**THE IMPACT OF SMALL AND MEDIUM ENTERPRISES FINANCING ON POVERTY REDUCTION IN NIGERIA**

**ABSTRACT**

Nigeria, like other developing countries, has continued to grapple with the menace of poverty despite several economic policies and programmes implemented by various governments. This study was therefore undertaken to assess the impact of small and medium enterprises financing on poverty reduction in Nigeria from 1991 to 2010. Using ordinary least square (OLS) analytical technique, data from the central bank of Nigeria (CBN) statistical bulletin were obtained. Findings revealed that there is a significant relationship between small and medium enterprises financing and poverty reduction in Nigeria. However, inflation rate has a negative relationship with poverty. Nonetheless, exchange rate has a positive relationship with poverty, whereas unemployment has a strong negative correlation with poverty in Nigeria. It was concluded that small and medium enterprises financing has a positive relationship with poverty in Nigeria. It was therefore recommended inter alias that adequate attention should be given to small and medium enterprises through channeling of more resources to the sector. And that the government should as a matter of urgency diversify the economy and create more jobs for the increasing population to reduce the unemployment rate in the country, thereby reducing poverty.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium enterprises have made great contributions in eradicating poverty in Nigeria. SMEs are regarded as the engine of economic growth to any nation’s development. The main advantage of the sector is its ability to employ at low capital cost. The labour intensity of the SMEs is much higher than that of the large enterprises. SMEs as a nursery of entrepreneurship are often driven by individual’s creativity and innovation. Besides the growth potentials and its critical role in the manufacturing and value chains, there wide spread in Nigeria and the multiple effects they have on the rest of the economy enable them to be the engine of economic progress. SMEs are main drivers of innovation, job creation, poverty reduction, wealth creation, income distribution and reduction in income disparities. After the economic reform on 1986, the small and medium scale Enterprises are seen as a key to Nigeria’s growth and poverty alleviation and unemployment in the country. Therefore, there is need to promote such enterprises in developing economies like Nigeria because since it brings about a great distribution of income and wealth, economic self-dependence, Entrepreneurial development employment and a host of other positive economic uplifting factors. In Nigeria where adverse Balance of payment situation is low, the growing activities of the small scale industries sector in its export portfolio goes a long way in generating foreign exchange and smoothening out the adverse balance of payment situation.

Awosika (2011), Schmitz (2010) and Aremu (2010) posited that small scale enterprises provides income, saving and employment generation. They are seen as veritable engines for the development of entrepreneurial capabilities and indigenous technology which will generate employment in the country. It has been estimated that SMEs employ 22% of the adult population in Nigeria. Because of the SMEs roles in the development and growth of various economies, they have aptly been referred to as “the engine growth” and catalysts for socio-economic transformation of any country. The various activities of small business firms have resulted in the mobilization of the resources of the environment and thereby improving on the standard of living of the population or people. They have contributed a lot to the labour market by absorbing on ever growing supply. In doing this, they have sufficiently helped to curtail the rising unemployment rate in Nigeria. Other impacts of this sector are its contribution to the development of indigenous entrepreneurs like Innoson Group of company, Tummy-Tummy, Chikason Group of Company, Dozy Power flow etc.

SMEs can be said to be a good agent for disposal of industrial products and some service and have immensely increase the production of raw-materials in the form of semi-processed goods for use by bigger industries. It is also a base for the development of appropriate technology and provides a veritable ground for skilled, unskilled and semi-skilled workers. Anambra state has in recent years become an important industrial zone tool. Its prominence has become generally recognized to the extent that the Oyeleran Oyeyinka (2000) described it, as an emergent industrial cluster` in Nigeria Englama. Bamidele (2010) aptly summarized the definition of poverty in both absolute and relative term as a state where an individual is not able to cater, adequately for his/her basic needs of food, clothing and shelter, meet social and economic obligations, lack gainful employment, skills assets and self-esteem, and has limited access to social esteem and economic infrastructures.

