

**Agada Famous Adejoh**

**The Impact of Small and Medium  
Scale Enterprises on the Economic  
Development of Benue State: A Study  
of Some Selected Small and Medium  
Scale Enterprises in Benue State**



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## TITLE PAGE

The Impact of Small and Medium Scale Enterprises on the Economic Development of Benue State: A study of some selected Small and Medium Scale Enterprises in Benue State

BY

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BSU/MS/MBA/09/3145

Submitted to the Department of Business Management, Faculty of Management Sciences, Benue State University, Makurdi. In partial fulfillment of the requirements for the Award of a Master Degree in Business Administration (MBA) of the Benue State University, Makurdi.

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## DECLARATION

This research work is entirely a product of my efforts and hasn't been produced elsewhere. I have acknowledged appropriately the various authors and scholars whose works I have cited in this work.

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### APPROVAL

This is to certify that this dissertation titled An Impact Assessment of Small and Medium Scale Enterprises on the Economic Development of Benue State: A study of some selected Small and Medium Scale Enterprises in Benue State written by AGADA FAMOUS ADEJOH; BSU/MS/MBA/09/3145 has been carefully read and approved as having satisfied the condition for the award of Master of Business Administration of the Benue State University, Makurdi.



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DATE

## **DEDICATION**

This research is dedicated to the following Benue state first generation entrepreneurs: the late Chief Kuhwā Ndyer, the late Chief Tine Nyihagh and HRH Chief D.E Enenche.



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## ABSTRACT

*Small and Medium Scale Enterprises have been globally recognized as engine room for economic development or as catalysts of Industrialization.. Their contributions: Employment generation, Wealth creation, curbing rural-urban migration, Conservation of foreign reserves, rural development, wealth creation, poverty alleviation, financial independence, provision of revenue for the government and so on accentuate their strategic position in the economic development matrix of several nations. The main objective of this study is to assess the impact of small and Medium Scale Enterprises on the economic development of Benue State. Descriptive research method is employed in this study; multiple regression was used in testing hypotheses Major findings of the study include among others; Small and Medium Scale Enterprises are indeed catalysts of economic growth and development, the development of the SMEs sub-sector is essential element in the growth strategy of Benue state, SMEs account for well over half of the total share of employment, wealth creation and contribution to gross domestic product in Benue state. There is low awareness amongst the entrepreneurs in the state about the benefits of SMEs sub-sector. There is also the issue of ambiguity about the numerous SMEs strategies/programs put in place by Governments and international aid agencies geared towards the promotion, the development and sustenance of the sub-sector. Apart from the traditional problems of finance, technology and organization several others problems and challenges of SMEs in Benue state have been discovered. The following recommendations were put forward; multi-dimensional approach should be used by stakeholders to tackle problems of SMEs, to enhance faster and easy integration of new entrepreneurial values; entrepreneurial studies should be taught in indigenous or local languages, state governments should create an enabling environment devoid of politics, corruption and bureaucracy. The state government should stimulate the development of venture capital market for SMEs, design specific tax incentives. The Benue State government should establish business information centers and business support centers across the state for the SMEs.*



## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND TO THE STUDY

Small and Medium Scale Enterprises (SMEs) form the bedrock of economic development in any given economy. This statement is true especially in this 21<sup>st</sup> century capitalist driven world, dubbed as "entrepreneurial era". No nation achieves a viable economic growth and sustainable development without a virile and functional Small and Medium scale sub-sector. SMEs have always occupied a place of pride among several poverty reduction strategies and programs of Governments in Nigeria over the years. Nigeria's quest of emerging as one of the world's top twenty economies by the year 2020 is hinged on industrialization and the enhancement of the Entrepreneurial thrust among the citizens. SMEs play great and indispensable roles in industrialization and entrepreneurial development of an economy; employment generation, increased production activities, economic growth, crime reduction, poverty reduction, enhancing the standard of living among others.

SMEs are veritable instruments for the rapid economic development of nations. In this age of globalization SMEs are indispensable tools for achieving economic diplomacy. Many countries of the Asian continent gained global recognition due to the positive impacts of their Small and Medium Scale Enterprises to the economies of other nations. According to Kpelai (2009), any economic development strategy which ignores this important sub-sector is bound to fail. He further stated that the experience of the Asian Dragons proves that small and Medium Scale Enterprises development strategy is highly effective for developing economies. As stated earlier, Small and Medium Scale Enterprises perform several roles in the economic development of Nations. They are the platforms upon which industrial development can be achieved. Anyanwu (1996) sees the failure of past industrialization policies of

Nigeria as focusing on those policies of the establishment of large scale enterprises. However, the flexibility, adaptability, and the re-generative capability of Small and Medium Scale firms enable the Small and Medium Scale Enterprises to propel rapid economic development. Given the monumental impact Small and Medium Scale Enterprises have on the economic development of nations, governments of developing economies are expected to do more than rhetoric to harness the benefits and potentials which the SME sub-sector has to offer. Despite the contributions of the SMEs sub-sector to the economic well-being of nations as articulated in the preceding paragraph, the sub-sector has not fared very well in Nigeria in general and in Benue State in particular. It is in that regard that an impact assessment of the SMEs sub-sector to the economic development of Benue State of Nigeria is being carried out to fill the knowledge gap which exists in the literature

## **1.2 STATEMENT OF THE PROBLEM**

To accelerate growth and reduce poverty, the World Bank, the Federal Government and other institutional Support agencies provide targeted assistance to SMEs in developing economies. For example according to World Bank annual report for 2002 and 2004 the World Bank approved more than \$10 billion in Small and Medium Scale Enterprises support programs over the period 1998 – 2002 and \$1.3 billion in 2003 worldwide. This support programs notwithstanding the sub-sector seems not vibrant enough to contribute meaningfully to our economic development. The contributions of the Small and Medium Scale Enterprises sub-sector to national development leaves serious gap. This research attempts to show the correlation between the Small and Medium Scale Enterprises sub-sector, economic growth and poverty alleviation in Benue State.

## **1.3 OBJECTIVES OF THE STUDY**



1. To examine the nexus between the SME sub-sector, and the economic development of Benue State.
2. To ascertain the degree of significance of SMEs to economic empowerment.

#### **1.4 RESEARCH QUESTIONS**

1. What is the significance of the relationship between the SMEs sub-sector and the economic development of Benue state?
2. How significant is the influence of SMEs to the economic empowerment of citizens of Benue State?

#### **1.5 STATEMENT OF HYPOTHESIS**

In view of the research questions presented above, it is hypothesized as follows:

1.  $H_{01}$ : there is no significant relationship between the SME sub-sector, and the economic development of Benue state.
2.  $H_{02}$ : SMEs do not significantly influence economic empowerment of the citizens of Benue state.

#### **1.6 SIGNIFICANCE OF THE STUDY**

The study is intended to evaluate the impacts of Small and Medium Scale Enterprises to the economic development of Benue state. The findings of this study will provoke further academic discourse amongst scholars and students, researchers will find this study a valuable reference material on the subject matter, the government can adopt the findings and recommendations of this study as viable policy options, the findings of this research will add value to literature on the subject matter

#### **1.7 SCOPE OF THE STUDY**

The scope of this study is limited to the appraisal of the impacts of eighty-eight SMEs that are registered to carry out business in the functional areas of



manufacturing/fabrication, wholesale/retail and service to the economic development of Benue State.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### 2.1 INTRODUCTION

The experiences of developed economies in relation to the roles played by Small and Medium Scale Enterprises buttresses the fact that the relevance of Small and Medium Scale Enterprises cannot be overemphasized especially among the Less Developed Countries (LDCs) or rather Developing Countries. In order to highlight the significance of SMEs in relation to the growth and development of any given economy, Kpelai (2009) classified Small and medium scale enterprises as the "*engine of growth*". This stems from the fact that almost all countries that have focused on the SME sector and ensured its vibrancy have ended up significantly reducing the rate of poverty and its attendant consequences, enhanced standard of living, increase in per capita income as well as a rapid growth in gross domestic product amongst other beneficial effects.

There is a consensus amongst authors, experts and authorities on the subject that if stakeholders in the SMEs sub-sector show staid commitment to the development of the sub-sector the nation state will witness meaningful economic transformation and prosperity. According to Onugu (2005), a dynamic SME sub-sector is vital and imperative for the overall economic development of the country. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and promoting local or indigenous resource utilization. By largely producing intermediate products for use in large-scale companies, SMEs contribute to the strengthening of inter-industrial linkages and integration. A vibrant, efficient and effective SME sub-sector no doubt generates many ensuing benefits for all stakeholders. (employees, customers, employers, and government)

Customers on their part tend to enjoy personalized services and attention because of the keen competition, focus and innovation which characterize the operations of small and medium scale enterprises. Employers or rather SME entrepreneurs on the other hand are either motivated or compelled by competition to learn and broaden their knowledge and skills in order to meet up with the challenges of maintaining good relationship with their financiers (banks and other financial institutions), auditors, regulators and even their competitors. They achieve this by belonging to and participating actively in the activities of appropriate chambers of commerce, and trade groups where ideas, new concepts and knowledge are shared and discussed. The bottom line of all these is that the relevant SME would remain efficient and profitable and contribute to the growth and development of the entire economy.

Onugu (2005) submitted that many international development agencies and financiers do not only appreciate the great roles played by small and medium enterprises in poverty alleviation and overall economic development, but also invest a significant percentage of their resources in them (SMEs). A review of World Bank Operations revealed that it invested a whopping \$1.597 billion in SMEs in 2004 fiscal year, with Africa getting a sizeable share of over \$89 million. This sum was channeled through the four major development arms of the bank: the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), Nigeria, Kenya and Uganda benefitted partly from the new joint pilot program executed by IFC and IDA for Small and Medium Scale Enterprises development in 2004 to the tune of \$70 million. The 2004 annual review of the IFC's small business activities indicate that the IFC and IDA invested over \$32 million in small and medium scale enterprises project development in Nigeria.



In recognition of the crucial roles small and medium scale enterprises play in economic growth and development the Bank of Industry (BoI) provided over sixty percent (60%) of the entire loans the sub-sector was granted in 2004 the high default rate notwithstanding. The Bank is also intensifying efforts to source cheaper funds from Development Financial Institutions (DFIs) such as the African Development Bank (ADB), African Export-Import Bank, European Development Bank, etc so as to lend-on to small and medium scale enterprises at concessionary rates thus maximizing their value addition.

SMEs have no doubt been indeed recognized as the main engine of economic growth and development, a major vehicle for promoting private sector, development and partnership. Various governments, development agencies and experts as well as multilateral institutions appreciate this truth that is why they positively respond to any occasions and situations which provides platforms for them to contribute to the improvement of SMEs. From a planning perspective, SMEs are increasingly viewed as major means for achieving equitable distribution of income and the basis of attaining a sustainable industrial base. SMEs account for well over half of the total share of employment, sales and value added in most countries.

One major hitch in Nigeria's quest for industrial development since independence has been the absence of a strong vibrant SME sub-sector. Given our population of over 150 million people, vast productive and arable land, rich multiplicity of mineral deposits as well as enormous human resources, Nigeria should have been a haven for small and medium scale enterprises given her strategic location as a marketing hub for west and central African Countries.

A number of factors have been put forward as reasons why the potentials of SMEs have not been fully realized in the country. Firstly, the modest

entrepreneurial progress made by the courageous first generation indigenous industrialists were almost virtually wiped out by the massive devastation, dislocations and indeed traumatic devaluation which resulted from the world bank induced structural adjustment program (SAP) implemented by the General Babangida military junta. The underlying policies and good intentions of the SAP notwithstanding the assumptions upon which the program was premised upon were unfortunately out of sync with the prevailing economic circumstances in a developing economy like Nigeria. The SAP era thus represented the anti-climax of the once thriving, flourishing SMEs sub-sector in Nigeria. Over the past decades the economy of the country has been on a steady decline with no signs of appreciable economic growth. People especially young school leavers have gradually moved out of the farms and the rural areas and migrated into urban areas due to lack of agricultural incentives. Even in the urban areas and cities, infrastructure had continued to deteriorate, roads remain uncared for, water supply is irregular, power outage is a regular phenomenon, even people who can afford to use electricity-generating sets, petroleum products required to power them are not readily available when needed.

