

Small and Medium Enterprises: Of What Good or Disadvantages to the Nigeria Economy

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Abstract:

This study is aimed at investigating the advantages of Small and medium scale enterprises (SMEs) to the Nigeria's economy with a view to providing recommended that may guided against it negative impact. The period covers from 2000 to 2018. The econometric technique adopted for the study was multiple regression method based on ordinary least squares technique. The analysis conducted showed evidence of long run equilibrium relationship between small and medium scale enterprises and economic growth. However, in the mean time, output of SMEs (SMEO) does not make any significant contribution to Nigeria's economic growth performance. The study concludes that poor government policies, on tariffs and incentives, bribery and corruption, non-existent entrepreneurial development centers and poor state of infrastructure act as impediments to the growth and development of SMEs in Nigeria. The recommendations are that governments at all levels should endeavor to establish Microfinance institutions for easy access to credit by SMEs, introduce financial literacy in schools, establish entrepreneurial development centers for capacity building, provide enough infrastructure, especially electricity and road net work, and finally establish agencies for control of bribery and corruption.

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I. Introduction

The dynamic role of small and medium enterprises as engine of growth in developing countries has been recognized. As observed by Cook and Nixon (2014), the development of small and medium enterprises (SME's) should be seen as attempts towards the achievement of a wider economic and socio-economic objective, including poverty alleviation. As stated by Kuteyi (2013), small and medium Enterprise drives their country's development as they create employment and contribute to the gross domestic product (GDP). In the opinion of Ariyo, (2018) and Muritala et al (2012), there is the greater likelihood that SMEs will utilize labour-intensive technologies thereby reducing unemployment particularly in developing countries and thus have an immediate impact on employment generation.

Small and Medium Enterprises are expected to facilitate the growth and development of human and capital resources towards general economic development and the rural sector in particular. In view of these expected roles from SMEs, the Nigerian government had in the past devised policies and incentives for the development of small and medium scale Enterprises. Such efforts, could be classified broadly into three, namely (i) Incentives (fiscal and export), (ii) Tariff regimes, and (iii) Financial support and technical assistance programme. The fiscal incentives include tax relief for small enterprises during the first six years of operation, granting of pioneer status for a period of five years with a possible extension of two years for enterprises located in economically disadvantaged areas, and provision of relief for investment in infrastructure capital allowances, and minimal local raw material utilization income of 20 percent. Export incentives include the introduction of import duty drawback, export credit and insurance schemes, etc. (Ariyo, 2018).

To protect SMEs from dumping, the government adopted the use of high tariff rates to discourage importation of some of the industrial goods that could be produced domestically, and in some cases, complete

ban on a variety of industrial and agricultural products. To provide funds to small and medium scale enterprises by way of commercial loans, the Bank of Industry (BOI) and the Nigerian Agricultural Cooperative and Rural Development Bank (NACRAB) were established. Also established were National Economic agencies to provide loan scheme for SMEs.

Moreover, a major obstacle limiting the development of SMEs in Nigeria is the dearth of infrastructural facilities and financial sources for the sub sector. In most cases, the operators often find financing options particularly banks inaccessible. This phenomenon has pushed many operators to explore other alternative funding sources with high interest rate and other implications. In response to that, government came with various financial windows for the SMEs through the Central Bank of Nigeria. This includes Micro, Small and Medium Scale Development Fund (MSMSDF), microfinance banks, direct loans from state governments among many other financial windows. Over a short period, it has yielded significant improvement in their activities (Duro, 2013)

In spite of all these efforts by the government, both at federal, state, and local government levels, to ensure the growth of SMEs in Nigeria, people such as Aberejio et al (2017) have identified key factors which they claimed were responsible for their perceived failure of SMEs in Nigeria. Against the backdrop of the interest and belief in the SMEs as a catalyst towards the industrialization and economic growth of Nigeria, this study is aimed at investigating the advantages of SMEs in Nigeria's economic growth performance with view of providing recommendations that will guide against any foreseen challenges within the Nigeria economy subsector.