SMEs have played and continued to play significant roles in the growth, development and industrialization of many economies the world over. In the case of Nigeria, SMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of SMEs themselves through environmental related factors, instability of governments and frequent government policy changes. The supportive business environment for SMEs is still weak in Nigeria. The SME support programmes are poorly coordinated and lack the necessary coverage to reach all sectors of the small business community. Almost all Microfinance Institutions (MFIs) are supposed to cater for those enterprises with credit lending. However, project lending and risk capital for SMEs is virtually unavailable. The private equity and venture capital funds established in Nigeria are few and cater primarily for the needs of expansion of established business and privatized companies.

However, as Hallberg (2000) observes, government assistance strategies in both developed and developing countries often try to achieve a combination of equity objectives (alleviating poverty and addressing social, ethnic and gender inequalities) and efficiency objectives (raising the productivity and profitability of firms). Likewise, Ojo (2003) argues that all these SME assistance programmes have failed to promote the development of SMEs. This was echoed by Tumkella (2003) who observes that all these programmes could not achieve expected desires due largely to abuses, poor project evaluation and monitoring as well as moral hazards involved in using public funds for the purpose of promoting private sector enterprises.

It is on the basis of these bottlenecks in financing SMEs that this study is undertaken to analyzed the impact of SMEs financing on poverty reduction in Nigeria.

**1.2 Statement of the Problem**

The role of small and medium enterprises in eradicating poverty cannot be over emphasized. When you look at Nigerian economy it shows that greater consideration and encouragement should be given to small and medium enterprises. However, little attention or none is given to SMEs as they are left purely in the hands of individuals to initiate and run them. The essence of this study therefore is to find out why the government has not cared to give the same level of attention to small and medium enterprises. When this is known, it will be of paramount importance to point out all the benefits of small and medium enterprises in reducing poverty. Against this back drop therefore, the study tends to find out the Lack of appropriate and adequate managerial and entrepreneurial skills with the 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 small and medium enterprise.

**1.3 Objective of the study**

The main objective of this study is to examine the impact of small and medium enterprises financing on poverty reduction in Nigeria. Specifically, the study aims;

1. To examine the relationship between small and medium enterprises financing and poverty reduction in Nigeria
2. To investigate the significant relationship between unemployment rate and poverty reduction in Nigeria

**1.4 Hypothesis of the study**

To this end, the following hypotheses were tested:

Ho1: There is no significant relationship between small and medium enterprises financing and poverty reduction in Nigeria.

Ho2: There is no significant relationship between unemployment rate and poverty reduction in Nigeria.

**1.5 Significance of the Study**

(1) This study would be of immense interest and benefit to large scale industries if they would adopt whatever viable recommendation that comes out of this research assiduously in order to maximize their productivity and make a more positive impact.

(2) Entrepreneurs and business individuals shall benefit from findings of the study particularly as it affects legal and other operational frameworks and benefits accruable to investor. Information derived from this study will be valuable to small and medium enterprises in the area of obtaining loans and credit facilities since these pose the greatest problems to the industrialists.

(3) It will also be beneficial to government and the policy makers in Nigeria in policy formulation especially on those policies that are meant to promote the performance of small and medium enterprises.

(4) Entrepreneurs will gain valuable information regarding those numerous problems and solutions in line with skilled management and administration and growth of small and medium enterprises.

(5) This research work will equally portray the usefulness of small and medium enterprises to the rural community in terms of employment. Finally by going through this research work one can enter into SME easily as no law stops anyone from choosing to be his/her own boss.

**1.6 Scope of the study**

This research study was limited to the impact of small and medium enterprises financing on poverty reduction in Nigeria. It will focus on how small and medium enterprises financing has/can aid poverty reduction in Nigeria. It will make use of secondary data as published in the CBN statistical bulletin covering the 1999-2010 fiscal year.

**1.7 Limitation of study**

Finance,inadequate materials and time constraint were the challenges the researchers encountered during the course of the study.

**1.8 Organizations of the study**

The chapter one consist of the introductory part of the study which includes the study background, the statement of the research problem, the study objective and scope of the study.

The second chapter is a critical review of other literatures relevant to the study and its objectives including the theoretical framework for the study. While the third chapter is methods of data collection, sampling and data analysis used in conducting the study. The fourth chapter centres around the research findings including an analysis of how it relates to previous findings. The fifth chapter consists of the summary of findings, conclusion and recommendations base on the study objectives.