Kpelai (2009) stated that in this age of entrepreneurship, entrepreneurial endeavors in whatever form is a pre-condition for economic development especially in a free enterprise or market economy. Birch and McCracken (1982) submitted that Small and Medium Scale Enterprises primarily carry out the entrepreneurial function by reforming or revolutionizing the pattern of production by exploiting an invention or more generally an untried technological possibility for production of a new commodity or producing an old one in a new way. Small business firms have contributed immensely to the growth, development and sustenance of the nation's economy in diverse ways. The contributions according to the works of Rosemary and Joe (1975),



Okongwu (1986), Kpelai (2009), Onuigbo (1992), include innovations/inventions, flexibility of production processes, employment generation, wealth creation, enhancement of standard of living, reduction of income disparities, production expansion, increase in the revenue base of the government, transformation of indigenous technology, utilization of local contents, provision of comprehensive learning experience, development of risks takers, mobilization of capital, development of intermediate management cadre, conservation of foreign reserves, rectification of economic development imbalance, vehicle of economic and social transformation, conversion of opportunities and ideas into goods and services.

Kpelai (2009) affirmed Okongwu (1986) position by stating that small scale industries contribute to economic growth based on their distinct advantages e.g. promotion of industrial diffusion and regional balance; modernization of entrepreneurship and distribution of capital ownership, improvement of rural-urban equation and income distribution; increased utilization of domestic raw materials and waste products; thereby aiding in defining some medium and large scale activities; increased mobilization of financial resources; increased stability of the economy and resistance to shocks. The enumerated contributions notwithstanding Small and Medium Scale Enterprises in Nigeria in particular and Benue State in general like their counterparts in other third world countries especially those in sub-Saharan Africa and Latin America continue to face some basic problems. These problems according to Kpelai (2009) include; lack of adequate capital, lack of credit facilities, organization, weak technology base, lack of entrepreneurial thirst, political instability, retrogressive public policies, poor infrastructural facilities, poor market access, shortage of human resources, multiple taxes/levies, societal/attitudinal constraints, poor management structure and lack of a viable business plan.

According to the Bolton report of 1971, cited by Stokes & Wilson (2002) small scale enterprises makes special contributions to the health of the economy in the following eight important ways.

- A productive outlet for enterprising and independent individual some of whom may be frustrated under-achievers in a large, more controlled environment.
- The most efficient form of business organization in some industries or markets where the optimum size of the production unit or scale outlet is made.
- Specialist suppliers, or sub contractors to larger companies.
- Contributions to the variety of products and services made available to customers in specialized markets too small for larger companies consider worthwhile.
- Competition to the monopolistic tendencies of large companies.
- Innovators of new products, services and process.
- The breeding ground for new industries; and
- The seedbed for tomorrow's larger companies and, providing entry points for entrepreneurial talents who will become future industrial captains.

The Nigerian economy has had a truncated history. In the period 1960 – 1970, the Gross Domestic Product (GDP) recorded 3.1 percent growth annually. During the oil boom era, roughly 1970 – 1978, the GDP grew positively by 6.2 percent annually – a remarkable growth. However, in the 1980s, GDP had negative growth rates. In the period 1988 – 1997 which constitutes the period of structural adjustment and economic liberalization, the GDP responded to economic adjustment policies and grew at a positive rate of 4.0 percent. In the years after independence, industry and manufacturing sectors had positive growth rates except for the period 1980 –



1988 where industry and manufacturing grew negatively by -3.2 percent and -2.9 percent respectively. The growth of agriculture for the periods 1960 – 1970 and 1970 – 1978 was unsatisfactory. In the early 1960s, the agricultural sector suffered from low commodity prices while oil boom contributed to the negative growth of agriculture in the 1970s. The boom in the oil sector lured labour away from the rural areas to urban centers. The contribution of agriculture to GDP, which was 63 percent in 1960, declined to 34 percent in 1988, not because the industrial sector increased its share but largely due to the neglect of the agricultural sector. It was therefore not surprising that by 1975, the country became a net importer of basic food items. The apparent increase in industry and manufacturing from 1978 to 1988 was due to activities in the mining sub-sector, especially petroleum. Gross domestic investment of petroleum as a percentage of GDP, which was 16.3 percent and 22.8 percent in the periods 1965 – 1973 and 1973 – 1980 respectively, decreased to almost 14 percent in 1980 – 1988 and increased to 18.2 percent 1991 – 1998. Gross National Saving has been low and consists mostly of public savings especially during the period 1973 – 1980. The current account balances before official transfers are negative for 1965 - 1973, 1980 – 1988 and 1991 - 1998.

The economy never experienced double-digit inflation during the 1960s. By 1976, however, the inflation rate stood at 23 percent. It decreased to 11.8 percent in 1979 and jumped to 41 percent and 72.8 percent in 1989 and 1995, respectively. By 1998, the inflation rate had, however, reduced to 9.5 percent from 29.0 percent in 1996.

## **2.2 VARIABLES OF ECONOMIC DEVELOPMENT**

According to the World Bank report of 2002 there are several predictors of economic development. They include;

- 1.) Gross Domestic Product (GDP): measures the total output and services for final use occurring within the domestic territory of a given country, regardless of the allocation to domestic or foreign claims. Gross Domestic Product at purchaser values (market prices) is the sum of gross value added by all resident and non-resident producers in the economy plus any taxes and minus any subsidy not included in the value of the products.
  - a.) Gross Domestic Product (GDP), PPP: is gross domestic product converted to international dollars using purchasing power parity (PPP) rates. An international dollar has the same purchasing power in a given country as a United States dollar in the United States. In other words, it buys an equivalent amount of goods or services in that country.
  - b.) Gross National Income (GNI) Current Dollars: is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. In other words, GNI measures the total income of all people who are citizens of a particular country while GDP (Gross Domestic Product) GDP measures the total output of all persons living in that particular country's borders.
  - c.) Gross Domestic Product (GDP) per Capita, constant 1995 Dollars: measures the total output per person of goods and services for final use occurring within the domestic territory of a given nation output is measured regardless of the allocation to domestic and foreign claims.
  - d.) Gross Domestic Product (GDP) per capita, PPP: is gross domestic product converted to international dollars using purchasing power parity (PPP) rates and divided by the population of the country



that year. An international dollar has the same purchasing power in a given country as a United States dollar in the United States.

- e.) Annual Average Growth in GDP: this measures the annual growth in GDP of a particular country from one year to the next.
- f.) GDP, percent from agriculture: measures the percentage of total outputs of goods and services which are a result of value added by the agricultural sector
- g.) GDP, percent from Industry: measures the percentage of total outputs of goods and services which are a result of value added by the industrial sector.
- h.) GDP, percent from Services: measures the percent of total output of goods and services which are a result of value added by the service sector.

## 2 International Trade:

- a) Exports and Imports of goods and services: represents the value of all goods and other services provided to or received from the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees and other services such as communication, construction, financial, business, personal and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.
- b) Exports as a percent of GDP: this is calculated by dividing exports of goods and services for a given country by the Gross Domestic Product (constant 1995 dollars) of that country for a given year.
- c) Balance of Trade: this refers to the net exports (exports minus imports) of goods and service for a particular country it includes all transactions between residents of a country and the rest of the world involving a change in ownership of general merchandize,



goods sent for processing and repairs, non monetary gold and services. If a country's exports exceed its imports, it has a trade surplus and the trade balance is said to be positive. If imports exceed exports, the country has a trade balance said to be negative.

### 3. Official Development Assistance(ODA)and Financial Flows

- a) Official Development Assistance: this indicator records the amount of international aid received by a country. It refers to the actual international transfer by the donor of financial resources or of goods and services valued at the cost to the donor, less any repayments of loan principal during the same period.
- b) Official Development Assistance per capita: this indicator records the amount of international aid received per capita.
- c) Current Account Balance: this refers to the sum of net exports goods, services, net income and net current transfers. Data are in current U.S. dollars. The data on current account balances are based on balance payments data reported by the International Monetary Fund (IMF) in their balance of payment and international financial statistics databases, supplanted by estimates World Bank Staff.
- d) Total External Debt: simply put this refers to debt owed to non-residents of a country repayable in foreign currency, goods or services. It is the sum of public, publicly guaranteed and private non-guaranteed long-term debt, use of IMF credit and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long term debt. Long-term debt includes all debt having a maturity of more than one year.

- e) Total Debt Service as a percent of export earnings: these comprises interest payment and principal repayments made on the disbursed long-term public debt and private, non-guaranteed debt, IMF debt repurchases, IMF charges and interest payments on short-term debt.
  - f) Foreign Direct Investments: this refers to the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance sheet of payments.
  - g) International Tourism Receipts: these are expenditures by international inbound visitors, including payments to national carriers for international transport; figures are calculated in current U.S. dollars.
4. National Savings (as a percent of Gross National Income)
- a.) Gross National Savings: is equal to gross domestic savings (gross domestic product minus final consumption) plus net income and net current transfers from abroad.
  - b.) Net National Savings: this indicator is equal to gross national savings minus the value of consumption of fixed capital (the replacement value of capital used up in the process of production).
  - c.) Adjusted net savings: *this indicator attempts to measure the true rate of savings of a country's economy by taking into account human capital, depletion of natural resources and the damages of pollution in addition to standard saving measures. Adjusted net*

savings is calculated by the World Bank using the following formula;

$$NAS = (GNS - DH + CSE - S R_{n, i} - CD) / GNI$$

Where;

NAS = Net Adjusted Savings Rate

GNS = Gross National Saving

DH = Depreciation of Produced goods

CSE = Current (non-fixed-capital) expenditure on Education

$R_{n, i}$  = Rent from depletion of natural capital

CD = Damages from Carbon dioxide emission

GNI = Gross National Income at market prices

5. Rate of Poverty: Apart from the use of GNP per capita income in determining the rate of poverty in a particular country, the percentage of people living on less than \$1 (US dollar) a day (PPP) at 1995 international (purchasing power parity) prices is also used. That is a person is said to be poor if he or she lives in a household whose total income or consumption per capita is less than \$1 k(US) dollar i.e. he/she lives below poverty line.
6. Average Annual Inflation: This is measured by the rate of exchange in the GDP implicit deflator. The implicit deflator is calculated by dividing annual GDP at constant prices in national currency. The GDP implicit deflator is the broadest-based measure of inflation, showing price movement for all goods and services produced in the economy.
7. Net Present Value of External Debt: This is the value of short-term debt plus the discounted sum of existing loans at current prices.



### 2.3 CONCEPT OF SMEs.

According to the submissions of *Onuigbo (1992)*, *Ekpeyong and Nyong (1992)* the concept of small and medium scale enterprises is a common nomenclature used for describing three classes of entrepreneurial businesses; micro-enterprises, small businesses and medium businesses.

1. Onuigbo (1992) stated that no two countries or institutions have so far agreed on the same criteria for determining a small scale business, the classification often varies according to time and settings. According to him a number of institutions and leading authorities on the subject matter have put forward some definitions of SMEs.
  - a. The United Nations industrial development organization (UNIDO) defined small-scale enterprises (SSEs) as those business outfits with less than 150 employees on their pay rolls.
  - b. The United States Small Business Association define a small scale enterprise as any business unit with less than 250 persons (employees) and whose annual turnover is not more than ten million dollars.
2. Kpelai (2009) aligned with the assertion of *Onuigbo (1992)* that there is lack of agreement among authors, researchers and policy makers on the objective criteria for defining small and medium scale enterprises. *Kpelai (2009)* identified the following definitions based on the works of other authors and renowned institutions.
  - a) According to the third national development plan, manufacturing establishments employing less than ten people or whose investment in machinery and equipment do not exceed N600, 000.00 are referred to as small-scale.

