployment situation in the economy is termed “Schumpeter effect” (Duniya. 2010). It has been observed that, unemployment is negatively related to new-firm startups, that is, as new businesses are established and employment of resources is stimulated and unemployment reduces substantially. In the same vein, it was noted that high unemployment in the society is associated with a low degree of SMEs activities, that is, where propensity to set up enterprises is low; the rate of unemployment would be very high. The implication of the above assertions is that those who are unemployed tend to remain so because they possess lower endowments of human capital and entrepreneurial talents required to start and sustain new firms to keep them going. A low rate of SMEs operational culture and skills in any society may be a consequence of the low economic growth and development, which also reflects higher levels of unemployment. In the same vein, Udu, ., Udu and Eze (2008) observed that entrepreneurs are greatest employer of labour. It is either existing enterprises are employing or entrepreneurship offers business opportunities to entrepreneurs, either way job oportunities are created.

#### **b. Wealth Creation and Poverty Reduction**

Duniya, (2010) argue that SMEs owners and operators enables individuals to use their potentials and energies to create wealth through the creation of goods and services.

Poverty is a condition of living that is characterized by lack of the basic necessities of life. Bougeoise, (2012) observed that one of the major causes of poverty is unemployment and since SMEs are preoccupied with employment generation, then by extension, the generation of employment will therefore reduce the level of poverty. Wealth if created will definitely reduce the incidence of poverty by empowering the citizens and increasing their access to basic necessities of life (food, clothing, shelter, security and education)

**c. Reduction in Rural- Urban Migration:**

The burgeoning problems of urban unemployment and population congestion owing to the rapid rural urban drift find its ultimate solution in the restoration of a proper balance between urban and rural economic opportunity. Rural entrepreneurial activity through SMEs operation in generating employment is the link achieving this balance (Duniya, 2010).

**d. Reduction of Crime Rate:**

It is strongly believed that unemployment is responsible to a large extent for the level of social complication of armed robbery, political thuggery, drugs peddling, prostitution, money laundering, currency counterfeiting, e-mail scam, and other such related crimes. When individuals are unable to satisfy their needs, most often, frustration occurs. These frustrations breed fraudulent practices. Employment generation with the help of SMEs, therefore will reduce the level of frustration and consequently, crime rate (Baumol, 2012)

**e. Raising the Standard of Living:**

Barreto (2014) contends that SMEs operation through job and wealth creation raises the standard of living of people. Owing to higher income earning and availability of

disposable income, they can therefore, afford the basic necessities of life such as housing, clothing and food, education, good health care delivery.

**f. Social, Political and Equity Justifications:**

Small and medium scale enterprises are often said to contribute to a more equal distribution of income or wealth. However, SMEs owners and workers are likely to be the poorest of the poor, so that SME promotion may not be the most effective poverty alleviation instrument. In reality, the desire of governments to promote SMEs is often based on social and political considerations rather than economic grounds (Safiriyu & Njogo, 2012).

## **2.2 Empirical Review**

Using the descriptive research method, Adoyi and Agbo (2009), employed both primary and secondary data to determine the extent to which small business firms have developed Benue state of Nigeria, and found that 86.3 percent of the small business firms pay their taxes regularly. These taxes increase the revenue base of the state which is used for development purposes.

Akingunola (2011), assessed the specific financing options available to SMEs in Nigeria and their contribution to economic growth performance. The Spearman's Rho correlation was employed to determine the relationship between SMEs financing and investment level. At 10 percent level of significance, the Rho value of 0.643 indicated a significant and positive relationship between SMEs financing and economic growth in Nigeria.

Safiriyu and Njogo (2012), employed primary data instruments, questionnaire and interviews to study the impact of small and medium scale enterprises on employment generation in Lagos state, Nigeria. The results of simple percentages and chi-Square ( $X^2$ ) tests conducted show that small and medium scale enterprises and sustainable development of Nigerian economy are positively related, just as promotion of SMEs and improvements in employment generation are positively related and significant. Availability of finance has been widely viewed as a constraint to the growth of SMEs.