Statement of the Problem

In many societies, small and medium scale enterprises are of good because is the engine of growth. Specifically, in countries such as Malaysia, Thailand, China, and India, SMEs have been responsible for more than 70 percent of exports and this is why these countries, according to Duro (2013) have been growing in leaps and bounds. In Nigeria, SMEs are beset with a myriad of challenges which are in no small measure affecting their good. The most pronounced, however, is access to funds and effective infrastructure to operate, especially electricity. As observed by Sacerdoti (2015), even banks with retained liquidity levels in excess of what is required by law have shown reluctance in extending loans to SMEs, especially on long term basis as they are considered highly vulnerable with high credit risk. Small and medium scale Enterprises do not have the muscle to compete with the multinationals in terms of marketing because of what it takes in real terms to market a product. In addition, the amount one needs to produce in order to engage in profitable marketing to break even is not there for the local manufacturers.

SMEs by their very nature are supposed to be the bedrock of the nation's economy but the operating environment has been very harsh for them to thrive. Currently, most of them can scarcely fund their operations, and the issue of mass or large scale production is ruled out. Some manufacturers have gone under due to unhealthy operating environment occasioned by poor infrastructure, high cost of production, multiple levies and multiplicity of regulatory agencies. In terms of capacity building, very few, of SMEs can afford to attract and retain the right caliber of staff that will take charge of sensitive and high-tech positions in their companies.

In view of the problems confronting SMEs in Nigeria alongside the efforts the government has put in to ensure their growth for them to perform effectively the roles expected of them, this paper is aimed at investigating the advantages of SMEs to Nigeria's economy with a view of providing recommendations that will guide against any foreseen challenges within the Nigeria economy subsector.

Objectives of the Study

The objective of this study is to investigate the role of small and medium scale Enterprises on Nigeria economy. Specifically, the study attempt to:

- i. examine the positive impact of SMEs on Gross Domestic Product(GDP)
- ii. examine the positive impact of SMEs on Inflation rate
- iii. examine the positive impact of SMEs on Interest rate
- iv. examine the positive impact of SMEs on Government Expenditure

Research Hypotheses

This study shall be guided by the following null hypotheses:

- i. Output of Small and Medium Scale Enterprises (SME0) have not positive impacted on Nigeria's on Gross Domestic Product(GDP)
- ii. Output of Small and Medium Scale Enterprises(SME0) have not positive impacted on Inflation rate
- iii. Output of Small and Medium Scale Enterprises (SME0) have not positive impacted on Interest rate (INTR)
- iv. Output of Small and Medium Scale Enterprises (SME0) have not positive impacted on Government Expenditure (GEX)

Scope and Limitations of the Study

This research will focus on Nigerian economy using Microfinance Banks located within the country from 2000 to 2017. The secondary data (Time-series data) generated from central Bank of Nigeria statistical bulletin will be relied upon. Though time-series data, in most cases are not error free, besides, the researcher is not unaware of the conflicting nature and the inconsistency of most of the secondary data from different data collecting agencies in developing countries, Nigeria inclusive. For instance, data from Central Bank is always at variance with the data from Bureau of statistics. Researchers are always constrained as to which of the data to use while conducting a research of this nature. This is the major limitation of this research exercise. However, the above limitations notwithstanding, the researcher is optimistic that the present study will be adequate to serve the purpose for which it is intended.