**CHAPTER TWO**

**REVIEW OF LITERATURE**

This chapter deals with the review of studies, related to the present study. The review was done under the following headlines.

Conceptual Framework

Theoretical Framework

Empirical Studies

**2.0 Conceptual Framework**

**2.1 Concept of Small Enterprises**

The definition of small enterprise varies from the economic situation of one country to another. Even from state to state and institution to institution. Ajose (2010) has defined small and medium enterprises as an enterprise that has an asset base (excluding land) of between 5 million naira and 500 million naira and labour force of between 11and 300 in its employ. The National Economic Reconstruction Fund (NERFUND) puts the amount as not exceeding 10 million naira while the section 376 (2) of the companies and Allied Matters Act of 1990

defines it as one with; (a) an annual turnover of not more than 2 million naira. (b) A net asset of not more than 1 million naira,

The National Association of small and medium scale enterprises defines small and medium enterprises as a business that employ less than fifty (50) people and with an annual turnover of one hundred million naira. The association further defines a medium scale enterprise as a business with less than 100 employees and with an annual turnover of five hundred million.

Countries use different definition for classifying their small and medium enterprises sector. More so, the parameters used by most countries in defining SME, singly or in combination are: capital investment on plant and machinery; number of workers employed; and volume of production or turnover of business. On the quantitative side are their internal management structures, decision-making process, financial practice, trading styles, attendance risk factor, etc. It has been observed that most small and medium enterprises are one man shows or are run by two or three individuals, usually relatives, friend or business partners, who take most of the decisions. There is no serious distinction between private and business assets, subjective and personal factors play a large role in decision-making

**2.1.1 The Roles of Small and Medium Enterprises in Eradicating poverty in Nigeria**

Small and medium scale industries facilitate the creation and use of non-existing or unused products and materials. It is also the main stream of economic activities in a nation and provides the stages for industrial revolution and economic growth (Okenwa C. 2008). In a contribution of Ekpeyoung (2009) on the place of small scale enterprises in the economy, he states that “the role of small & medium scale enterprises in the development of the country has been summarized in the Nigeria Third National Development Plan of 1975-80 which dwells on generating employment opportunities, stimulating indigenous entrepreneurs, improvement in per capita income, balanced regional development, education, empowerment of citizens, Stimulation of indigenous companies and providing self sufficiency.

**i. Improvement in Per Capital Income**

SMEs locate and exploit opportunities. They convert idle resources like land, labour and capital into national income and wealth in the form of goods and service. They help to increase Net National Product (GNP) and per capital income in the country, which are important yardstick for reducing poverty and measuring economic growth.

**ii. Generation of Employment**

SMEs enhance employment generation in a place since unemployed youths and graduates can easily engage in skills on their own. Small and medium enterprises generate more employment opportunities on the aggregate than giant industries. Many people in this country depend on self employment for sustenance. Many others including their relations are provided employment in these enterprises directly and indirectly.

**iii. Education**

Towards the end of the sixties, two significant contributors were made in the field of small and medium enterprises. One was that, there is a positive linkage between entrepreneurship and economic development and the other was regarding and emergence of a strong hypothesis that small and medium enterprises can be developed through planned efforts.

**iv. Provide Self Sufficiency**

The small and medium enterprises not only become self-sufficient but also provide great standards of living to its employees and the public. It provides opportunity to a number of people working in the organization. The basic factors which become a cause of happiness may be liberty, monetary rewards and the feeling of contentment that one gets after doing a job.

**2.1.2 Classification of Small and Medium Enterprises**

A business organization is any economic unit which utilizes the basic economic resources to create utility in order to achieve certain objectives. Human wants are numerous and conflicting and the satisfaction of such want and demand is a suitable arrangement of man’s business activities. The main types of business organization are:

a. Sole proprietorship

b. Partnership

C. Private Limited Liability Company

d. Co-operative societies.

**Sole Proprietorship**

Sole proprietorship is a business set up, owned and managed by just one man. This type of business organisation that is associated closely with individual initiative, self-reliance and handwork. Sole proprietorship is the oldest form or business organization. This kind of business is many in developing countries due to their low per capita income.