Azende (2011), in an empirical evaluation of the performance of small and medium scale Enterprises, Equity Investment Scheme (SMEEIS) in Nigeria used Benue and Nasarawa states as case studies. Using total credit to SMEs as a percentage of Banks' total credit for the period 1993 to 2008, the T-test conducted to determine the extent of relationship between bank loans before and after the introduction of SMEEIS indicated no significant difference between loans disbursed by banks to SMEs. This result, according to him, was due to the fact that the conditions for accessing SMEEIS funds were beyond the reach of the targeted SMEs.

Abiola (2014), carried out a study on Small and Medium Scale Enterprises in Nigeria: The problems and Prospects. The objective of the study was to examine the role of Small and Medium Scale Enterprises in Nigeria in relation to those challenges which affect SMEs from developing capacity to realizing its full potentials as well as the prospect for improvement and development for employment generation, economic growth and national development. The study employed a descriptive research such that structured questionnaire was administered to the sample drawn from the population of the study. The data collected were analyzed with Chi-square ( $X^2$ ). It was revealed that small and

medium scale enterprises plays a pivotal role in the socio-economic well being of the citizenry if properly and carefully managed. From the findings, the study therefore concludes that invigorating Small Medium Scale Enterprises (SMEs) with strengthened commitment to economic reform would offer a turning point in facilitating the recovery of Nigeria economy and national development.

Ayozie (2013), conducted a study on the implications of Small and Medium Scale Enterprises (SMEs) on socio-economic development in Nigeria. The objective was to determine the effect of Small and Medium Scale Enterprises (SMEs) on Nigerian economy. The study employed a survey research design of which structured questionnaire was administered to the sample drawn from the population of the study. The data collected were analyzed with chi-square ( $X^2$ ) and it was found that Small and Medium Scale Enterprise (SMEs) assist in promoting the growth of the country's economy, hence all the levels of government at different times has policies which promote the growth and sustenance of SMEs, and therefore concludes that Small scale industry orientation is part of the Nigerian history. Evidence abound in the communities of what successes our great grandparents, made of their respective trading concerns, yam barns, cottage industries, and the likes.

Kriss (2012), conducted a study on the Impact of Small and Medium scale enterprises on the Economy. The study was aimed at determining the impact of small and medium scale enterprises on the economy. The study employed a survey research design of which questionnaire was administered to the sample drawn from the population of the study. The data collected were analyzed with Chi-square ( $X^2$ ). It was found that the contributions of small scale enterprises to the economy cannot be over-emphasized

because it provides job employment for the people and enhance their standard of living. Therefore concludes that the Government at all levels should provide succor to the small scale enterprises by way of advancing loan, sensitization programmes to encourage entrepreneurs.

## **2.3 Theoretical Framework**

### **2.3.1 Resource Based theory**

This work is looking forward on Resource Based theory propounded by Penrose (1959) in her work, “The theory of the Growth of the firm”. The resource based view of firm is based on two assumptions: Resource diversity and Resource immobility. Resource diversity: This pertains to whether a firm owns a resource or capability that is also owned by numerous other competing firms, then that resource cannot provide a competitive advantage.

Resource immobility: This refers to a resource that is difficult to obtain by competitors, because the cost of developing, acquiring or using that resource is too hard. The aforementioned assumptions are used to determine whether an entrepreneur is able to create a sustainable competitive advantage by providing a framework for determining whether a process or technology provides a real advantage over the market place. The resource based view hold that small scale enterprise is facilitated when there are capabilities and resources which the entrepreneur either possesses or can acquire and deploy in sustainable manner. Penrose (1959) argued that it is only with appropriate

resources and capabilities that can be deployed in a sustainable manner over a long term that entrepreneurs achieve sustainable competitive advantage and success.

The theory holds that an entrepreneur through SMEs achieves resounding success when there is good understanding of the resource potentials, through good vision, intuition and creative act, an entrepreneur chooses a particular business where resources that are valuable, rare, hard to copy and resources that are non-substitutable, the entrepreneur will not only be able to succeed but enjoy long term competitive advantage and economic success. Without sustainable competitive advantage entrepreneurs successes are ephemeral as competitors quickly obliterate the successful outcome of the initial effort (Udu, Udu & Eze, 2008).