II. Literature Review

Theoretical Literature

Development strategists have advocated the aggressive use of small and medium scale Enterprises (SMEs) to accelerate economic growth, especially in developing countries of the world. Most African countries are basically agricultural societies, and as observed by Daodu (2017) with little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SMEs to link agricultural production with manufacturing activities. According to Aremu and Adeyemi (2011), Small and Medium Enterprises have been considered as the engine of economic growth, and that the major advantages of the SMEs is their employment potential at low capital cost. This is because the SMEs are relatively more labour-intensive than large enterprises. Furthermore, Aremu (2014), contends that the role SMEs play in any country is always in consonance with the country's level of development. Adeyemi and Badmus (2012), in agreement with Aremu (2014) that there is high incidence of poverty in Nigeria, argued that only adequate financing of small and medium scale enterprises will reduce Nigeria's unemployment level. On the belief that jobs can be massively created through the development of SMEs, Gunu (2014) and Aremu (2014) posit that finance to small and Medium Scale Enterprises will provide more income, savings and employment.

The need to promote the industrial sector has continued to be a major concern of most governments worldwide, especially developing countries like Nigeria. With the growth of SMEs, Aremu (2014) believed that the Nigerian economy will have the potential of being competitive in the global market. In recognition of these potential roles of SMEs, successive governments in Nigeria have continued to express policy measures and programme to achieve industrial growth and development. In recognition of SMEs contribution to Nigerian economy, the strategies and initiatives to promote SME development featured prominently in most of the government's economic development plans with a view to nurturing further growth of the sector. According to Ogwuma (2015), a clear path for accelerating the development of SMEs has been charted through the establishment of agencies such as DFRRI, NDE, NAPEI etc, although the challenges before these establishments are daunting.

Conceptual Literature

In acknowledging the vital role of industrialization in economic growth and development; an efficient strategy require robust, solid, concentrated and focused emphasis on growth and development of Small and Medium Scale Enterprises (SMEs). Therefore, SMEs is the means to an end of economic growth (Ako, 2014). Thus, the intention of developing, sustaining and supporting SMEs is to increase their involvement in economic growth in terms of increasing output of goods and services, and improving the lives of the populace. Nonetheless, the

obvious philosophy and idea that effectively succeeded in most developed countries has not produced the much impact in the Nigerian economy. This may be as a result of inefficient, insignificant, unimportant and irrelevant roles assigned to this sub sector by Nigeria's macroeconomic policymakers. According to Gunu (2014), the growth, development and sustainability of SMEs, which is essential for the nation's socio-economic growth and development is a key problem facing the Nigerian economy today.

Roles of SMEs in Nigeria's Economic Growth and Development

One expected conclusion that has been drawn on SMEs irrespective of their level of economic activities in the real sub sector is that, if sufficiently financed and developed would bring about rural development as well as economic growth (Oyinlade, 2015). In Nigeria, as in most countries, these roles and functions would not be anticipated to be different noticeably, apart from dissimilarities in their scope as well as input for that matter. This results from the roles given to them (SMEs) by the nation's macroeconomic policymakers, economic planners, and the level to which they are prepared to perform these roles and functions. An unbiased appraisal of the roles of SMEs around the world, though, suffers from insufficient information to precisely do justice to the role they perform in economic growth and development. Nevertheless, some insight

on their contributions to economic growth can be gathered from inadequate analytical statistics, findings of previous studies to this effect and authorized journals, periodicals, magazines, newspapers etc. According to a CBN report in 1999, since the 1970s, the Less Developed Countries have shown increased interest in encouraging the growth and development of SMEs for three reasons

- The failure of previous industrial policies to create self-sustaining growth.
- The increased emphasis on self-reliant method to economic growth and development, which SMEs can promote.
- The greater concern to reduce the problems of rural-urban migration, and urban-rural investment disparity.

According to Ogun and Anyanwu (2014), it is anticipated that the vigorous increment of SMEs would contribute considerably to wide range of growth and development objectives, which comprises of rural development, efficient utilization of local resources, creation of employment, development of domestic technology, mobilization of local funds for investment, human resource development, support as well as growth of the functions of local entrepreneurs and equitable distribution of income. It is a known fact that the organization of firms and industries in small and medium scale is a transition stage in a nation's phase of industrialization. That is, an intermediate phase between the prevalence of SMEs to large-scale industries. If this is the case, it must then follow that once a definite stage of industrial growth and development has been attained, the comparative significance of SMEs undertaking would reduce. Nonetheless, SMEs have continued to perform important functions even in the economies of highly industrialized countries and appear to continue doing so. A CBN report in 2006 indicated that development policies which are successful have emphasized the significance of SMEs in universal economic growth and development for the following reasons:

- To create considerable indigenous entrepreneurship
- To ease efficient mobilization of domestic resources such as domestic raw materials, capital, labour and technology.
- To decrease regional differences, brain drain, as well as rural-urban migration.