**Partnership**

Partnership is a form of business organisation where two or more persons engage in a business as co-owners. In some cases it is usually ten partners. A partnership may be based on a written contract or simply or oral arrangement which by laws is binding on all partners. It is an association of two or more persons who jointly establish a business for profit making. The minimum number of member’s ranges from two persons while the maximum number is fifty

**Private Limited Liability Company**

Private companies are often being operated by family members or close associates. Private limited company are numerous in Nigeria and cheaper and simpler to form. The maximum number for formation of a private company is fifty (50) for its members excluding workers. It is required by law to register with the Corporate Affairs Commission in order to acquire a legal personality and its shares are not transferable.

**Co-Operative Societies**

This is a business organization formed by people with low income who pool their resources together to satisfy the interest of their members in particular and sometimes the general public. The first co-operative movement started at Rockdale, England in 1884. Its aim was to counter the consumer’s exploitation by the owners. They pooled their resources together in order to benefit from the economies of scale in purchasing and sale. This type of business organisation is formed by salary earners, subsistence farmers, petty traders and artisans.

**2.1.3 Sources of Finance to Small and Medium Enterprises**

Small scale business could be financed through the following ways: Saving: Individuals save money for various motives. Individuals can directly set aside unexpended earning and save indirectly when they pay life assurance premiums or purchase amenities.

**i. External Borrowing**

An individual who wishes to start a business can borrow money from people or external sources to expand his business. A sole proprietor or partnership may obtain funds by borrowing from a private individual or from micro credit institution.

**ii. Trade Credit**

The basic trade credit transaction involves the supplies handling over goods or performing a service without receiving immediate payment in exchange. The customer is expected to pay by some agreed issues.

a. The seller would be unwise to part with goods or perform the service, unless he is satisfied that the customer will indeed pay.

b. The terms of the transaction will include some credit period which is accepted to both parties and to which it would be to the customer advantage to adhere.

c. There must be some sanction, which the supplier can impose on the customer if he fails to meet the agreed terms. There are three reasons for the existence of trade credit. They are convenience, cost, and loyalty. Trade credit service as a permanent source of loans to worth customers.

**2.1.4 Problem of Small and Medium Enterprises In Nigeria Lack of Access to Funding/Credits**

Lack of easy access to funding credit can be traceable to the poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates. When an idea is conceived, there must be fund to actualize such idea. A business opportunity in the course of planning must first consider capital as a basis for the establishment. This is because deficiency of fund in procuring fixed and current assets as required by the enterprises jeopardizes the operation of the business. Lack of capital therefore is a disability to the industrialist in the actualization of their objective which sometimes is attributed to the rigorous bureaucratic red-tapism involved in procuring funds from the banks and financial institution.

**i. Government Unstable Policies**

There has been an instability and inconsistency in the Nation’s government and policy formulations. Government policies and social attitudes affect business operation considerably. Chukwuma, (1999) noted that “in a nation of relaxed economic policies and stable political system, the business community is seen to flourish more than one that lacks these qualities” He further added that government policies and laws could have such an overwhelming impact on the business arena leading to economic boom or depression. The regulation of the Central Bank of Nigeria (CBN) over banks on both fiscal and monetary policies coupled with inconsistencies of these policies determines the credit extension to the small and medium enterprises.

**ii. Lack of Suitable Training and Leadership Development**

Training institution abounds in Nigeria, but they rarely address the relevant needs of SMEs especially in the areas of accounting, marketing, information technology, technological processes and development. SMEs are left most often on their own to survive amidst the avalanche of operational difficult inherent in the Nigeria environment as well as the operational shortcoming, which characterize institution set up to facilitate small scale enterprises businesses.

**iii. Lack of Appropriate and Adequate Managerial and Entrepreneurial Skill**

Some of this organisation lacks appropriate skills to operate. The 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 small and medium enterprises in Nigeria is a fall out on small and medium enterprises. Many of the small and medium enterprises promoters purchase obsolete and inefficient equipment thereby setting the stage from the start up for lower level productivity as well as substandard product quality with dire repercussions on product output and market penetration and acceptance.

**2.2 Theoretical Framework**

Below are underlying theories of this research work. We shall briefly review the theories of poverty.

**Theories of Poverty**

In this section we shall consider the relevant theories of poverty, specifically the theory of vicious circle of poverty, and the basic needs theory.