The theory laid emphasis on the need for SME to possess the required capabilities and resources as prerequisite condition necessary for achieving a sustained competitive advantage for the development of its nation. The aforementioned addresses the need for small scale enterprises to be proactive giving the changing business environment. In the light of the foregoing, small and medium scale businesses that wish to survive in a changing business environment must possess an exceptional skill that would guarantee good understanding of the economic environment in attempt to achieve a sustained competitive advantage.

### **2.3.2 Keynesian Theory of Development**

This project research work will majorly consider Keynesian development theory which is one of the common theories of economic development, the theory mainly emphasized on

the sustainable economic development and the role of economic policy in the achievement of macroeconomic objectives.

The Keynesian postulation States that demand management policies can and should be used to improve macroeconomic performance and sustainability. That is, macroeconomic policies should involves setting monetary and fiscal variables in each time period at the values which are thought necessary to achieve the government's objectives (Abata, Kehinde, & Bolarinwa, 2012). Although Keynesian theory is of the opinion that the private sector (such as SME) is naturally unstable, it is subject to repeated and quantitatively important disturbances in the components of aggregate demand. It is the task of counter cyclical or stabilization policies to offset these private sector disturbances and so keep real output close to its market-clearing equilibrium time path (Omitogun and Ayinla, 2007).

According to Keynesian economic development model financing SMEs should be part of macroeconomic policies of government in which both the fiscal and monetary policies should recognize to achieve the desired levels of economic development in Nigeria. In view of this, Zeller and Sharma (1998) cited in Abdul-kemi (2014), argue that microfinance can aid in the improvement and establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. While Burger (1989) cited Abdul-Kemi (2014), indicates that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs. Meanwhile, Buckley (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus

in this argument is that improvement to access to microfinance and market for the poor people was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Diagne and Zeller (2001) on the other hand argue that inadequate access to fund by the poor just below or just above the poverty line may have negative consequences for SMEs, overall welfare and performance in the economy. Access to credit further improves SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor and economic development. Therefore, microfinance institutions that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit (Rhyme & Otero, 1992) cited in Abdul-Kemi (2014).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

In view of the main objective of this study which aimed to examine the effect of SMEs on the economic development of Keffi Local Government Area, Nasarawa State, Nigeria. This project research work adopted a survey research design.

#### **3.2 Population, Sample and Sampling Techniques**

The populations of the study consist of all SMEs within Keffi L.G.A of Nasarawa State. Since it was practically impossible to study all owners/employers and employees of small and medium manufacturing and services enterprise in Keffi Local Government Area of Nasarawa State, Nigeria, this project work adopted random sampling technique which total number of fifty (50) SMEs were selected and consider as the samples size for this study which also represent the population for the study. For each enterprise, 3 questionnaires were administered; of which one for management/employer and the remaining 2 for employees of the enterprise. In other words, 50 small and medium scale enterprises consisting of both manufacturing and services businesses were selected and 150 questionnaires were administrated to them so as to solicit the needed data. The SMEs selected for this study were printing businesses, food vendors and restaurants, business centers, printing materials shops with employment capacity not less than 2 employees and spread across the major streets of Keffi Local Government Area of Nasarawa State, Nigeria.

### **3.3 Methods of Data Collection**

Primary and secondary data were both used for this study, the primary data for the study were collected through the use of questionnaire which were administered to owners/operators and employees of Small Scale Enterprises within Keffi Local Government Area of Nasarawa State, Nigeria. A validated questionnaire was constructed which was used for data collection, the questionnaire comprised of two sections; A and B. Section A contains items measuring the socio-demographic information of the owners/employers and employees while section B of the questionnaire accessed the effect of SMEs on economic development of Keffi Local Government Area of Nasarawa State, Nigeria. All the questions in section B were asked using the five-point Likert scale (ranking from strongly agreed (1), agreed (2), undecided (3), disagreed (4) and strongly disagree (5)).

Secondary data for this study were sourced from journals, articles, internet, magazines, and theses among others.