Most of all, it is contended that SMEs growth and development will steer great achievement of economic independence, growth and development with much emphasis in the development of rural areas (Inang & Ukpong 2012). There is a universal conformity that the usual pattern of growth of many less developed countries in Africa have in previous years resulted in dualistic structure, as macroeconomic policy makers are likely to prefer the urban cities at the cost of the rural areas with resultant outcome of glaring regional differences in the level of income. Most SMEs are expected to be situated in the rural areas where their raw materials are found so that their effective support would act as a measure of industries decentralization, accelerating rural growth and development, steaming urban migration and the resulting difficulties of overcrowding in the cities among others.

A study carried out by Izedomi (2011) on SMEs operations in Nigeria illustrates that greater part of SMEs are found in the commercial cities with service business enterprises and distribution businesses dominating. The prevalence of SMEs in a specific sector of the economy can be as a result of certain factors within that sector.

These factors include:

- Minimum technology necessary for that enterprise;
- Low awareness of managerial knowledge and experience needed by the would be entrepreneur;
- Low capital resources needed for establishing such business venture (CBN, 2006).

Contribution of SMES to Economic Growth and Development

SMEs have been seen as necessary component from national growth and development in both developed and developing countries. The history of economic growth and development cannot be complete without the involvement of SMEs. Ogujiuba et al (2014) establishes that in addition to increase in per capital income and output, SMEs help in the creation of employment opportunities, enhance regional economic balance through industrial dispersal and generally promotes effective resource utilization leading to sterilization of economic growth and development. This is in agreement with Olla (2014) who observes that Great Britain and Japan trace its history of industrial and economic expansion to their broad base small and business establishment. World Bank (2016) report that greater a country ease of doing business, the greater the number of Jobs created in the formal sector. This is because the benefits of being formal usually outweigh the cost of sustaining SMEs especially tax. SMEs constitute a large percentage of the total employment growth of many countries. It produces a significant share of their increase in Gross Domestic Product (GDP) and the contributions of larger firms tend to be stable (ADB, 2012). This assertion is true as OECD 2004 reported that SMEs and micro enterprise account for over 95% of firms, 60-70% of employment, 55% of GDP and generate the greater level of new employment. In the case of developing economies, the situation is not very different. For example, in Morocco, 93% of firms are SMEs and account for 38% of production, 33 percent investment,

30 percent export and 46 percent employment. In the same vein, in Bangladesh, enterprise of less than 100 employees account for 99percent of all firms and 58percent employment. Similarly in Ecuador, 99percent of all private companies have less than 50 employees and account for 55percent of employment which all constitute part of the attributes of growth and development in economy of nations. The seed of industrialization can be traced to SMEs. This is because a good number of them have extensive knowledge of resources and how goods and services are produces and distributed in the economy. SMEs also account for the chief supplier of input to larger firms, they serve as customers to larger firms, provides different kinds of products ranging from food, clothing, health care, education, recreation, entertainment, amongst others (Etuk, et'al 2014). They further assert that, the enterprises help in economic development through industrial disposal and transformation of primary and intermediate product as well as supply of the material needs of the larger enterprises. In a common parlance, SMEs accounts for important sources of local supply and service render to larger firms. In a related development, an empirical research conducted by Muritala et al (2012) titled "impact of small and medium enterprises on economic growth and development" shows that out of 200 respondents that represented the sample size of the population, 151 formed majority of the respondent which represents 75.5% agree that there is significant relationship between SMEs, economic growth and development. UNCTAD (2014) believe that countries with a high rate of small industrial enterprises have succeeded in making the income distribution more equitable. This is in turn a key distribution to ensuring long term social stability by alleviating export redistribution presume and by reducing economic disparities between urban and rural areas. Further still, SMEs assist in fostering rural infrastructure development, improvement of living standard of the rural dwellers, utilization of local resources, output expansion, transformation of indigenous technology, production of intermediary goods, and increase in revenue generation to government (Odubanjo 2012, Nnanna 2015 and Onwumere 2014). Nnanna (2015) added that, SMEs research in India and Japan shows that SMEs have 40 percent of India total industrial value added and 35% value of its export which translate to about 50 percent of India GDP. Japanese economy export about 70 percent of value output from SMEs which form larger part of her export of goods and services. This denotes that SMES played vital role to the growth and development of these countries.