- b) In a similar manner, the Obafemi Awolowo University, Ile-Ife industrial unit in 1972 defined small scale industry as one whose total assets in capital, equipment, plant and working capital are less than N250,000.00 and employing fewer than 50 full time workers.
- c) According to Oshagbemi (1983), a small business is regarded as one whose scope of operations is less than the average for the industry.
- d) Section 37b (2) of Companies and Allied Matters Act (CAMA) 1990 defined a small company as one with;
  - 1. Annual turnover of not more than N2 million
  - 2. Net asset value of not more than N1 million
- e) The First Bank newsletter of 2001 defined a small business establishment with a maximum asset base of N50 million excluding land and working capital and with the number of staff employed not less than 10 but not more than 100.
- f) The National Council of industries at a meeting in Makurdi the Benue State capital provided the following definitions.
  - a. A small industry is an establishment with total capital of over N1.5 million but not more than N50 million, excluding the cost of land and a labour size of between 10 to 100 workers.
  - b. A medium scale industry is an industry with a total capital of above N50 million but not exceeding N200 million including working capital, but not exceeding land and a labour size of 100 to 300 employees.



- g) The International Finance Corporation (IFC) in collaboration with the Federal Government published a report in 2001 on enterprises classifications.

**a. Employment-Based Classification**

| ORGANIZATION | MICRO ENTERPRISE | SMALL ENTERPRISE | MEDIUM ENTERPRISE |
|--------------|------------------|------------------|-------------------|
| IFC          | < 10             | 10 – 50          | 50 – 100          |
| CBN          | -                | ≤ 50             | -                 |
| NASSI        | -                | ≤ 40             | -                 |

*Source: Kpelai (2009: 211) Entrepreneurship Development in Nigeria.*

**b. Asset-Based (Excluding Real Estate)**

| ORGANIZATION              | SMALL ENTERPRISE | MEDIUM ENTERPRISE |
|---------------------------|------------------|-------------------|
| IFC                       | < N2.5 million   | 50 – 100          |
| CBN                       | ≤ N1 million     | ≤ 150             |
| Fed. Ministry of Industry | < N50 million    |                   |
| NERFUND                   | ≤ N10 million    | -                 |

*Source: Kpelai (2009: 211) Entrepreneurship Development in Nigeria.*

- 3.) According to Bamford and Brutton (2006) the government of the United States of America for classification purposes considers any business with fewer than 500 employees to be a small business.
- 4.) Stoke & Wilson (2002) defined Small and Medium Scale Enterprises from two perspectives.
  - 1) Quantitative Definitions: They submitted that quantity definitions focuses on numerical parameters in order to differentiate between smaller and larger business types according to the duo quantitative thresholds are important because they are used throughout the European Union for policy purposes. For example they might be used to determine the eligibility of a business for

certain types of grants or other assistance. Quantitative definitions have limitations. These limitations include;

- a) The number of persons employed is very dependent on the sector of the business and this makes generalized comparison across sectors difficult.
- b) Financial measures such as sales turnover and balance sheet problems. For example, wholesales tend to have high levels of sales but operate with very low margins and this would distort comparisons with higher margin services companies with similar turnovers. Inflation and exchange rates changes make comparisons over time and between countries difficult.

## 2) Non-Quantitative Definitions

To overcome some of the difficulties of quantitative definitions *Stokes & Wilson (2002)* proposed non-quantitative definitions. The import of the non-quantitative definitions is captured in the following essential characteristics of small firms.

- a) A small firm is managed by its owner(s) in a personalized way.
- b) It has a relatively small share of the market in economic terms.
- c) It is independent in the sense that it does not form part of the larger enterprise and its ownership is relatively free from outside control in its principal decisions.

The European Union in the year 2005 adopted the following as thresholds of small and medium scale enterprises classifications.

| CATEGORY | HEAD<br>COUNT | TURNOVER | BALANCE SHEET |
|----------|---------------|----------|---------------|
|----------|---------------|----------|---------------|

|        |          |         |         |
|--------|----------|---------|---------|
| Medium | 50 – 247 | < € 50m | < € 43m |
| Small  | 10 – 49  | < € 10m | < € 10m |
| Micro  | 0 – 9    | < € 2m  | < € 2m  |

Source: The European Union, [www.euroopa.eu.int](http://www.euroopa.eu.int) (2005)

5. Wynarczyk et al (1993)) defined small scale enterprises by highlighting the differences between small and large firms. They listed the factors as;
  - a) Uncertainty; uncertainty is a persistent feature of small scale enterprises which tend to have small customer base and limited resource.
  - b) Innovation; Innovation of either very new or marginal difference to well established ones, is a key factor in the success or failure of new business start-ups.
  - c) Evolution refers to the state of constant structural and management changes which small firms are likely to experience as they struggle to survive and develop.
- 6.) Onugu (2005) outlined the following definitions for different types of enterprises
  - i. Small Enterprise: An enterprise whose total cost including working capital but excluding cost of land is between ten million naira (N10,000,000.00) and one hundred million naira (N100,000,000.00) and/or a workforce between eleven (11) and seventy (70) full-time staff and/or with a turnover of not more than ten million naira (N10,000,000.00) in a year.
  - ii. Medium Enterprise: A company with total cost including working capital but excluding cost of land of more than one hundred million naira (N100, 000,000.00) but less than three hundred million naira (N300, 000,000.00) and/or a staff strength of



between seventy-one (71) and two hundred (200) full-time workers and/or with an annual turnover of not more than twenty million naira (N20, 000,000.00) only.

Inferring from the above definitions, the researcher views small and medium scale enterprises as an anthology of business entities whose scope of operations, asset base, and market share or market segments served are more than those of micro and cottage firms but less than those of large going concerns.

#### **2.4 ECONOMIC DEVELOPMENT**

This concept 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. Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety and other initiatives. *Mansell and Wehn (1998)* submitted that economic development has been understood since the Second World War to involve economic growth namely the increase in per capita income and the attainment of a standard of living equivalent to that of industrialized countries. They concluded that economic development can also be considered as a static theory that documents the state of an economy at a certain time.

#### **2.5 ECONOMIC GROWTH**

This concept is a phenomenon of market productivity and rise in gross domestic product (GDP). Economic growth is an aspect of economic development. Variables of economic growth include

- A. employment generation
- B. standard of living
- C. utilization of indigenous resources
- D. quality goods and services

- E. rural development
- F. poverty alleviation
- G. wealth creation
- H. financial independence

## **2.6 CHARACTERISTICS OF SMEs IN NIGERIA**

A major attribute of Nigeria's SME relates to their ownership structure or base which largely revolves around a key man or family. Hence, a preponderance of the SME is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of one-man, family or partnership business.

Other common features of Nigeria SMEs include the following among several others.

- 1) Labour-intensive production processes
- 2) Concentration of management on the key man
- 3) Limited access to long term funds
- 4) High cost of funds as a result of high interest rates and bank charges.
- 5) High mortality rate especially within their first five years of existence.
- 6) Over-dependence on imported raw materials and spare parts
- 7) Poor inter and intra-departmental linkages consequently they hardly enjoy economies of scale benefits
- 8) Poor managerial skills due to their inability to pay for skilled labour
- 9) Poor product quality output
- 10) Absence of research and development
- 11) Little or no training/ capacity development for their staff
- 12) Poor documentations of policy, strategy, financials, operational, strategic plans, and info systems
- 13) Low entrepreneurial skills,
- 14) inadequate educational or technical background



- 15) Lack of adequate financial record keeping
- 16) Poor capital structure i.e. low capitalization
- 17) Poor management of financial resources and inability to distinguish between personal and business finances
- 18) High production costs due to inadequate infrastructure and wastages
- 19) Use of obsolete and inefficient technology especially as it relates to processing, preservation and storage
- 20) Lack of access to international markets
- 21) Lack of succession plan
- 22) Poor access to vital information.
- 23) Poor management and leadership styles.

According to *Kpelai (2009)* Most SMEs in Nigeria die within five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity. Many factors have been identified as the probable causes to these premature deaths. Key among these factors in addition to those highlighted earlier in the preceding passage include; lack of focus, inadequate market research, over-concentration on one or two markets segments for finished products, inexperience, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of personnel, cut-throat competition and other unethical practices perpetuated by unscrupulous elements in the Small and Medium Scale Enterprise's economic environment, preference for internationally produced goods and services and over-concentration of decision making function on one person, usually the owner. Other challenges which SMEs face in Nigeria in general and Benue state in particular include; irregular power supply and other infrastructural inadequacies (water, roads etc) unfavourable fiscal policies, multiple taxation,



levies and rates, fuel crises or shortages, policy inconsistencies/ reversal, poor policy implementation, restricted market access, raw materials sourcing problems, problems of multi-sectoral linkages given that most large scale firms source some of their raw material outside the shores of this country themselves instead of outsourcing to SMEs.

Their characteristics and the attendant challenges notwithstanding, it is the consensus that SMEs which globally are regarded as the strategic and essential fulcrum for any nation's economic development and growth have performed rather poorly in Nigeria. The reason for this all-important sector's dismal performance have been varied and convoluted depending on who is commenting or whose view is being sought. For sure, it has nothing to do with government's appreciation of the vital central role of the sector as evidenced by how well SMEs have been acknowledged and orchestrated in various government's annual budgets, with the imperativeness of SMEs as the bulwark for employment generation, poverty reduction and technological development being highlighted. While many people attribute the relatively poor performance of SMEs in Nigeria when compared with the significant roles SMEs have played in developed economies such as United Kingdom, Germany and the United States and even in some developing countries like India, Indonesia, and Brazil some commentators hinge the reasons for the non-performance on the neglect of the sector by the government. The latter group argues that government's appreciation of the SMEs in capacity building has always been restricted to the pages of annual budget

## **2.7 ARGUMENTS IN SUPPORT OF AND SKEPTICAL VIEWS AGAINST PRO-SME POLICIES**

According to the *World Bank reports of 1994, 2002, and 2004* the pro-Small and Medium Scale Enterprise policy is based on three core arguments. First Small and Medium Scale Enterprise advocates argue that SMEs enhance

competition and entrepreneurship and hence have external benefits on economy wide efficiency, innovation and aggregate productivity growth. From this perspective, direct government support of SMEs will help countries exploit the social benefits from greater competition and entrepreneurship. Secondly, Small and Medium Scale Enterprises proponents frequently claim that SMEs are more productive than large firms but financial markets and other institutional failures impede Small and Medium Scale Enterprises development. Thus, financial and institutional improvements, direct government financial support to SMEs can boost economic growth and development. Finally, some people argue that Small and Medium Scale Enterprises expansion boosts employment more than large firm growth because SMEs are more labour intensive. From this perspective, subsidizing SMEs may represent a poverty alleviation tool. *Pagano and Schivardi (2001)*, *Pack and Westphal (1986)* agree that while the international community channels a large amount of aid into subsidizing SMEs, skeptical views question the efficacy of this policy. First, some authors stress the advantages of large firms and challenge the assumptions underlying the pro-small and medium scale enterprises view. Specifically, large firms may exploit economies of scale and more easily undertake the fixed costs associated with research and development (R&D) with positive productivity effects. *Rosenzweig (1988)* and *Brown et al (1990)* hold that large firms provide stable and therefore higher quality jobs than small firms with positive consequence for poverty alleviation. A second set of skeptical views according to *little et al, (1987)* directly challenge the assumptions underlying pro-small and medium scale enterprises arguments. In particular some researches find that SMEs are neither more labour intensive nor better at job creation than large firms. The third set of skeptical views question the validity of considering a firm size as an exogenous determinant of economic growth. *Kumar, et al (2001)* submitted that natural endowments, technology, policies and institutions help determine a nation's



industrial composition and optimal firm size. *You (1995)* in agreeing with the position canvassed by *Kumar, et al* submitted that some countries may have endowments that give the country a comparative advantage in the production of goods that are produced efficiently in large firms while other countries will have a comparative advantage in goods produced most economically in firms. The fourth skeptical view stresses the importance of the business environment facing all firms, big or small. Low entry and exit barriers, well-defined property rights and effective contract enforcement characterize a business environment that is conducive to competition and private commercial transactions. While these factors may encourage many SMEs, the focus of the business environment is not on SMEs per se; it is on the environment facing the business.