### **3.4 Techniques for Data Analysis and Model Specification**

To derive useful meaning from the data to be collected, the following statistical techniques and procedures were used for data analysis:

- i. Simple Percentage: This was used to analysed each of the questions in the questionnaire and will be presented in tabular form.
- ii. Chi-Square ( $X^2$ ): This was adopted in testing the hypotheses formulated. The Chi-Square formular is stated below:

$$X^2 = \frac{\sum(O - E)^2}{E}$$

Where:

O = Observed frequencies

E = Expected frequencies

All the statistical test and analysis were carried out at the conventional 5% level of significance.

### **3.5 Justification of Methods**

The use of survey research design for this study is for the purpose to gather different opinions and views from owners/employers and employees of small scale enterprises within Keffi Local Government Area of Nasarawa State, Nigeria. Adopting to use random techniques to draw the sample size for the study is to avoid any form of bias that may alter the findings of this research work. Using simple percentage and chi-square for data analysis is a relevant tool that was used to examine the relationship between SMEs and economic development. Similar works of Safiriya and Njogo (2012), Kriss (2012), Ayozie (2013) and Abiola (2014) among others were able to adopt those methods and techniques that were considered in this project research work.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Data Presentation

##### 4.1.1 Socio-Demographic Analysis of Respondents

Table 4.1: Gender Classification of the Respondents

Gender	Frequency	Percentage (%)
Male	12	24.00
Female	38	76.00
Total	50	100

Field Survey, 2019

Table 4.1 presents the distribution of respondent by gender; 12(24%) were female while 33(76%) were male. The table shows that a larger percentage of SMEs owners in Keffi LGA of Nasarawa are male. Majority of these men are into SMEs purposely to meet the daily and basic needs of their families and to maintain their livelihood.

Table 4.2: Distribution of Respondents by Age

Age	Frequency	Percentage
Above 50years	2	4.00
41 – 50years	4	8.00
30 – 40years	13	26.00
Below 30years	31	62.00
Total	50	100.0

Field Survey, 2019

Table 4.2 presents the distribution of respondent by age, 2(4%) of the respondent fall in the age range of above 50 years, 4(8%) of the respondent fall within the age range of 40-50, 13(26%) of the respondent fall within the age range of 30-40 while 31(62%) of the respondent fall in the age range below 30 years. This shows a high percentage of young and middle age people in Keffi LGA of Nasarawa State were involved more in SMEs.

Table 4.3: Distribution of respondents by Educational Qualification

Educational Qualification	Frequency	Percentage
Above Secondary	5	10.00
Secondary	39	78.00
Primary	4	8.00
No formal education	2	4.00
Total	50	100.0

Field Survey, 2019

Table 4.3 shows the distribution of respondents on the basis of their education qualification, 5(10%) of the respondent attained above secondary level educational qualification, 39(78%) of the respondent attained secondary school level of educational, 4(8%) has primary school qualification and 2(4%) has no formal education.

Table 4.4: Distribution of Respondents by Years Spent in Business

Years spent in Business	Frequency	Percentage
Above 10years	28	56.00
5 – 10years	18	36.00
Below 5years	4	8.00
Total	50	100.0

Field Survey, 2019

Table 4.4 presents that 28(56%) of the respondent had been in Small and Medium scale business for more than 10 years, 18(36%) of the respondent had been in Small and Medium scale business for 5-10 years while 4(8%) of the respondent claimed to have been in business below 5 years.

Table 4.5 Distribution of Respondents Based on Type of Business

Type of Business	Frequency	Percentage
Manufacturing	9	18.00
Trading/Business	21	42.00
Agro – Allied	6	12.00
Artisan	14	28.00
Total	50	100.0

Field Survey, 2019

Table 4.5 presents that 9(18%) of the respondent were involved in manufacturing type of small and medium enterprise, a high percentage 21 (42%) of the respondent were engage in trading/business type of small and medium scale enterprise, 6(12%) of the respondent

were involved in Agro- Allied type of small and medium scale enterprise while 14(28%) of the respondent were involved in type of small and medium scale enterprise. It believed that the categories of business engaged by the respondents are a good representation of small and medium scale enterprise in Keffi LGA of Nasarawa State.

## **4.2 Data Analysis and Results**

The results of the study were presented and analysed in line with the three formulated hypotheses.