**The Basic Needs Theory** was propounded by Maslow (1943). The basic idea behind this theory is that people have needs and the desire to satisfy the unmet needs motivate them to engage in activities that will help them satisfy their needs. The theory states that different needs are active at different times and only those needs not yet satisfied can motivate people. The needs are arranged in a fixed order of importance called a hierarchy. The needs are arranged in a hierarchical other starting from physiological or basic need to self actualization needs as follows:

i. Basic needs which include food, shelter and clothing.

ii. Safety needs that is freedom from harm and deprivation.

iii. Social needs, that is friendship and team work.

iv. Self esteem needs that are acceptance of self as having value.

v. Self actualization needs, which is the need for fulfillment of potentials and personal growth potentials. Maslow (1943) noted that the efforts and behavioral changes observed in individuals are meant to achieve one of these needs.

**The Vicious of Poverty** theory was propounded by Nurkes (1953) which posits that there are circular relationship known as the vicious circles of poverty that tend to perpetuate the low level of development in less developed countries like Nigeria. In other words, there is a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. For instance, a poor man may not have enough to eat, being hungry, he may have poor health, being physically weak, his working capacity is low, which means that he is poor and may not have enough and so on. A situation of this sort relating to a country can be summed up in the right proposition that a country is poor because it is poor. The basic vicious circle stem from the fact that total productivity in low income countries is low due to deficiency of capital market imperfections, economic backwardness and under development and this circle operates both on demand and supply sides. Clearly, the development of natural resources depends on the development capacity of human resources in a country. If the people are illiterates, low skilled, lacks entrepreneurial abilities, natural resources will remain untapped, unutilized or underutilized. On the other hand, under developed natural resources will make people to remain economically backward in a country. According to Jhingan (2007), poverty and underdevelopment of an economy are thus synonymous as a country is poor because it is underdeveloped and a country is underdeveloped because it does not have the necessary resources for promoting development.

The basic idea behind the vicious circle of poverty theory is that poverty once started could continue for generation unless there is outside intervention. According to Marge (2008), breaking the vicious circle of poverty is almost impossible since poor people do not have the requisite resources to get out of poverty and this explains why Valentine (1968) noted that it is a pattern of behavior which cannot be easily be reverted.

**2.3 Empirical Review**

Aigboduwa and Oisamoje (2013) examined the historical trend in the development of SMEs in Nigeria and identified several opportunities and competitive advantages now exclusively reserved for Nigerian companies under the Nigerian content Act 2010. The study emphasized the need for access to funding for development of the capital base of SMEs, and suggested that the Act would offer a turning point in the realization of all the policy trusts formulated for growing SMEs in Nigeria in the future.

In the study of Kadiri (2012) he examined the contributions of (SMEs) to employment generation in Nigeria by providing an analysis of the efficacy of SMEs as a vibrant tool for employment generation. Using Binomial logistic regression analysis as the tool for statistical analysis, the study found that the sector was unable to achieve this goal due to its inability to obtain adequate business finance. It was also observed that virtually all the SMES that were sampled relied on informal sources of finance to start their business. The study therefore recommends the integration of the activities of the formal with that of the informal financial institutions; while the government should urgently provide the needed infrastructure such as roads, water, electricity and the need enabling environment.

Oboro and Ighoroje (2011) examined the problems of financing small scale business enterprises in Nigeria and the way forward. The study identified the sources of finance, types of finance available for small business enterprises and problems inhibiting small scale business enterprises in Nigeria in securing funds for their smooth operations. The study concluded that adequate finance is indispensable for the successful operations of small scale business enterprises in Nigeria and recommended among others that government should increase loan able funds granted to small scale business, while micro finance banks should also live up to their responsibility of granting loan able funds to small scale business in Nigeria.

Aremu and Adeyemi (2011) examined the role of small and medium enterprises in promoting economic growth and development in Nigeria. The study identified the major advantage of the sector as its employment potential at low capital cost since the labour intensity of the SME sector is much higher than that of the large enterprises. The study therefore concludes that besides the growth potential of the sector and its critical role in the manufacturing and value chains, it also has multiplier effect on the rest of the economy.