## **2.8 SMALL AND MEDIUM SCALE BUSINESS OPPORTUNITIES IN BENUE STATE**

Benue State like other states in the federation is laden with several business opportunities in the Small and Medium Scale Enterprises sub-sector of the economy that are waiting to be exploited. These business opportunities exist in all spheres of human endeavors. *Kpelai (2009)* wrote extensively on these opportunities. According to him opportunities exists in;

1. Under this category of business, opportunities exist in poultry raising and fish farming, animal husbandry and horticulture. Most households in the state especially those in the urban centers have constructed several concrete and earthen fish ponds and small-scale poultry pens within the vicinity of their living quarters.
2. Small and Medium Scale business opportunities also exists in charcoal production, toothpick/cock tails sticks making, export of ginger , garlic, sorghum, sesame seeds, soya beans, pine-apple, hides and skin, rice milling, fruits and tomatoes canning, cassava flour production, starch



extraction, honey extraction, meat retailing, homemade cakes and bread baking.

3. **Service Industry:** SMEs business opportunities also exist in the services industry. The opportunities are in restaurant and hotel/motel services, laundry/dry cleaning services, business and computer services, cyber-café/internet services, GSM calls/recharge cards centre and other accessories. Benue people have taken advantage of these business opportunities and have established several outfits in both the rural and urban centers of the state. There is hardly any village in the state without an enterprise involved in one of the above entrepreneurial activities. In addition to the above services, business opportunities exists in barbing/hair dressing, car washing, rental services, security service outfits, waste disposal outfits.
4. **Educational Sub-Sector:** Business opportunities exist in establishing automobile driving schools, private crèche, nursery, primary, tertiary schools and information communication technology centers (computer training institutes).
5. **Manufacturing:** Small and Medium Scale Enterprises business opportunities also exists in the production of toiletries, production of conference bags, cement blocks molding, pet-bottle and sachet water production, yoghurt/ice cream making, burnt bricks molding, metal/welding works, wrought iron door and window making, printing and publishing business, production of chemical products, nylon production, soap production, polythene bags production.

In addition to the SMEs business opportunities identified above by *Kpelai (2009)* small and medium scale enterprises business opportunities also exists in the following areas, pottery, transport/haulage services, events planning, confectionaries, tailoring, handicraft, general merchandizing, shoe

making/repairs, consultancy services, artisanship, palm and groundnut oil extraction, mining, timber/lumber production etc.

## **2.9 ROLES OF SMALL AND MEDIUM SCALE ENTERPRISES IN ECONOMIC DEVELOPMENT**

A lot has been said and written about SMEs the world over. It has formed the subject of discussions in so many seminars and workshops both locally and internationally. In the same token, governments at various levels (local, state and federal levels) have in one way or the other focused on the Small and Medium Enterprises. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs based on views canvassed in the pro-Small and Medium Scale Enterprises arguments others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives others pay only lip service and bleed the country dry in the name of assisting the sub-sector.

International agencies and organizations such as the World Bank, the United Nations Industrial Development Organization (UNIDO), International Finance Corporation (IFC), United Kingdom Department for International Development (DFID), European Investment Bank (EIB) etc are not only keenly interested in making SMEs robust and vibrant in developing countries but have also heavily invested in them. Locally, the several Non-Governmental Organizations such as the Nigerian Investment Promotion Commission (NIPC), the association of Nigerian development finance institutions (ANDFI) as well as individual Development Finance Institutions (DFIs) have been promoting the growth of SMEs in Nigeria through advocacy and capacity-building initiatives, and have continued to canvass for better support structures for operators in the small and medium scale enterprises sub-sector.



All the massive attention and support given to SMEs in recent times relate to the widely acclaimed fact that SMEs are job and wealth creators. In justifying the introduction of SMIEIS in 2003 the then Governor of the Central Bank of Nigeria, Chief Joseph Sanusi said, "with a concerted effort and renewed commitment from all stakeholders, this scheme will surely succeed and realize its intended objective of revamping the SMEs as engines of growth in the economy and a veritable tool for the development of indigenous technology, rapid industrialization, generation of employment for our teeming youths and the pivot for sustainable economic development in Nigeria."

Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state 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". 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, 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.

In recognition of the enormous potential roles of SMEs, some of which have been outlined above, various special measures and programmes have been designed and policies enunciated and executed by governments to encourage



their development and hence make them more vibrant in Nigeria. The highlights of these measures include;

- i. Fiscal incentives and protective fiscal policies
- ii. Specialized financial institutions and funding schemes for the SMEs
- iii. Favourable tariff structure
- iv. The SMIEIS funding scheme
- v. Selective exemption and preferential treatment in excise duties
- vi. Establishment of Export Processing Zones
- vii. Selective reservation of items for exclusive manufacture in the SME sub-sector
- viii. Government's full weight and support for NEPAD and AGOA activities and operations.
- ix. The establishment of the Small and Medium Enterprises Development Agency of Nigeria and the development of a virile national policy on SMEs.
- x. The creation of the Ministry of Trade and Investments.

It has however worrisome that despite the incentives policies programmes and support aimed at revamping the SMEs, they have performed rather below expectation in Nigeria. Different people, organizations and operators have advanced various reasons as to why SMEs have not been able to live up to their billing. While an average operator of an SME would always hinge his failure on lack of access to finance some others think otherwise arguing that inappropriate management skills, difficulty in accessing global market, lack of entrepreneurial skills and know how, poor infrastructure etc are largely responsible.

In his address to the 2004 Annual General Meeting of the Lagos Chamber of Commerce and Industry (LCCI), the then President of the chamber, *Chief Olusola Falaye* stated that the real sector of the economy comprising

manufacturing, solid minerals and agriculture sectors where most SMEs fall into, continued to experience difficult times during the year. Continuing, he said that the situation arose from the persistent problems of high energy cost, weak consumer demand, and policy inconsistency, multiplicity of taxes and levies, institutional bottlenecks, high cost of funds and poor state of infrastructure among others. He cautioned that if something concrete is not done to address these constraints, the real sector of the economy especially the small and medium scale segment would continue to experience a sluggish growth if not outright stagnation. The then LCCI President also pointed out that the impacts various poverty alleviation measures such as the Poverty Alleviation Programme (PAP), which later became Poverty Reduction Strategy Programme (PRSP) and currently National Poverty Eradication Programme (NAPEP) put in place by the Federal Government are yet to be felt by the masses. He stressed that these programmes do not touch the root of poverty problems in Nigeria as recent estimates put the percentage of Nigerians living in abject poverty at 70%. The LCCI president was visibly concerned about the situation because of its wider implications for consumer purchasing power, the state of internal security, crime rate and the social and political stability of the country.

The Federal Government of Nigeria desire to stimulate the growth of the small and medium scale enterprises is evidenced by the following objectives and strategies many of which have been ongoing for a while and which has indeed to some extent addressed some of the above problems. The objective hinged on creating a favourable and enabling environment for stimulating growth in the real sector of Nigeria especially the SMEs. The Federal Government has enunciated several policy thrusts over the years in their annual budgets which were aimed at improving the Small and Medium Scale Enterprises sub-sector. Key among these includes:



- Restructuring the Nigerian economy to make it market-oriented, private sector led and technology driven.
- Reducing unemployment and increasing productivity.
- Maintaining price and exchange stability and a healthy balance of payments.
- Reducing lending rates and improving savings
- Improving the performance of major infrastructural facilities such as power supply, communications and transportation
- Entrenching probity, transparency and accountability in governance
- Improving credit delivery and extension services to small and medium scale enterprises

To realize the above objectives, the Federal Government initiated and has adopted the following key strategies

- Appreciate investments in power generation, implementation of an emergency power programme (EPP) encouragement of establishment of commercial power plant and focusing on transmission distribution and rural electrification.
- Establishment of anti-corruption bodies such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC)
- Roads construction and rehabilitation and the establishment of a road maintenance agency(FERMA)
- Provision of N50 billion for the take off of the Bank of Industry
- Implementation of the Small and Medium Industries Equity Investments Scheme (SMIEIS) which requires banks to set aside 10% of their profits before tax to improve availability of funds to SMEs
- Enactment of the Pension Act which could be an additional source of funding for SMEs.



- Recently the administration of president Goodluck Jonathan has created a new ministry of trade and investment.

The contributory roles of Small and Medium Scale Enterprises to the economic development of societies of the world, Benue State inclusive, cannot be over-emphasized because small businesses which constitute the bulk of businesses in the small and medium scale sub-sector of the economy is believed to be the engine room for the growth of any developing economy.

However, the researcher relied extensively on the works of *Onuigbo (1992)*, *Kpelai (2009)* and other authorities on the subject matter to assess the potential contributions of SMEs to economic development. Small and medium scale enterprises contribute to economic development in the following ways.

1. Employment Generation and Rural Development;

*Kpelai (2009)* contends that SMEs are employment creators because of their labour intensive structure. According to the vision 2010 report and the findings of the study conducted by the Nigerian institute of social and economic research (NISER) in 1983 cited in *Kpelai (2009)* SMEs employ a workforce of about 80% of the country's labour force, and 45% of total employment by industrial establishment in Nigerian. Despite the above statistics, the potential of SMEs in the area is not yet fully realized because of certain impediments such as un-conducive business environment, lack of basic infrastructure, lack of credit facilities. *Kpelai (2009)* submitted also that the employment opportunities offered by the small business sub-sector reduces rural-urban migration and allows for even development. Small and Medium Scale Enterprises situated in rural areas stimulate entrepreneurship culture which in the long-run gives rise to wealth creation.

2. Rectification of Economic Development Imbalance

A third contributory role of SMEs to economic development lies in their ability to correct the imbalance resulting from economic development because of the small number of people and the low amount of capital required for the running of an SME. SMEs facilitate decentralization of industrial processes in a way. According to *Onuigbo (1992)* SMEs provide a lasting solution to the problem of spatial imbalance in the distribution of industries between the rural and urban centers. This checks the perennial rural-urban drift.

### 3. Economic Growth, Industrial Growth

According to *Kpelai (2009)*, national economic development prospects rests on the wings of the entrepreneurial energy of vibrant small businesses as most big business concerns grow from small scale to become big icons. *Whereas in great and developed economies* of Germany, United States of America and even South Korea, SMEs account for as high as 64% of industrial employment, a comparative figure in Nigeria is around 31%, less than half of those in developed countries. The 31% of SME contribution to industrial growth is rather disturbing given the high degree of unemployment rate in Nigeria as well as the poverty level in the country as measured by the following indices: Illiteracy rate, infant mortality rate, life expectancy at Birth and GDP growth rate as compared with other countries. It is expected that these developmental indices will increase steadily with improvements in Nation Small and Medium Scale Enterprises sub-sector's performance.

### 4. Contributions to Industrial Production in particular and GDP in general.

*Onugu (2005)* stated that despite the fact that there is hardly any well-documented, reliable and current data, it is rather obvious that the contributions of SMEs to the Nigerian Industrial output in particular and the Gross Domestic Product in general are less than satisfactory. Evidence of this poor performance is buttressed by the fact that most



manufacturing enterprises in Nigeria had operated well below capacity in the last two decades. At times the capacity utilization has been as low as thirty percent (30%) of the installed capacity. Only the multinational businesses had thrived while several SMEs have folded up and thus aggravating the unemployment situation in the country and its attendant consequences.

The constraints to full industrial capacity utilization of small and medium scale enterprises have been enumerated by scholars to include limited access to financing, high costs of funds and equipments procurement, infrastructural inadequacies, unpredictable and inconsistent government policies, low disposable income of consumers, low quality of manufactured goods, multiple taxes and levies on manufacturing inputs and manufactured goods, inefficiencies of customs personnel and ports mal-administration, dumping of cheap finished products into the nation's market, inadequate legal framework and non patronage of locally produced goods by government and the citizenry. The government in the Nigerian Vision 2010 initiatives had envisioned an environment in which small and medium scale enterprises would contribute significantly.