### **4.2.1 Test of Hypotheses**

#### **Hypothesis One**

Small and Medium Scale Enterprises have no significant effect on poverty reduction in Keffi Local Government Area of Nasarawa State, Nigeria.

Table 4.6: Chi-square test Measuring the Relationship between Small and Medium Scale Enterprises and Poverty Reduction in Keffi Local Government Area of Nasarawa State, Nigeria

Items	N	DF (V)	$X^2_c$	$X^2_t$	Significance
Strongly Agree	2	4	10.964	9.488	Significant
Agreed	5				
Undecided	3				
Disagreed	23				
Strongly Disagree	17				
P<0.05	50				

Source: Researcher's computation

Table 4.6 shows that  $X^2$  calculated (10.964) is greater than  $X^2$  tabulated value (9.488) i.e.  $X^2_c > X^2_t$  at 0.05 level of significance. The stated hypothesis is rejected. Therefore, Small and Medium Scale Enterprise is significantly related to poverty reduction in Keffi Local Government Area of Nasarawa State, Nigeria. The result of the hypothesis tested revealed that there is a positive and significant relationship between small and medium scale enterprise and poverty reduction in Keffi Local Government Area of Nasarawa State, Nigeria. Therefore, the activities of SMEs have been able to increase the wage earnings among the people of Keffi Local Government Area of Nasarawa State, Nigeria.

### **Hypothesis Two**

Small and Medium Scale Enterprises have no significant effect on employment creation in Keffi Local Government Area of Nasarawa State, Nigeria.

Table 4.7: Chi-square test Measuring the Relationship between Small and Medium Scale Enterprises and Employment Generation in Keffi Local Government Area of Nasarawa State.

Items	N	DF (V)	$X^2_c$	$X^2_t$	Significance
Strongly Agree	3	4	11.024	9.488	Significant
Agreed	6				
Undecided	2				
Disagreed	27				
Strongly Disagree	12				
P<0.05	50				

Source: Researcher's computation

Table 4.7 shows that  $X^2$  calculated (11.024) is greater than  $X^2$  table value (9.488) i.e.  $X^2_c > X^2_t$  at 0.05 level of significance. The stated hypothesis is rejected. Therefore, Small and Medium Scale Enterprise have a significant impact on employment generation in Keffi Local Government Area of Nasarawa State, Nigeria. The result of the hypothesis tested revealed that small and medium scale enterprises have a significant impact on employment generation in Keffi Local Government Area of Nasarawa State, Nigeria. In the same vein, the activities of small and medium scale enterprises have been able to create job opportunities to the unemployed individuals in Keffi Local Government Area of Nasarawa State, Nigeria.

### Hypothesis Three

Small and Medium Scale Enterprises have no significant effect in improving standard of living in Keffi Local Government Area of Nasarawa State, Nigeria.

Table 4.8: Chi-square test Measuring the Relationship between SME and the Standard of Living of the People in Keffi Local Government Area of Nasarawa State, Nigeria

Items	N	DF (V)	$X^2_c$	$X^2_t$	Significance
Strongly Agree	2	4	12.321	9.488	Significant
Agreed	7				
Undecided	0				
Disagreed	28				
Strongly Disagree	13				
	2				
P<0.05	50				

Researcher's computation

Table 4.8 shows that  $X^2$  calculated (12.321) is greater than  $X^2$  table value (9.488) i.e.  $X^2_c > X^2_t$  at 0.05 level of significance. The stated hypothesis is rejected. Therefore, Small and Medium Scale Enterprises improves the standard of living of the people in Keffi Local Government Area of Nasarawa State, Nigeria. The result of the hypothesis tested revealed that small and medium scale enterprises improve the standard of living of the

people in Keffi Local Government Area of Nasarawa State, Nigeria. Therefore, the activities of small and medium scale enterprises have significant impact on the standard of living of the people in Keffi Local Government Area of Nasarawa State, Nigeria