Financial Sector's Efforts towards Promoting SMEs

The Financial sector in Nigeria is made up of all financial institutions in the economy. The Banker's Committee in Nigeria intervened on 19th June 2001, with a scheme titled the Small and Medium Industries Equity Investment Scheme (SMIEIS). In their view, this was a response to the former president of Nigeria (Olusegun Obasanjo) concern as well as policy measures for the encouragement of small and medium industries as a medium for speedy process of industrialization, sustainable economic growth and development, reduction of poverty and creation of employment. The scheme required all banks operating in Nigeria to save 10% of their

profit before tax (PBT) for equity investment in SMEs.

The scheme goals amongst other includes; helping in the setting up of new feasible SME projects thus accelerating economic growth, development of domestic technology, encourage indigenous entrepreneurship as well as create employment opportunities. The fund will be made accessible for projects in the real sector of the Nigerian economy, which includes agro-allied, information technology and telecommunication, manufacturing, educational establishment, services (directly associated to production in the real sector or to improve production), tourism and leisure, solid mineral, construction and any other activity as maybe determined from time to time by the Banker's Committee.

According to Adebayo (2013), to meet the criteria for the scheme, an enterprise, in addition to being involved in any of the activities listed above, must have a minimum asset base of N200million apart from land and working capital, with the number of staff working for the enterprise not less than 10 and not more than 300. The enterprise have to be registered as a limited liability company with the Corporate Affairs Commission and act in accordance with all pertinent rules and regulations of the Companies and Allied Matters Act (1990) such as filing of annual reports as well as audited financial accounts. In addition, the enterprise has to act in accordance with all relevant tax laws and regulations and provide returns to the appropriate authorities. Timing of investment exit shall be a minimum of 3 years. Available data as at February 2003 revealed that about 80 banks have put aside N13.07 billion with 28 banks investing around N2.87 billion on 67 investments in 47 Small and Medium Enterprises (Sanusi, 2013).

Since 2006, more than N43 billion has been put into the scheme, with approximately 10 and 30% investments (SMEDAN, 2016). In reality, the highest according to the committee is 30% a trend, which analysts say, goes against the aim for which the scheme was established and quenching the interest the scheme generated initially, when it was introduced. Though, many banks frequently assert to have contributed greatly to the growth and development of the SME sector, a glance into the record illustrates that the severe conditions set by them have made it tremendously difficult for SMEs operators to access funds from them (Inang & Ukpong,

2012). Aside from Union Bank Plc, which has topped the list of 21 banks with payout of 65.54% of N3 billion set aside for SMEs in the previous financial year ended March 2005, First bank likewise has disbursed massive funds to SMEs. Most of the other banks have been unwillingly in contributing to the scheme, leading certainly to the future failure of the scheme. From a study carried out on SME operators in Nigeria in 2005, most SME operators are of the same opinion that the major restraint in operating a business in Nigeria is high cost of capital (Oni &

Daniya, 2012). In their view, accessing funds from banks for SME projects is like passing a camel through the eye of a needle, adding that, 'even the so called SMIEIS are just an idle fancy'. Analysts have accused the founding fathers of the project for failure to take into account the cultural nature and environment of the Nigerian society.