#### 5. Aiding Big Businesses

SMEs are veritable supports to large scale businesses value chain, *Kpelai (2009)* relying on *Longnecker (1997)* identified the following functions as those which small and medium scale enterprises perform as aides of big businesses.

- a) Distribution Function
- b) Supply Function; and
- c) Service Function

#### 6 Conservation of Foreign Reserves



Another important role of SMEs is that industries which comprise the sub-sector depend less on imported inputs relative to their total capital investments. low import contents in the capital structures of small-scale industries reduces the need for foreign inputs this reduces pressures on the limited foreign exchange demands and so helps to eliminate some of the balance of payment deficits.

## **2.10 CHALLENGES OF SMEs IN NIGERIA**

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of successive administrations since the nation's political independence gives a cause for concern. It underscores the belief that there exists fundamental issues or problems which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled. A review of literature based on the works of the following authorities and experts; *Okongwu (1986)*, *Onuigbo (1992)*, *Onugu (2005)* and *Kpelai (2009)* reveals indeed the following plethora of problems which are quite enormous, fundamental and far-reaching.

- 1) Inadequate, inefficient and at times non-functional infrastructural facilities which tend to escalate costs of operations as SMEs are forced to resort to private provision of utilities such as road, water, electricity, transportation, communication etc.
- 2) Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These bottlenecks discourage would-be entrepreneurs and stifle the expansion of existing SMEs.
- 3) Lack of easy access to funds/credits which can be traced to the reluctance of banks to extend credit lines or facilities to them, inadequate documentation of business proposals, lack of appropriate

and adequate collateral, high cost of administration and management of loans as well as high interest rates.

- 4) Discrimination from banks which are averse to the risk of lending to SMEs especially start-ups.
- 5) High cost of packaging appropriate business proposals
- 6) Uneven competition arising from import waivers which at times granted to large firms engaged in the importation of finished products.
- 7) Lack of access to modern technology as well as near absence of research and development practices.
- 8) High dependence on imported raw materials with attendant high foreign exchange cost and scarcity.
- 9) Weak demand for products arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority
- 10) Unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization which makes it difficult for SMEs to compete even in local/home markets.
- 11) Weakness in organization, mediocre marketing information system.
- 12) High incidence of multiplicity of official regulatory agencies, taxes and levies which results in high cost of doing business. The problem of multiple taxes is caused by the absence of a harmonized and gazette tax regime which would enable manufacturers to build in recognized and approved levies and taxes payable.
- 13) Widespread corruption and harassment of SMEs by some agencies of government over refusal to pay certain levies and charges
- 14) The lack of scientific and technological knowledge and know-how to meet stringent international quality standards, a subtle trade barrier set



up by some developed countries in the guise of environmental or health standards.

- 15) The inability to penetrate and compete favorably in international markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanisms and technology to process, preserve and package the products for export.
- 16) Lack of initiative and administrative framework or linkage to support and sustain SMEs development which to a large extent is also a reflection of poor technological capability or intellectual resource.
- 17) Lack of appropriate and adequate managerial and entrepreneurial skills with the attendant lack of strategic plan, business plan, succession plan, adequate organizational set-up, transparent operational system etc on the part of many founders and managers of SMEs in Nigeria. As a fallout of this, many Small and Medium Scale Enterprises promoters procure obsolete and inefficient equipment thereby setting the stage for lower quality and substandard production with dire repercussions on product output, market penetration and product non-acceptance.
- 18) Lack of appropriate training and leadership development. despite the proliferations of training institutions in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of accounting, marketing, information technology, technological processes and development, International trade, administration and management of Small and Medium Enterprises. Essentially, SMEs are left most often on their own to succeed amidst the avalanche of operational difficulties inherent in the Nigerian business environment as well as the operational shortcomings which characterize institutions set up to facilitate the development and sustenance of Small and Medium Scale Enterprises businesses.



*Onugu (2005)* identified ten problems confronting small and medium scale in Nigeria in the following decreasing order of intensity ; management access to finance, infrastructure, government policy inconsistencies and bureaucracy, environmental factors, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and non-availability of raw materials locally is the least problem.

The potentials and opportunities for SMEs in Nigeria to rebound and play the crucial role of engine of growth development and industrialization, wealth creation, poverty reduction and employment creation are enormous. The realization of this requires a paradigm shift from paying lip service and rhetoric by government to a practical radical approach and focus on this all-important sector of the economy by the government realistically addressing the identified problems. While promoters of small and medium scale enterprises themselves need to change their attitude and habits relating to entrepreneurship development, the governments (local, state and federal) need to involve the SMEs in policy formulation and execution for maximum effect. There is also the dire need to introduce entrepreneurial studies in our universities in addition to emphasizing science, practical and technological studies at all levels of our educational system. Entrepreneurial centers should also be established in universities.

Promoters of SMEs should thus ensure the availability or possession of managerial capacity and acumen before pursuing financial resources for the development of their respective enterprise. *Onuigbo (1992)* identified the following variables as the traditional problems of SMEs in Nigeria;

Finance: All the problems that beset small-scale business enterprise emanates from lack of adequate financing managers of small-scale enterprises entities generally lack knowledge of the right source(s) of finance for investment and working capital. To add salt to injury institutional source(s) of finance are

often unwilling to provide facilities for these enterprises. Hence many of them are faced with perennial problem of shortage of working capital which renders their ability to produce grounded. The upshot is that many of these enterprises have to depend on alternative source(s) of funds in form of family savings or borrowing from middle men and even from unscrupulous money-lenders where interest rates, security and terms of repayment are more exerting than those of the normal financial institutions. Another aspect of the problem of finance is that it limits the small entrepreneur's ability to engage in aggressive selling/marketing techniques for example, the small-scale business enterprises surveyed do not offer competitive credit terms usually given by large-scale producers or distributors.

Organization: *Onuigbo (1992)* declared that organizational problem is an outcome of the firm's size and inability to retain highly specialized workers in the functional lines of management and accounting. The demand for the skills of such people by the firm may be so small that the workers remain under-employed.

Technology: under this factor *Onuigbo (1992)* avowed that the problem of technology may arise in the sense that the small-scale business enterprises may not be able to avail herself of the service of ready-made technologist because of financial constraints. The tendency is then to develop the technological know-how on the job.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 RESEARCH DESIGN**

Descriptive research method is employed in this study because the fundamental motive for this research is to carry out an impact assessment of the contributions of Small and Medium Scale Enterprises to the economic development of Benue State of Nigeria.

#### **3.2 POPULATION**

Records obtained from the Benue state ministry of commerce and industries Makurdi as at February 13<sup>th</sup>, 2012 showed that eighty-eight SMEs were registered for year 2011.

#### **3.3 SAMPLE SIZE**

The number of SMEs selected for this study is eighty-eight (88) these SMEs constitute the population. The entire population is used as the sample size so that the data obtained will reflect the true position of the subject under study.

#### **3.4 SAMPLING PROCEDURE**

Stratified Random sampling was used for this study so that every SME in the population will have the opportunity of being picked. The random sampling technique ensures that the data which was collected conformed to facts in respect of the subject matter under study. The general procedures for choosing a stratified sample are:

- a) Stratify the population into separate groups: In carrying out this research the researcher separated the SMEs into different classes based on lines of business which the SMEs are engaged in (Manufacturing, Retailing, and Printing etc).
- b) Compute the proportion of the population which constitute the stratum(group) in relation to the entire population for example calculate



the percentage of SMEs that carry out manufacturing activities from the population.

- c) Divide or split the total sample size into the above proportions (Manufacturing, Retailing, Personal services SMEs).
- d) Take a separate sample from each stratum. Using the sampling frame for that stratum. The sampled number from each stratum must however bear the same proportion with the total sample size as the stratum bears with the target population.

### **3.5 DATA COLLECTION TECHNIQUES**

The primary data used in this study was obtained through the administration of questionnaires to owners/managers of 1156 selected small and Medium Scale Enterprises in the State who constitute the sample. The structured type of questionnaire was used. Secondary data was also used. The secondary data were obtained from the literary works of leading scholars, experts, and authorities on the subject matter.

### **3.5 ANALYTICAL TECHNIQUES**

Simple percentages are used for analysis. Tabulations were used for the data presentations. Multiple regression analysis is used to test the two hypotheses.

## CHAPTER FOUR

### 4.1 DATA PRESENTATION AND ANALYSIS

In this chapter responses obtained from respondents based on the questions contained in the two-part structured questionnaire will be presented in appropriate tables. The separate analytical tables (Descriptive statistics, ANOVAs, Coefficients) will be prepared to test the two distinct hypotheses.

#### 4.1.1 SMEs ARE THE ENGINES OF ECONOMIC GROWTH

| Response          | Frequency | Percent    |
|-------------------|-----------|------------|
| Strongly Disagree | 5         | 5.7        |
| Disagree          | 18        | 20.5       |
| Undecided         | 10        | 11.4       |
| Agree             | 25        | 28.4       |
| Strongly Agree    | 30        | 34.1       |
| <b>Total</b>      | <b>88</b> | <b>100</b> |

*Source: Field study 2012.*

Table 4.1.1 show that 5 (5.7%) respondents strongly disagree that SMEs are engines of economic growth, 18(20.5%) disagree with the assertion that SMEs are engines of economic growth, 10 (11.4%) of the respondents were undecided, 25 (28%) respondents agree with the statement, while 30 respondents representing 34.1% of the population strongly agree that SMEs are indeed engines of economic growth.

#### Table 4.1.2 SMEs GENERATES EMPLOYMENT

| Response          | Frequency | Percent |
|-------------------|-----------|---------|
| Strongly Disagree | 6         | 6.8     |
| Disagree          | 10        | 11.4    |
| Undecided         | 2         | 2.3     |
| Agree             | 30        | 34.1    |
| Strongly Agree    | 40        | 45.5    |

|              |           |            |
|--------------|-----------|------------|
| <b>Total</b> | <b>88</b> | <b>100</b> |
|--------------|-----------|------------|

**Source: Field Study 2012.**

This table shows that 6 (6.8%) respondents strongly disagree that SMEs generates employment, 10 (11.4%) respondents disagree, 2 (2.3%) were undecided, 30 (34.1%) respondents agreed that SMEs generate employment while 40 (45.5%) respondents strongly agree that SMEs generate employment.

**TABLE 4.1.3 SMEs HELPS IN INCOME DISTRIBUTION**

| <b>Response</b>   | <b>Frequency</b> | <b>Percent</b> |
|-------------------|------------------|----------------|
| Strongly Disagree | 14               | 15.9           |
| Disagree          | 12               | 13.6           |
| Undecided         | 10               | 11.4           |
| Agree             | 16               | 16.2           |
| Strongly Agree    | 36               | 40.9           |
| <b>Total</b>      | <b>88</b>        | <b>100</b>     |

**Source: Field Study 2012.**

Table 4.1.3 show that 14 (15.9%) respondents strongly disagree that SMEs helps in income distribution, 12 (13.6%) respondents disagreed, 10 (11.4%) respondents were undecided, 16 (18.2%) agreed that SMEs helps in income distribution while 36 respondents representing 40.9% of the population strongly agree that SMEs help in income distribution.

**TABLE 4.1.4 SMEs GENERATES REVENUE FOR THE GOVERNMENT.**

| <b>Response</b>   | <b>Frequency</b> | <b>Percent</b> |
|-------------------|------------------|----------------|
| Strongly Disagree | 11               | 12.5           |
| Disagree          | 10               | 11.4           |
| Undecided         | 8                | 9.1            |
| Agree             | 30               | 34.1           |
| Strongly Agree    | 29               | 33.0           |
| <b>Total</b>      | <b>88</b>        | <b>100</b>     |



**Source: Field Study 2012.**

This table shows 11 (12.5%) respondents strongly disagree that SMEs generate revenue for the government, 10 (11.4%) respondents disagree with the assertion, 8 (9.1%) respondents were undecided in their response, 30 (34.1%) agree that SMEs generate revenue for the government while 29 (33.0%) respondent strongly agree that SMEs generate revenue for government.