### **4.3 Discussion of Findings**

The study examines the impact of small and medium scale enterprises on economic development of in Keffi Local Government Area of Nasarawa State, Nigeria .The findings of the result revealed that small and medium scale enterprises have a significant impact on the economic development in Keffi Local Government Area of Nasarawa State, Nigeria. It is a fact that small and medium scale enterprise is one of the strategies towards socio-economic development of any society. From the study, it was strongly affirmed that small and medium scale enterprises has increased in number and it have positive impact on poverty reduction in the state. In the same trend, the study showed that small and medium scale enterprises in Keffi LGA have helped tremendously in areas of employment generation. The study revealed that most of the respondents are youths since it happens that SME is serving the purpose of generating employment, it means that there is great possibility that the rate of crime will also reduce among the youths since most of them are already engage into businesses that is paying their bills. In that ground small and medium scale enterprises have contributed numerously to economic development of Keffi LGA, Nasarawa State.

From the study, it was revealed that SMEs activities generate job opportunities which subsequently enhance the standard of living of the people of Keffi Local Government Area. Meaning, employments are created through entrepreneurial activities which is in

line with the findings of Asogwa and Arinze (2017). SMEs brings about wealth creation and creates employment for the owners/operators and their employees as well which in turn will reduce the rate of poverty and improve the standard of living of residents in Keffi Local Government Area of Nasarawa State-Nigeria. Most of the respondent agreed that most of their household expenses are been taken care by the profit generated from their businesses.

In addition, the respondents complain that access to capital has posed a major challenge to developing small and medium scale enterprises in the Local Government Area, State and Nigeria at large, this view is also supported with the findings of Bacdom (2004) and Iromaka (2006). The respondents were of the suggestion that Government should make access to capital and registration of SME's to be less burdensome to accelerate rapid SME development in the region for the sole purpose of creating means of survival among the residents of Keffi Local Government Area of Nasarawa State, Nigeria.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The project work was structured into five (5) chapters. The introductory chapter which is regarded as chapter one gave an insight on SME activities and economic development. A study of Keffi L.G.A of Nasarawa State, Nigeria. Small and medium scale business have been fully recognized by government, Non- governmental organizations and development experts as the main engine of economic growth and a major factor of promoting private sector development and partnership.

Chapter one dealt with the background to the study, identified problems related to the study, objectives of the study, formulated appropriate research questions and hypotheses which were in line with the research objectives. Chapter one also highlighted the scope and significance of the study and gave operational terms used in the work.

Chapter two concentrated on establishing a detail explanation as the study concepts were identified and discussed. An empirical study of related literatures was reviewed and relevant theories related to SMEs and economic development were reviewed and discussed.

The third chapter (chapter three) of the work presented the methodology used in the study such as research design, population of the study, sampling and sampling techniques, methods of data collection. The study adopted a survey research design, due to the fact that the exact number registered SMEs in keffi is unknown, this research work take fifty

(50) SMEs as the sample size for the study. Structured questionnaire was used as the instrument to collect primary data while textbooks, journals, government publications, and internet materials as secondary source of data for the study. Frequency tables, simple percentage and Chi-square analysis in SPSS were employed for data analysis.

Chapter four presented data presentation, analysis and discussion. The use of simple percentage and frequency distribution tables aided in analyzing and interpretation of the data collected. Chi-square analysis was employed to test the stated hypotheses in order to establish statistical significance between SMEs and economic development in Keffi Local Government Area of Nasrawa State, Nigeria.

The result of analysis revealed that majority of the respondent agreed that there is significant relationship between activities of SMEs and economic development in Keffi Local Government Area of Nasrawa State, Nigeria. Therefore, from the outcome of the project work, there is a positive and significant relationship between SMEs and economic development in Keffi, Nasarawa State, Nigeria.

## **5.2 Conclusion**

The fact still remains that small medium scale enterprises are essential for rapid and sustained economic growth and development of a nation because they create employment, enhance capacity building for manpower and skills development, promote growth, reduce poverty, and facilitate industrial development among others. Several efforts have been made by successive governments at all levels to promote SMEs amidst the vast availability of human and materials resources. These efforts have made small and

medium scale enterprises to contribute significantly to the development of the Nigerian economy.

The relevance of SME sector in the economic growth and development of the country cannot be underestimated. Hence, there need for attention to be given to the sector in order to improve on the survival and performance of small and medium scale enterprises to meet the ever increasing employment and income needs of the economy and its citizenry.