**2.4 Determinants of Poverty Rate**

The standard set of growth-stimulating policies, such as institution-building, trade openness, and prudent fiscal and monetary stances increase the opportunity set of profitable investments, benefiting the poor primarily by an expansion of the opportunities to earn a return from labor employment. For example, trade restrictions that tend to protect capital-intensive importable reduce the returns to labour, and overvalued exchange rates that reduce the profitability of tradable, turn the terms of trade against the poor, which tend to be net producers of tradables. Additionally, environmental influences like availability of arable land and reliance on natural resources, external factors such as changes in the terms of trade, together with institutional characteristics such as the level of democracy may plausibly have dissimilar impacts on different segments of the income distribution. This section expands the discussion in the literature review to poverty determinants other than economic growth. With respect to growth related policies, this discussion focuses on the direct links to the income of the poor, abstracting for the most part, from discussing the growth implications, Edward (1998).

**2.4.1 Macroeconomic Stability**

The impact of macroeconomic stability is captured by inflation and the government budget balance relative to GDP. A stable macroeconomic environment-characterized by low and predictable inflation, sustainable budget deficits, and limited departure of the real exchange rate from its equilibrium level-sends important signals to the private sector about the commitment and credibility of a country's authorities to efficiently manage their economy. In addition to the beneficial effects on growth, investment, and productivity studies by Easterly and Kraay, (1999) had identified an adverse impact of inflation on the poor. Using survey data from a cross section of countries, Easterly and Levine (1997) find that the poor are more likely than the rich to mention inflation as a top national concern. In addition, using pooled time-series and cross-country data, these authors find that direct measures of the well-being of the poor (e.g., the change in their share of national income and the real minimum wage) are negatively correlated with inflation. Some of the arguments that have been advanced include the fact that the rich are more likely to have access to financial hedging instruments that can be used to protect the real value of their wealth inequality.

**2.4.2 Income Inequality**

The progress in reducing rates of poverty through economic growth depends crucially on its distributional characteristics. This is particularly true for statistical measures of poverty as relatively high numbers of people are clustered around typical poverty lines. As a corollary 10, the poverty gap in the developing world is surprisingly small, at about one-third of total consumption by the developing world in 1985 for the poorest fifth of the population in the developing world. While these characteristics do raise the prospects for poverty alleviation through growth, as in East Asia through the 1980s and first half of the 1990s, Lipton and Ravaillon (1995) point out that "only small deviations in neutrality" are necessary to reverse the poverty reducing effects of distributionally neutral economic growth. This study measures inequality with the Gini index of inequality.

**2.4.3 Institutions and governance**

The distribution across income groups, of the benefits of growth are likely to depend, not just on the sectoral pattern of growth but also on the degree of popular representation at the policymaking level and the effectiveness of the governing institutions. Whereas economic freedom may herald stronger property rights and freer markets, and therefore impact the income of the poor mainly through its beneficial impact on overall economic performance, political emancipation may be associated with the tendency to enact income redistribution schemes (including land reforms), and it may shift the focus of economic policy towards equity, possibly at the expense of (some) economic growth. Through its likely positive impact on other variables (for example, the rule of law and the rate of investment), it may also be that democracy's main impact on the income of the poor (and on overall income) is indirect. Barro (1996) discusses the impact of the rule of law and free markets on economic growth, while Easterly and Levine (1997) provide an interesting evaluation of the role of institutions and economic policies in economic growth in Africa.

**2.4.4 Human Capital Development**

Given a conducive environment, the productivity of the labor supplied by the poor is an important determinant of their ability to benefit from the enhanced opportunities-a situation that point to important synergies between growth promotion and initial conditions. Recent work in development economics acknowledges that a fundamental reason for the success of East Asia in promoting equitable growth was due not only to the labor- demanding nature of production but also to the relatively large stock of education and skills embodied in the labor force. This study captures the effect of human capital development through measures of health and educational status (such as life expectancy and school enrollment rates). In the case of educational status, these result-oriented measures also capture the effects of local incentives to acquire the related skills (more so than public expenditure data).