The Managing director and Chief Executive Officer of Spring Bank Plc, Mr. Mike Chukwu, said the main problem that has been recognized consisted of environmental, ethnic, cultural and social problems, because the SMIEIS not like most other SME financing arrangements is an equity fund. Adding that, 'what the bank is telling the entrepreneurs is: come let our bank join you in owning the company'. A lot of companies that are well established have cultural problems bothering on who owns it. Nigerians like to be the sole owners of their business. Nigerians need to adopt the philosophy of co-ownership. The issue ought to be tackled with continuous education programmes in order to inform the populace about the advantages of co-ownership.

Subsequent to the conclusion of the bank consolidation program, a number of banks' chief executives have through their statements been sending misleading signals to SME operators by frequently saying that the emergence of mega banks would not make giving out loans and advances easy, a sign that they do not entirely concur with the goals of SMIEIS. The Banker's Committee ought to look into this issue when they convene their next meeting of stakeholders.

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:

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. According to Ezech and Onodugo (2012), 'the unpreparedness of small business owners in terms of capital prior to going into business is said to be accountable for their untimely failure' (Ezech and Onodugo 2012). 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, 2016). 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, 2011). Funding is seen by this paper as the most hindering factor to the development and sustenance of SMEs towards contributing to Nigeria's economic growth in terms of output of goods and services.

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, 2013). This cost will be significantly higher today taking into account the rapid rate of inflation in the economy.

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, 2012). 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.

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, 2015). 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, 2015). Most SME operators venture into business on impulse without adequate feasibility study on the project or business (Gold, 2015). 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.

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, 2010). 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, 2013). 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 & Udofia (2016), 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.

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, 2012). 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.

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 (Onyinlade, 2015). 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.

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, 2013). 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.

Empirical Literature

Using the descriptive research method, Adoyi and Agbo (2016) 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 (2014) 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 Nassarawa 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.

Using time series data for Sri Lanka, Vijayakumar (2013) find an insignificant nexus between SMEs and growth and development of Sri Lankan economy. Also, Olukayode and Somoye (2013) investigate the impact of finance on entrepreneurship growth in Nigeria using endogenous growth framework, the results show that the finance, interest rate, real gross domestic product, unemployment and industrial productivity are significant to entrepreneurship in Nigeria.

Afolabi (2013) evaluates the effect of SMEs financing on economic growth in Nigeria between 1980 and 2010. The study employed ordinary least square (OLS) method to estimate multiple regression models. The study reveals that SMEs output proxy by wholesale and retail trade output as a component of gross domestic product and commercial banks' credit to SMEs exert positive and significant impact on the economic development. Furthermore, Onakoya, Fasanya and Abdurrahman (2013) examine the impact of financing small scale enterprises on economic growth using quarterly time series data from 1992 to 2009 using OLS. The result shows that loan to small scale entrepreneurs have a positive impact on the economic performance.

Kadiri (2012) examines the contributions of small and medium scale enterprises (SMEs) to employment generation in Nigeria. The binomial logistic regression analysis was employed as tools for statistical analysis. The results show that SMEs has not impacted positively on economic growth partly due to poor financing and commitment from the government. Lyigun and Owen (2018) show a negative relationship between the level of economic development and the level of self-employment in the labour force. Carree, Van Stel, Thurik and Wennekers (2012) find a non-linear relationship between economic development and entrepreneurship activities.

Also, Beck, Demirguc-Kunt, and Maksimovic (2015) estimate the standard growth regression including the relative size of the SMEs sector in terms of employment and find a positive but not robust impact on economic growth for a cross-section of countries. Using similar approach, Audretsch and Keilbach (2014) and Mueller (2017) obtain a positive impact of measures of entrepreneurship on economic growth in the context of developed countries.