**TABLE 4.1.5 SMEs CONTRIBUTES TO POVERTY REDUCTION**

| Response          | Frequency | Percent    |
|-------------------|-----------|------------|
| Strongly Disagree | 9         | 10.2       |
| Disagree          | 12        | 13.6       |
| Undecided         | 6         | 6.8        |
| Agree             | 20        | 22.7       |
| Strongly Agree    | 41        | 46.6       |
| <b>Total</b>      | <b>88</b> | <b>100</b> |

**Source: Field study 2012**

Table 4.1.5 shows that 9 respondents representing (10.2%) of the population strongly disagree that SMEs helps in poverty reduction, 12 (13.6%) respondents disagree, 6 (6.8%) respondents were undecided, 20 (22.7%) respondents agree that SMEs contributes to poverty reduction and 41 (46.6%) respondents strongly agree that SMEs contributes to poverty reduction

**TABLE 4.1.6 SMEs IMPROVES THE STANDARD OF LIVING**

| Response          | Frequency | Percent |
|-------------------|-----------|---------|
| Strongly Disagree | 6         | 6.8     |
| Disagree          | 10        | 11.4    |
| Undecided         | 12        | 13.6    |

|                |           |            |
|----------------|-----------|------------|
| Agree          | 28        | 31.8       |
| Strongly Agree | 32        | 36.4       |
| <b>Total</b>   | <b>88</b> | <b>100</b> |

**Source: Field study 2012**

This table shows that 6 respondents (6.8) strongly disagree that SMEs activities improves the standard of living of the citizenry, 10 respondents or 11.4 % of the population disagree, 12 (13.6) respondents were undecided in their response, 28 respondents (31.8%) agree that SMEs activities improve the standard of living of people in the society while 32 respondents representing 36.4% of the population strongly agree that SMEs indeed improves standards of living.

**TABLE 4.1.7 SMEs CONTRIBUTES TO GDP**

| Response          | Frequency | Percent    |
|-------------------|-----------|------------|
| Strongly Disagree | 4         | 4.5        |
| Disagree          | 7         | 8.0        |
| Undecided         | 9         | 10.2       |
| Agree             | 30        | 34.1       |
| Strongly Agree    | 38        | 43.2       |
| <b>Total</b>      | <b>88</b> | <b>100</b> |

**Source: Field study 2012**

The table above show that 4 (4.5%) respondents strongly disagree that SMEs contributes to GDP, 7 (8.0%) disagree, 9 respondents or 10.2% of the population were undecided, 30 (34.1%) agree that SMEs contribute to GDP, while 38 respondents representing 43.2% of the population strongly agree that SMEs contributes to the GDP.

**TABLE 4.1.8 SMEs HELPS IN LOCAL PRODUCTION OF GOODS AND SERVICES.**

| Response          | Frequency | Percent |
|-------------------|-----------|---------|
| Strongly Disagree | 6         | 6.8     |

|                |           |            |
|----------------|-----------|------------|
| Disagree       | 5         | 5.7        |
| Undecided      | 11        | 12.5       |
| Agree          | 31        | 35.2       |
| Strongly Agree | 35        | 39.8       |
| <b>Total</b>   | <b>88</b> | <b>100</b> |

**Source: Field study 2012.**

In table 4.1.8 above 6 respondents representing 6.8% of the population strongly disagree that SMES helps in the local production of goods and services, 5 respondents representing 5.7% of the population disagree that SMEs helps in the local production of goods and services, 11 respondents representing 12.5% of the population are undecided that SMEs helps in the local production of goods and services, 31 respondents representing 35.2% of the population agree that SMEs helps in the local production of goods and services and 35 respondents representing 39.8% of the population strongly agree that SMEs helps in the local production of goods and services.

**TABLE 4.1.9 SMEs FACILITATES WEALTH CREATION**

| <b>Response</b>   | <b>Frequency</b> | <b>Percent</b> |
|-------------------|------------------|----------------|
| Strongly Disagree | 10               | 11.4           |
| Disagree          | 9                | 10.2           |
| Undecided         | 12               | 13.6           |
| Agree             | 28               | 31.8           |
| Strongly Agree    | 29               | 33.0           |
| <b>Total</b>      | <b>88</b>        | <b>100</b>     |

**Source: Field study 2012**

In the table above, 10 respondents representing 11.4% strongly disagree with the assertion that SMEs facilitates wealth creation, 9 respondents representing 10.2% disagree, 12 respondents representing 13.6% are undecided on the question, 28 respondents or 31.8% of the population agree



that SMEs facilitates wealth creation, 29 respondents representing 33.0%, strongly agree that indeed SMEs facilitates wealth creation.

**TABLE 4.1.10 SMEs INFLUENCE ON EMPLOYMENT GENERATION**

| Response     | Frequency | Percent    |
|--------------|-----------|------------|
| Very Low     | 14        | 15.9       |
| Low          | 12        | 13.6       |
| Undecided    | 10        | 11.4       |
| High         | 16        | 18.2       |
| Very High    | 36        | 40.9       |
| <b>Total</b> | <b>88</b> | <b>100</b> |

*Source: Field study 2012*

Table 4.1.10 shows that 14 respondents representing 15.9% of the population answered that SMEs influence on employment generation is very low, 13.6% of the population or 12 respondents responded that the degree of influence is low, 10 of the respondents representing 11.4% are undecided on the question, 16 respondents representing 18.2% of the population stated that the degree of influence is high, while 36 of the respondents representing 40.9% of the population submitted that the degree of influence is very high.

**TABLE 4.1.11 INDUSTRIALIZATION AND ECONOMIC GROWTH**

| Response     | Frequency | Percent    |
|--------------|-----------|------------|
| Very Low     | 5         | 5.7        |
| Low          | 18        | 20.5       |
| Undecided    | 10        | 11.4       |
| High         | 25        | 28.4       |
| Very High    | 30        | 34.1       |
| <b>Total</b> | <b>88</b> | <b>100</b> |

*Source: Field study 2012*

Table 4.1.11 above show that 5 of the respondents representing 5.7% of the population in their response stated that SMEs enhancement of

industrialization & economic growth is very low, 18 of the respondents representing 20.5% stated that SMEs enhancement of industrialization and economic growth is low, 10 of the respondents or 11.4% of the population were undecided, 26 of the respondents or 29.5% of the population stated that SMEs enhancement of industrialization and economic growth is high. While 30 respondents or 34.1% submitted that the degree of enhancement is very high.

**TABLE 4.1.12 UTILIZATION OF INDIGENIOUS RESOURCES**

| Response     | Frequency | Percent    |
|--------------|-----------|------------|
| Very Low     | 10        | 11.4       |
| Low          | 10        | 11.4       |
| Undecided    | 13        | 14.8       |
| High         | 28        | 31.8       |
| Very High    | 27        | 30.7       |
| <b>Total</b> | <b>88</b> | <b>100</b> |

*Source: Field Study 2012*

Table 4.1.12 show that 10 respondents (11.4%) of the population rate SMEs utilization of indigenous resources very low, another 11.4% rate SMEs utilization of indigenous resources low, 13 respondents or 14.8% were undecided in rating SMEs utilization of indigenous resources, 28 respondents or 31.8% of the population rate SMEs utilization of indigenous resources high, while the remaining 27 respondents representing 30.7% of the population rate SMEs utilization of indigenous resources very high.

**TABLE 4.1.13 THE QUALITY OF GOODS AND SERVICES**

| Response | Frequency | Percent |
|----------|-----------|---------|
| Very Low | 6         | 6.8     |
| Low      | 10        | 11.4    |

|              |           |            |
|--------------|-----------|------------|
| Undecided    | 2         | 2.3        |
| High         | 30        | 34.1       |
| Very High    | 40        | 45.5       |
| <b>Total</b> | <b>88</b> | <b>100</b> |

*Source: Field study 2012*

6 (6.8%) respondents rate the quality of goods and services produced by SMEs very low, 10 respondents or 11.4% of the population rate the quality of goods and services produced by SMEs low, 2 respondents or 2.3% of the population were undecided on this question, 30 respondents representing 34.1% of the population rated the goods and services produced by SMEs high, 40 respondents or 45.5% of the population rated the goods and services produced by SMEs very high.

**TABLE 4.1.14 SMEs CONTRIBUTIONS TO RURAL DEVELOPMENT**

| <b>Response</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------|------------------|----------------|
| Very Low        | 9                | 10.2           |
| Low             | 12               | 13.6           |
| Undecided       | 6                | 6.8            |
| High            | 20               | 22.7           |
| Very High       | 41               | 46.6           |
| <b>Total</b>    | <b>88</b>        | <b>100</b>     |

*Source: Field study 2012*

Table 4.1.14 show that 9 respondents representing 10.2% of the population rate SMEs contribution to rural development very low, 12 respondents or 13.6% of the population rate SMEs contribution to rural development low, 6 respondents (6.8%) were undecided, 20 respondents rated the contribution of SMEs to rural development high, 41 respondents rated SMEs contribution to rural development very high.



**TABLE 4.1.15 SMEs CONTRIBUTIONS TO POVERTY ALLEVIATION**

| <b>Response</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------|------------------|----------------|
| Very Low        | 4                | 4.5            |
| Low             | 7                | 8.0            |
| Undecided       | 9                | 10.2           |
| High            | 30               | 34.1           |
| Very High       | 38               | 43.2           |
| <b>Total</b>    | <b>88</b>        | <b>100</b>     |

*Source: Field study 2012*

In the above table 4 respondents representing 4.5% of the population rated SMEs contributions to poverty alleviation very low, 7 respondents or 8% of the population rated the contributions of SMEs to poverty alleviation as low, 9 respondents or 10.2% of the population were undecided in rating SMEs contributions to poverty alleviation 30 respondents rated SMEs contributions to poverty alleviation high, while the remaining 38 respondents representing 43.2 % of the population rated SMEs contributions to poverty alleviation very high.

**TABLE 4.1.16 SMEs CONTRIBUTIONS TO WEALTH CREATION**

| <b>Response</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------|------------------|----------------|
| Very Low        | 6                | 6.8            |
| Low             | 10               | 11.4           |
| Undecided       | 12               | 13.6           |
| High            | 27               | 30.7           |
| Very High       | 33               | 37.5           |
| <b>Total</b>    | <b>88</b>        | <b>100</b>     |

*Source: Field study 2012*

In table 4.1.16 above 6 respondents rated SMEs contribution to wealth creation very low, 10 respondents or 11.4% of the population rated SMEs contribution to wealth creation low, 12 respondents or 13.6% were undecided in rating SMEs contributions to wealth creation, 27 respondents or 30.7% of

the population rated SMEs contribution to wealth creation as high while 33 respondents or 37.5% of the population rated SMEs contributions to wealth creation as very high.

**TABLE 4.1.17 SMEs CONTRIBUTIONS TO FINANCIAL INDEPENDENCE**

| Response     | Frequency | Percent    |
|--------------|-----------|------------|
| Very Low     | 9         | 10.2       |
| Low          | 10        | 11.4       |
| Undecided    | 12        | 13.6       |
| High         | 29        | 33.0       |
| Very High    | 28        | 31.8       |
| <b>Total</b> | <b>88</b> | <b>100</b> |

*Source: Field Study 2012*

9 respondents or 10.2% of the population rated SMEs contributions to financial independence very low, 10 respondents representing 11.4% of the population rated SMEs contributions to financial independence as low, 12 respondents or 13.6% were undecided in rating SMEs contributions to financial independence, 29 respondents representing 33.0% of the population rated SMEs contribution to financial independence high and 28 respondents or 31.8% rated the contributions of SMEs to financial independence as very high.