Therefore, it is concludes that small and medium scale enterprises should be encouraged and promoted in Keffi Local Government Area of Nasarawa State, Nigeria so as to experience economic growth and development in terms of poverty reduction, employment generation and to improve the standard of living among other variables of development.

### **5.3 Recommendations**

Based on the findings of the study, the following suggestions are recommended:

1. Government through its agencies such as Small and Medium Enterprises Development agencies of Nigeria (SMEDAN), CAC, among others should develop a friendly approach to provide adequate training and workshops/seminars for small scale business owners so as to boost and update their skills as well as business performance.
2. Government should provide more capital funding to the young ones who present viable business ideas in order to reduce the rate of unemployment in Nigeria.

3. The Commercial banks should encourage the development of small and medium scale enterprises through reduction in the interest/charges on loan.
4. The government should also provide enabling environment in terms of constant power supply, good roads, good water supply, among others so as to encourage SMEs in Nigeria.

#### **5.4 Limitation of the Study**

The major constrain encountered during this project work was at the point of administering questionnaires for data collection, some of the respondents were not ready to give little of their time to fill the questionnaire. This problem was tackled by been patient with the respondents until when they were ready to attend to the questionnaire given to them.

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## **APPENDIX I**

Department of Business Administration  
Faculty of Administration  
Nasarawa State University  
P.M.B 1022, Keffi  
Nasarawa State  
Nigeria

Dear Respondent,

### **LETTER OF INTRODUCTION**

I am a Postgraduate student of the above Institution currently conducting a project work on the **“Effect of SMEs on the Economic Development of Keffi Local Government Area, Nasarawa State, Nigeria”** seeking for your honest and sincere opinion on the questions attached to this letter. Be assured that any information given is highly confidential and will be treated with utmost secret which will only be utilize for the purpose of this project work.

Thank you for your understanding.

**ONWUTUEBE, Ogechi**  
**NSU/MBA/GEN/0063/16/17**

## APPENDIX II QUESTIONNAIRE

### Section A

#### Demographic Data

1. Sex: Male ( ) Female ( )
2. Age Below 30 ( ) 30-40 ( ) 41-50 ( ) Above 50 ( )
3. Educational Qualification: No formal Education: ( ) Primary ( )  
Secondary ( ) Above Secondary ( )
4. Years Spent in Business: Below 5years ( ) 5 – 10years ( ) Above  
10years ( )
5. Type of Business: Artisan ( ) Agro – Allied ( ) Trading/Business ( )  
Manufacturing ( )

### Section B

Key: Strongly Agreed (SA), Agreed (A), Undecided (U), Disagreed (D), Strongly Disagreed (SD)

S/No	Question	SA	A	U	D	SD
1.	Small and Medium Scale Enterprises have no significant effect on poverty reduction					
2.	Owners/employers and employees don't earn reasonable from SME to avoid extreme poverty					
3.	Poverty is not common among individuals who are not employed or not involved in SME activities					
4.	SME owners/employers and employees don't earn reasonable income to attend to their immediate needs					
5.	SME owners/employers and employees don't earn reasonable income to attend to their social needs					
6.	SME owners/employers and employees don't earn reasonable income to attend to their economic needs					
7.	SME has no link with wealth creation and poverty reduction					
8.	Small and Medium Scale Enterprises have no significant effect on employment creation					
9.	SME doesn't serve as means of day to day, weekly or monthly income for owners/employers and employees					
10.	Owners/employers and employees don't depend on SME as a means of employment for long period of time					
11.	Owners/employers and employees are regretting of been involved, working or employed in SME					
12.	SME has no link with reduction in crime rate					
13.	SME has no link with reduction in rural-urban migration in search for white collar Jobs					

14.	Small and Medium Scale Enterprises have no significant effect in improving standard of leaving					
15.	There is no link between SMEs and improving standard of living					
16.	SME doesn't creates means of attaining new way of life					
17.	SME activities has no link with improve social welfare being of the society					
18.	SME has no link with quality of life					
19.	SME has no link with steady increase in GDP					
20.	SME has no link with life expectancy of individuals					