III. Methodology

The objectives of this research are to find the positive impact of small and medium enterprise on the Nigeria economy. The period for the analysis has been taken from 2000 to 2017. Four main indicators Gross Domestic product, interest rate, inflation rate and government expenditure have been included in the model on the consideration that they are among the proximate determinants of output in any economy. While to analyze the performance of SMEs, the SMEs growth has been taken as standard indicator; GDP have been selected as two economic parameters to access the economic performance (Subhan et al., 2013). This study will basically adopt simple linear regression model.

Model Specification:

In order to capture fully the positive impact of small and medium scale enterprises on Nigeria’s economy, the following specified structural equation will be established and tested:

$$RGDP_t = \beta_0 + \beta_1 SMEO_t + \beta_2 INF_t + \beta_3 INTR_t + \beta_4 GEX_t + \mu_t \text{-----} (1)$$

The following variables – INF, INTR and GEX have been included in the model on the consideration that they are among the proximate determinants of output in any economy.

Where:

SMEO = Output of Small and Medium Scale Enterprises

RGDP = Gross Domestic product

INF = Inflation rate

INTR = Interest rate

GEX = Government Expenditure

β_1 - β_4 ; = Estimated Parameters

μ_i = Stochastic error terms

A priori expectation = ($\beta_1 - \beta_4$; $r_1 > 0$; $r_3 > 0$)

IV. Empirical Results and Discussion

Table 1 : Economy variables

YEAR	GDP (N' BILLION)	SMEO	INF	INT	GEX (N'BILLION)
2000	6897.48	1,020.39	6.93	-10.32	701.05
2001	8134.14	1,243.26	18.87	23.84	1,018.00
2002	11332.3	1,494.24	12.88	-10.81	1,018.18
2003	13301.6	1,783.85	14.03	8.61	1,225.99
2004	17321.3	2,871.53	15	19.37	1,032,80
2005	22270	3,614.03	17.86	-3.34	1,822.10
2006	28662.5	5,303.85	8.24	-0.37	1,938.00
2007	262.22	5,889.95	5.38	11.61	2,450.90
2008	330.26	6,776.71	11.58	4.19	3,240.82
2009	297.46	7,897.09	1184	23.71	3,452.99
2010	369.56	8,992.65	13.72	42.31	4,194.58
2011	414.1	10,325.57	10.8	5.94	4,712.06
2012	460.95	24,890.35	12.2	6.88	4,605.39
2013	514.97	29,282.60	8.5	10.25	5,185.32
2014	568.5	15,704.13	8	11.36	4,587.39
2015	493.84	18,028.90	9	13.6	4,988.86
2016	405.44	20,675.86	15.7	6.69	5,858.56
2017	376.36	21,573.73	16.5	8	6,456.70
2018	397.27	21,918.44	12.1	7.2	7,813.74

The results of the data analysis are presented in the following tables.

Table 2: GDP and SMEO

	Coefficients	Standard Error	t Stat	P-value
Intercept	11935.06	2689.728	4.437273	0.000361
SMEO	-0.5445	0.189945	-2.86659	0.010693
<i>Regression Statistics</i>				
Multiple R	0.570842			
R Square	0.325861			
Adjusted R Square	0.286205			
Standard Error	7367.767			
Observations	19			

The above Table 2 presents the results of the effects of output of SMEs on GDP. The results of the estimated regression equation indicate that the dependant variable (GDP) and independent variables (SMEO)) is not in line with our apriori expectation. The coefficient is negative and significant at 5 percent level of significance. A unit increase in SMEO reduces the GDP by 0.5445. Therefore, it is very clear that changes in the dependant variable depend on changes in the explanatory variables used in the study. This shows that the explanatory variables used in the model have significant influence (negatively) on economic growth in Nigeria.

The findings of this study is contrary to with previous studies like Nalini, Alamelu, Amudha and Motha (2016); Anthony and Arthur (2008) and Onakoya, Fasanya and Abdurrahman (2013) but in line with studies conducted by Cravo, Gourly and Becker (2009); Vijayakumar (2013) and Kadiri (2012).