## 4.2 TESTING OF HYPOTHESES

### HYPOTHESIS I

#### Descriptive Statistics

|                                       | Mean  | Std. Deviation | N  |
|---------------------------------------|-------|----------------|----|
| SMEs                                  | 37.82 | 12.6706        | 88 |
| Employment generation                 | 3.55  | 1.523          | 88 |
| Standard of living                    | 3.74  | 1.264          | 88 |
| Industrialization and Economic growth | 3.65  | 1.296          | 88 |
| Utilization of indigenous resources   | 3.59  | 1.336          | 88 |
| Quality goods and services            | 4.00  | 1.250          | 88 |

|                   |      |       |    |
|-------------------|------|-------|----|
| Rural development | 3.82 | 1.411 | 88 |
|-------------------|------|-------|----|

## Correlations

|                     |                                       | SMEs  | Employment Generation | Standard of living | Industrialization & Economic growth | Utilization of indigenous resources | Quality & services | Rural Development |
|---------------------|---------------------------------------|-------|-----------------------|--------------------|-------------------------------------|-------------------------------------|--------------------|-------------------|
| Pearson Correlation | SMEs                                  | 1.000 | 0.970                 | 0.980              | 0.971                               | 0.977                               | 0.956              | 0.979             |
|                     | Employment generation                 | 0.970 | 1.000                 | 0.953              | 0.955                               | 0.947                               | 0.906              | 0.956             |
|                     | Standard of living                    | 0.980 | 0.953                 | 1.000              | 0.975                               | 0.957                               | 0.902              | 0.953             |
|                     | Industrialization and Economic growth | 0.971 | 0.955                 | 0.975              | 1.000                               | 0.965                               | 0.887              | 0.939             |
|                     | Utilization of indigenous resources   | 0.977 | 0.947                 | 0.957              | 0.965                               | 1.000                               | 0.915              | 0.948             |
|                     | Quality goods and services            | 0.956 | 0.904                 | 0.902              | 0.887                               | 0.915                               | 1.000              | 0.939             |
|                     | Rural development                     | 0.979 | 0.956                 | 0.953              | 0.939                               | 0.948                               | 0.939              | 1.000             |
|                     |                                       |       |                       |                    |                                     |                                     |                    |                   |
| Sig. (1-tailed)     | SMEs                                  |       | 0.000                 | 0.000              | 0.000                               | 0.000                               | 0.000              | 0.000             |
|                     | Employment generation                 | 0.000 |                       | 0.000              | 0.000                               | 0.000                               | 0.000              | 0.000             |
|                     | Standard of living                    | 0.000 | 0.000                 |                    | 0.000                               | 0.000                               | 0.000              | 0.000             |
|                     | Industrialization and Economic growth | 0.000 | 0.000                 | 0.000              |                                     | 0.000                               | 0.000              | 0.000             |
|                     | Utilization of indigenous resources   | 0.000 | 0.000                 | 0.000              | 0.000                               |                                     | 0.000              | 0.000             |
|                     | Quality goods and services            | 0.000 | 0.000                 | 0.000              | 0.000                               | 0.000                               |                    | 0.000             |
|                     | Rural development                     | 0.000 | 0.000                 | 0.000              | 0.000                               | 0.000                               | 0.000              |                   |
|                     |                                       |       |                       |                    |                                     |                                     |                    |                   |
| N                   | SMEs                                  | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     | Employment generation                 | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     | Standard of living                    | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     | Industrialization and Economic growth | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     | Utilization of indigenous resources   | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     | Quality goods and services            | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     | Rural development                     | 88    | 88                    | 88                 | 88                                  | 88                                  | 88                 | 88                |
|                     |                                       |       |                       |                    |                                     |                                     |                    |                   |

## Model Summary

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | 0.998 | 0.997    | 0.996             | 0.769                      |

- Predictors: (Constant), Rural development, Quality goods and services, industrialization and economic growth, employment generation, utilization of indigenous resources, Standard of living
- Dependent Variable: SMEs

## ANOVA

| Model | Sum of | df | Mean | F | Sig. |
|-------|--------|----|------|---|------|
|-------|--------|----|------|---|------|



|               |                |    |               |         |       |
|---------------|----------------|----|---------------|---------|-------|
|               | <b>Squares</b> |    | <b>Square</b> |         |       |
| 1. Regression | 13919.182      | 6  | 2319.864      | 3.922E3 | 0.000 |
| Residual      | 47.909         | 81 | 0.591         |         |       |
| Total         | 13967.091      | 87 |               |         |       |

- a. Predicators: (Constant), Rural development, Quality goods and services, industrialization and economic growth, employment generation, utilization of indigenous resources, Standard of living
- b. Dependent Variable: SMEs

### Coefficients

| Model                               | Unstandardized Coefficients |            | Standardized Coefficient | T      | Sig.  |
|-------------------------------------|-----------------------------|------------|--------------------------|--------|-------|
|                                     | B                           | Std. Error | Beta                     |        |       |
| 1. (Constant)                       | 0.663                       | 0.340      |                          | 1.952  | 0.054 |
| Employment generation               | 0.887                       | 0.225      | 0.107                    | 3.941  | 0.000 |
| Standard of living                  | 2.585                       | 0.337      | 0.258                    | 7.677  | 0.000 |
| Industrialization & Economic growth | 0.953                       | 0.348      | 0.097                    | 2.743  | 0.008 |
| Utilization of Indigenous Resources | 1.587                       | 0.277      | 0.167                    | 5.731  | 0.000 |
| Quality goods and services          | 2.554                       | 0.199      | 0.252                    | 12.820 | 0.000 |
| Rural Development                   | 1.297                       | 0.270      | 0.144                    | 4.813  | 0.000 |

**Contingency Table for Hypothesis One**

| Predictors                             | Mean | Standard Deviation | Beta  | F     | Adjusted R-Square | P-Value | Remark      |
|--|------|--------------------|-------|-------|-------------------|---------|-------------|
| 1. Employment generation               | 3.55 | 1.523              | 0.107 | 3.922 | 0.966             | <0.05   | Significant |
| 2. Standard of living                  | 3.74 | 1.264              | 0.258 |       |                   |         |             |
| 3. Industrialization & Economic growth | 3.65 | 1.296              | 0.097 |       |                   |         |             |
| 4. Utilization of indigenous resources | 3.59 | 1.336              | 0.167 |       |                   |         |             |
| 5. Quality goods and services          | 4.00 | 1.250              | 0.252 |       |                   |         |             |
| 6. Rural Development                   | 3.82 | 1.411              | 0.144 |       |                   |         |             |

*Source: Computed SPSS result*

The table above shows that  $F_{6,81} = 3.922$ ,  $P\text{-Value} < 0.05$  which is significant. The null hypothesis is rejected, while the alternative hypothesis is accepted. This means that there is a significant relationship between SMEs and economic development of Benue State.

The predictor variables are all significant in the following order; standard of living ( $\beta = 0.258$ ), quality goods and services ( $\beta = 0.252$ ), utilization of indigenous resources ( $\beta = 0.167$ ), employment generation ( $\beta = 0.107$ ), rural development ( $\beta = 0.144$ ) and industrialization & economic growth ( $\beta = 0.097$ ).

## HYPOTHESIS 2

### Descriptive Statistics

|                        | Mean  | Std. Deviation | N  |
|------------------------|-------|----------------|----|
| SMEs                   | 37.82 | 12.670         | 88 |
| Poverty alleviation    | 4.03  | 1.129          | 88 |
| Wealth creation        | 3.81  | 1.249          | 88 |
| Financial independence | 3.65  | 1.313          | 88 |

### Correlations

|                     |                     | SMEs  | Poverty alleviation | Wealth Creation | Financial independence |
|---------------------|---------------------|-------|---------------------|-----------------|------------------------|
| Pearson Correlation | SMEs                | 1.000 | 0.965               | 0.984           | 0.980                  |
|                     | Poverty alleviation | 0.965 | 1.000               | 0.942           | 0.931                  |
|                     | Wealth creation     | 0.984 | 0.942               | 1.000           | 0.960                  |

|                    |                        |       |       |       |       |
|--------------------|------------------------|-------|-------|-------|-------|
|                    | Financial independence | 0.980 | 0.931 | 0.960 | 1.000 |
| Sig.<br>(1-tailed) | SMEs                   |       | 0.000 | 0.000 | 0.000 |
|                    | Poverty alleviation    | 0.000 |       | 0.000 | 0.000 |
|                    | Wealth creation        | 0.000 | 0.000 |       | 0.000 |
|                    | Financial independence | 0.000 | 0.000 | 0.000 |       |
| N                  | SMEs                   | 88    | 88    | 88    | 88    |
|                    | Poverty alleviation    | 88    | 88    | 88    | 88    |
|                    | Wealth creation        | 88    | 88    | 88    | 88    |
|                    | Financial independence | 88    | 88    | 88    | 88    |

### Model Summary

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | 0.995 | 0.991    | 0.991             | 1.233                      |

- a. Predictors: (Constant), Financial independence, Poverty alleviation, Wealth creation

### ANOVA

| Model         | Sum of Squares | df | Mean Square | F       | Sig.  |
|---------------|----------------|----|-------------|---------|-------|
| 1. Regression | 13839.357      | 3  | 4613.119    | 3.034E3 | 0.000 |
| Residual      | 127.734        | 84 | 1.521       |         |       |
| Total         | 13967.091      | 87 |             |         |       |

- a. Predictors: (Constant), Financial independence, Poverty alleviation, Wealth creation  
b. Dependent Variable: SMEs

### Coefficients

| Model                  | Unstandardized Coefficients |            | Standardized Coefficient | T      | Sig.  |
|------------------------|-----------------------------|------------|--------------------------|--------|-------|
|                        | B                           | Std. Error | Beta                     |        |       |
| 1. (Constant)          | -1.794                      | 0.529      |                          | -3.392 | 0.001 |
| Poverty alleviation    | 2.885                       | 0.364      | 0.257                    | 7.933  | 0.000 |
| Wealth creation        | 4.025                       | 0.430      | 0.397                    | 9.365  | 0.000 |
| Financial independence | 3.468                       | 0.374      | 0.360                    | 9.263  | 0.000 |



**Contingency Table for Hypothesis two**

| Predictors                | Mean | Standard Deviation | Beta  | F     | Adjusted R-Square | P-Value | Remarks     |
|---------------------------|------|--------------------|-------|-------|-------------------|---------|-------------|
| 1. Poverty alleviation    | 4.03 | 1.129              | 0.257 | 3.034 | 0.991             | <0.05   | Significant |
| 2. Wealth creation        | 3.81 | 1.249              | 0.397 |       |                   |         |             |
| 3. Financial independence | 3.65 | 1.313              | 0.360 |       |                   |         |             |

*Source: Computed SPSS result*

The table above shows that  $F_{3,84} = 3.034$ ,  $P\text{-Value} < 0.05$  which is significant. The null hypothesis is rejected, while the alternative hypothesis accepted. This means that SMEs significantly contribute to economic empowerment of Benue State.

The analysis of the predictor variables shows that each variable is significant. However, the variables are significant to SMEs in the following order; Wealth creation ( $\beta = 0.397$ ), financial independence ( $\beta = 0.360$ ) and poverty alleviation ( $\beta = 0.257$ ).

## CHAPTER FIVE

### SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

#### 5.1 Summary of Findings

The following are the summary of findings of this research;

Small and medium scale enterprises in the state face a lot of multi-faceted problems and challenges.

- The PESTEL (political economic, social technological, ecological and legal) environments in the state are not conducive for SMEs to develop and grow.
- Entrepreneurship development studies are not taught at primary and secondary schools levels.
- Corruption is the bane of SMEs in the state in particular and the nation in general.
- The absence of venture capitalists has stifled the pace of SMEs establishment in the state since paucity of funds for investment as always been put forward as a major reason while people shy away from engaging in new establishment.
- Most SMEs owners in the state do not have the capacity to procure relevant information, and modern technology which are sine-quo-non in production of high quality goods and services according to global best practices.
- Small and Medium scale enterprises are the catalysts of economic growth and development and a major factor in the promotion of private sector development and industrialization in a capitalist driven economy such as ours however, the sub-sector is grossly underdeveloped.