The adjusted R-2 value of 0.286205 indicates that the model explains about 28.6 % of the variability in Nigeria's gross domestic product. A t-value of -2.86659 shows that the joint influence of the explanatory variables is highly significant both at 5% and 1% level in the determination of Nigeria's Gross Domestic Product.

Table 3: SMEO and INFLR

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	11226.37	2234.362	5.024419	0.000104
INFL	-2.86447	8.21738	-0.34859	0.731679

<i>Regression Statistics</i>	
Multiple R	0.084244
R Square	0.007097
Adjusted R Square	-0.05131
Standard Error	9374.247
Observations	19

Table 4: SMEO and INT

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	8122.406	2470.174	3.288191	0.004339
INTR	-232.293	161.9682	-1.43419	0.169657

<i>Regression Statistics</i>	
Multiple R	0.328534
R Square	0.107935
Adjusted R Square	0.05546
Standard Error	8475.383
Observations	19

Table 5: SMEO and GEX

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	5273.31637	2017.41	2.613904
GEX	0.011490371	0.008513	1.349716

<i>Regression Statistics</i>	
Multiple R	0.311109103
R Square	0.096788874
Adjusted R Square	0.043658807
Standard Error	8528.166744
Observations	19

The impact of Government expenditure (GEX), changes in inflation rate (INF), and interest (INT) on the output of small and medium scale enterprises (SME0) were estimated and tested. The results presented in table 3, 4 and 5 above. The adjusted R² of 0.043658807, 0.05546 and 0.05131 indicates that only about 4 -5% of the variability in the output of SMEs are determined by changes in government expenditure (GEX). Also interest rate (INT) and inflation rates (INF). The F-statistic value of 1.349716, -1.43419 and -0.34859 implies that the joint influence of the explanatory variables is not significant in explaining changes in the output of SMEs. The negative relationship between interest rate (INT), GDP and inflation rate is a pointer to the fact that SMEs have not been contributing enough towards the growth of aggregate output in Nigeria. The unexpected positive relation of the output of SMEs (SME0) and GEX may be due to government policy which has resulted to increased bank credit to SMEs in Nigeria. The insignificant impact of SMEs output on GDP, INFL and INTR as shown from the result indicated that SMEs has not able to stimulate the economic growth in Nigeria.

V. Conclusion

The unimpressive empirical results obtained are reflections of a good number of factors impeding the growth and development of SMEs in Nigeria. Such factors are; (1) Poor state of government policies in the areas of general infrastructure and incentives such as tariffs, and taxes; (2) The inability of SMEs to access credit due to high interest rates; (3) As observed by Oseni, the high level level of bribery and corruption which are contributors to the demise of about 80% of SMEs, and (4) The inability of SME entrepreneurs in keeping proper and up to date records of accounts of their businesses.

VI. Recommendation

In view of the findings so far, the recommendations are that:

- (1) Government at all levels in Nigeria should be encouraged to float Microfinance institutions in order to enable SMEs access enough funds for their businesses. This will enable the poor in their areas to have access to credit without which our strive for financial inclusion and poverty eradication will not be realized.
- (2) The central Bank of Nigeria (CBN) should hasten up its proposal to introduce financial literacy in in school's curriculum. The ability of SMEs to keep appropriate and up to date records are what banks require for extension of their credits to individuals and groups.
- (3) The CBN as the apex financial institution should establish entrepreneurial development centers across the country to encourage and build capacity for business-minded youths.
- (4) Government should increase its efforts towards the provision of infrastructure such as electricity, and transport without which government cannot thrive efficiently, and
- (5) Government in Nigeria should establish more agencies to assist the existing ones such as the EFCC and ICPC to tackle bribery and corruption headlong, as businesses cannot thrive in an environment where bribery and corruption thrive.

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