- The development of the Small and Medium Scale Enterprises sub-sector is an essential component in the growth matrix of most economies of the world.
- As engines of economic growth and development SMEs do not only contribute significantly to improve living standards, employment generation, Industrialization, curtailing rural-urban migration, poverty alleviation/ reduction but also bring about substantial domestic or local capital formation and achieve high levels of productivity.
- Given the numerical strength of participants the SMEs sub-sector accounts for well over half of the total share of employment, Wealth creation and contribution to gross domestic product.
- The absence of a strong and virile SME sub- sector is a major dislocation or clog in Nigeria's quest of joining the league of developed nations.
- The entrepreneurial thrust among the citizenry is very weak. There is low awareness and little education/enlightenment of the numerous PRO-SMEs strategies put in place by Governments and international aid agencies to promote the development of the sub-sector.
- Owner/Managers of SMEs in Benue state like elsewhere in the world encounter a lot of challenges on a daily basis in the course of their operations. These problems could be external or internal to the SME. Examples of internal problems include; mal administration, pilferage/ theft of goods by employees etc. Others such as the lack of an enabling environment in terms of poor or non-existent infrastructures like industrial parks, access roads, water, power and access to finance are largely external. Past successive governments in Nigeria have attempted to address the problems of SMEs, which is a pointer to the fact that the



government has all along appreciated the crucial role and significance of SMEs as the axle of economic growth and development

- Successive governments of Nigeria have over time conceptualized and introduced the following specialized financial institutions as panacea to the problem of paucity of capital; the national economic reconstruction fund (NERFUND), the Nigeria export-import bank (NEXIM), the national directorate of employment (NDE), industrial development scheme, the peoples bank, community banks, better-life for rural women, family economic advancement Program (FEAP), state ministries of commerce and industry small and medium scale enterprises support schemes, the Nigerian agricultural and cooperative development bank (NACDB), micro finance banks, and the creation of a new Ministry of Trade and Investment etc. These support institutions created by the government notwithstanding, policy flux and somersault in addition to high labor turnover and frequent changes in government have resulted in distortions in the implementation of the national policies on Small and Medium Scale Enterprises. Other problems which have contributed to the poor performance of SMEs in the state according to this research include: limited access to long-term capital, high cost of even short-term financing, poor partnership spirit, dearth of requisite managerial skills and capacity, illegal levies, multiple taxations, price instability, poor storage, over dependence on imported raw materials and spare parts, bureaucratic bottlenecks and inefficiency in the administration of SMEs support schemes, low demand for products as a result of the meager disposable income of consumers, incidences of multiplicity of SMEs regulatory agencies, poor corporate governance.

## 5.2 Recommendations

Consequent upon the findings in this research therefore, one can assert and correctly too that Small and Medium Scale Enterprises in Benue State in particular and the Nation in general still have a long way to go. Sequel to the research findings above the researcher recommends thus:

- Since the challenges and problems of the SMEs in Nigeria are multi-faceted and they can only be effectively tackled via a multi-dimensional approach by all stakeholders i.e. the governments (Federal, State and Local) owner/managers and employees.
- The government should create an enabling environment that is appreciably devoid of Politics, corruption and unnecessary bureaucracy.
- For the Benue state government to succeed in her desire to re-engineer and reposition the SMEs for optimal performance she needs to extend the current reforms she is prosecuting in other sectors to the educational sub-sector in order to make her educational institutions more functional, relevant and entrepreneurially oriented and driven. The main thrust and emphasis on curriculum should be anchored modern and realistic technological and entrepreneurial studies aimed at producing entrepreneurs. Entrepreneurial studies should be taught in the indigenous or local parlance to ensure full grasp and appreciation by the pupils and students this method will indeed enhance faster and easy integration of new entrepreneurial values in the psyche of young impressionable Benue citizens.
- Morality, good civic education and the war against corruption and fiscal indiscipline should be promoted, strengthen and taught at all tiers of education as a deliberate strategy towards fostering and engendering a corruption free society.



- Government should overhaul the Small and Medium Scale Enterprises Sub-sector in the State through the formulation, and implementation of functional policies to aid the growth and development of Small Business firms as a panacea to the growing unemployment in the state.
- To boost the entrepreneurial thrust of the people the department of industries at the Benue State ministry of Commerce and Industries should readily and freely assist prospective entrepreneurs or existing owners of SMEs to have access to necessary information pertaining to new business opportunities, modern technology, raw materials, markets, plant and machinery, goods and services to owners or would-be owners of SMEs which would enable them to reduce their operating costs and be more efficient and competitive. For this to be feasible, effective and functional, Commerce and Industries Ministry should establish Business Information Centers (BICs) and Business Support Centers (BSCs) in the twenty-three Local Governments Areas in the State.
- The State government should stimulate the development of Venture Capital Market for SMEs through the provision of specific tax incentives like; tax holiday for venture capitalists. The government should reduce the tax rate for SMEs to zero percent (0%) within their first three years of life and then to 20% from the fourth year and beyond. SMEs located in rural areas should enjoy 10% tax rate from their fourth year of operation.
- The government should provide special and appropriate grants and tax incentives to SMEs, which provide their own basic infrastructure like power, road and water. This will help to reduce the respective SMEs' cost of production and make them more competitive.



- The State Ministry of Commerce and industries should be properly funded to enable her initiate, liaise and consult with SMEs, trade and professional associations such as NASME, the State Chamber of Commerce, towards formulating and coordinating policies, and incentives that support SMEs promotion and development in the State. The State Commerce Ministry should also provide managerial and technical advice, information and training services at subsidized rates to existing and prospective entrepreneurs.
- Government should institutionalize the policy of patronize local SMEs as a deliberate strategy of encouraging them. The current trend whereby SMEs with origins outside Benue State are patronized to the detriment of local SMEs should be reversed since in the long run profits made are as a rule repatriated out of the State to other States.
- Government should as a matter of urgency build industrial clusters in areas of comparative advantage in each of three Senatorial zones in the State. For example the industrial cluster for the Benue North-East can be designed for SMEs which are engaged in fruit juice, yam flour production; the industrial cluster to be sited in Benue North- West will be for tomato paste and beef canning, vegetable oil production while the industrial park for the Benue South will be suitable for timber /logging and palm oil production.

### **5.3 Conclusion**

The top ten key problem areas facing SMEs generally in Nigeria and Benue State in particular in descending order of intensity include management problems, access to finance/capital, infrastructure, government policy inconsistency and bureaucracy, environmental factors related problems,

multiple taxes and levies, access to modern technology, unfair competition, marketing problems and the non-availability of local raw materials. The mortality rate among SMEs in the state is very high most SMEs in the state die within the first five years of their existence. The reasons for this high mortality rate include the following amongst others. Many prospective entrepreneurs do not have a clear vision of what the type of business they intend to venture into, Most SMEs in the state are not business specific and hence have no focus and are easily blown away for the reason that they imitate or copy other successful entities, Many SMEs fail to plan well and waste a lot of scarce resource printing colorful brochures and other non-essentials materials. Other mistakes startup SMEs make include placing advertisements without producing quality and proportionate goods and services.

The growth of SMEs in Nigeria is stunted due to the following key reasons stumpy entrepreneurial thrust and drive, fear of failure , fear of starvation and deprivation of comfort for a few months after quitting a paid job, inability to produce a realistic feasibility study or business plan, low self confidence, and the inability to set goals for entrepreneurial success. Lack of basic Infrastructure has remained the greatest problem confronting the SMEs sub sector in Nigeria general and Benue State in particular. Power supply perhaps presents the greatest challenge as most businesses in the state are powered by electricity generating sets owned privately this situation no doubt increases the cost of doing business in Benue State in particular and the country in general. Many business entities also have over the years contended with the problem of constructing their own access roads, providing their own water, sanitation facilities and security cover at very great overhead costs.

Due to ignorance most promoters of SMEs in the state are not aware of the existence of SMEDAN, and other specialized agencies of government, the



various sources of funds for SME development, the incentives available to them to access, the legal and regulatory requirements on how to source for funds from financial institutions and even the basic procedures and processes for promoting an enterprise profitably. Most SME promoters in the state in particular and the nation in general are unenthusiastic about going into partnership business relationships and also to seek for equity participation by banks under the SMIEIS program. The 'my own' syndrome as opposed to 'our own' has remained a major setback for SMEs in Nigeria. This widely spread phenomenon is driven by the innate mistrust and selfishness on the part of some SME promoters who do not even trust their staff with delegation of duties. Most SMEs do not keep financial nor transactional records for fear of tax obligations and also in a bid to conceal their performance from competitors or even their employees. With the dismantling of trade barriers due to globalization, SMEs in developing countries are facing intense competition from those of developed countries, which have conducive and favorable enabling environments for quality and cost effective production, result-oriented distribution and effective marketing. SMEs in Europe, South-East Asia and America operate in environments with guaranteed stable power and water supply, standard road and rail networks, efficient water and air transport system, advanced technology for production, modern communication facilities, efficient and supportive financial institutions and above all good governance.

There is however some windows of opportunities which discerning SMEs promoters can latch on to and take advantage of to grow. For example the liberalization of global trade through world trade organization agreements has provided awareness through which SMEs could access international markets the Nigerian Export Promotion Council has been dogged in realizing her mandate which is the development of an export driven economy. Another



opportunity is the African growth opportunity act (AGOA) a United States of America economic/trade stimulus package, which favors exports from African countries to the United States of America.

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## APPENDIX

Dept of Business Management  
Benue State University,  
Makurdi  
October 5<sup>th</sup> 2011

Dear Respondent

### **SOLICITATION FOR DATA**

I am a post-graduate student of the above institution studying for a Master Degree in Business Administration. I am currently in the field to research and collect data on the topic – **An impact Assessment of Small and Medium Scale Enterprises on the Economic Development of Benue State. A study of some Selected Small and Medium Scale Enterprises in Benue State.**

This research is purely an academic endeavor; your responses shall be treated with utmost confidentiality.

Thank you.

**Agada Famous Adejoh**  
Student

## QUESTIONNAIRE

### SECTION A:

Please indicate the extent to which you agree or disagree with the statements below by filling in your preferred option in the appropriate corresponding box provided.

1. Strongly Disagree
2. Disagree
3. Undecided
4. Agree
5. Strongly Agree

|     | <b>SMEs and Economic Growth</b>                    | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 1.  | SMEs are the engine of economic growth             |   |   |   |   |   |
| 2.  | SMEs improves the welfare of humans in the society |   |   |   |   |   |
| 3.  | SMEs generates employment                          |   |   |   |   |   |
| 4.  | SMEs helps in income distribution                  |   |   |   |   |   |
| 5.  | SMEs generates revenue for the government          |   |   |   |   |   |
| 6.  | SMEs helps in poverty reduction                    |   |   |   |   |   |
| 7.  | SMEs improves the standard of living               |   |   |   |   |   |
| 8.  | SMEs contributes to GDP                            |   |   |   |   |   |
| 9.  | SMEs helps in producing goods and services locally |   |   |   |   |   |
| 10. | SMEs helps in wealth creation                      |   |   |   |   |   |

## SECTION B

Please rate the contributions of SMEs to the economic development of Benue State in the following areas.

1. Very low
2. Low
3. Undecided
4. High
5. Very High

|    | <b>SMEs and Economic Development</b>  | 1 | 2 | 3 | 4 | 5 |
|----|---------------------------------------|---|---|---|---|---|
| 1. | Employment generation                 |   |   |   |   |   |
| 2. | Industrialization and economic growth |   |   |   |   |   |
| 3. | Utilization of indigenous             |   |   |   |   |   |
| 4. | Quality goods and services            |   |   |   |   |   |
| 5. | Rural development                     |   |   |   |   |   |

|    | <b>SMEs and Economic Empowerment</b> | 1 | 2 | 3 | 4 | 5 |
|----|--------------------------------------|---|---|---|---|---|
| 1. | Power Alleviation                    |   |   |   |   |   |
| 2. | Wealth Creation                      |   |   |   |   |   |
| 3. | Financial Independence               |   |   |   |   |   |











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