**2.4.5 Financial Sector Development**

Financial sector development may also benefit the poor by facilitating access to credit and improving risk- sharing and resource allocation. The poor, due to their lack of assets and the universal unacceptability of labor income as collateral, tend to have more difficulties than the rich in accessing credit. In particular, this prevents the poor from:

(i)Smoothing their consumption in bad times; and

(ii)Investing in riskier but more productive technologies (for which effective risk sharing is necessary). Observationally, two phenomena are likely to arise:

a) underinvestment by the poor will tend to be particularly large with respect to education, and

b) a positive correlation between the distribution of resource levels and investment opportunities will tend to widen the extent of inequality. In both cases, there is the potential for significant policy complementarities between access to credit (with which to invest in education) and the increase in the returns to labor occasioned by growth promotion policies. In this study, financial sector development is measured by the ratio of broad money to GDP.

**2.4.6 Physical Capital**

Empirical studies consistently report a positive role for the investment ratio in explaining international differences in both the standard of living (as measured by GDP per capita) and economic growth rates. A number of studies have also investigated the possibility that the public and private components of investment have different impacts on economic growth, although both components tend to be growth promoting. With respect to the impact on the income of the poor, it may be that public, compared to private; investment has more of a positive impact on the income of the poor, especially at low levels of development. Intuitively, basic investments in infrastructure may benefit the poor more than proportionately by facilitating initial access to markets or to basic social services. To the extent that the productivity of private investment is enhanced, the impact on the poor would be further strengthened.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Research design**

The research design adopted for this study was an ex-post factor design. According to Anyanwu (2004), Ex-post factor is a systematic empirical enquiry in which the scientist does not have direct control of independent variables because they are inherently not manipulable. In effect, there was no manipulation of the independent variables used in this study. In addition, since this study involves a large population of twenty years, this design help the researcher to find out, describe and explain existing phenomena and draw generalization on the population based on the data collected from the sample.

3.2 Model Specification

In this work, the econometric model used which is in line with what is mostly found in the literature is stated below:

PR = f(SMEF,INFLR,EXHR,UEMPR)..........(i)

Where;

PR = Poverty Rate

SMEF = Small and Medium Enterprises Financing

INFLR = Inflation Rate

EXHR = Exchange Rate

UEMPR = Unemployment Rate

PR = Dependent Variable

SMEF, INFLR, EXHR, UEMPR = Independent Variables

f = Functional Notation

The Ordinary Least Square for the above model is stated as follows:

PR= a0 + a1SMEF + a2INFLR + a3EXHR + a4UEMPR + e….(ii)

Where;

a0 = Unknown Constant to be estimated

a1– a4 = Unknown coefficient to be estimated

e = Stochastic error term a1, a2, a3, a4 > 0.

**3.3 Sources Of Data For The Study**

The only sources of data available for this study were the secondary sources. The secondary sources of data for this research include the following: publications from Central Bank of Nigeria and Federal Office of Statistics. For data collection method, the manual retrieval and on-line retrieval methods were used.

**3.4 Estimation Procedure**

The ordinary least squares (OLS) equation technique is the estimation procedure chosen for this study. It will be used for estimating the equation specified. As a justification for this method, Maddala (1977) identified that ordinary lest squares is more robust against specification errors that many of simultaneous equation methods and also that predictions from equation estimated by ordinary least squares often compare favourably with those obtained from equations estimated by the simultaneous equation method. Among other reasons is the simplicity of its computational procedure in conjunction with optimal properties of the estimates obtained and these properties are linearity, unbiased and minimum variance among a class of unbiased estimators.

**3.5 Techniques To Adopt In The Analysis Of Data**

The econometric method is the approach employed for the research. There is no doubt that the method will facilitate the model specification, parameter estimation and appropriate econometric tests.

**CHAPTER FOUR**

**PRESENTATION OF DATA AND ANALYSIS**

TABLE 4.1.1 Relationship between poverty rate; small and medium enterprises financing, inflation rate, exchange rate and unemployment rate in Nigeria from 1991-2010.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Poverty rate  (%) | SME N’M | Inflation rate  (%) | Exchange rate  N | Unemployment rate  (%) |
| 1991 | 43.5 | 18500 | 13.0 | 15.3 | 3.1 |
| 1992 | 42.7 | 20400 | 44.5 | 17.3 | 3.4 |
| 1993 | 49.0 | 15462.9 | 57.2 | 22.33 | 2.7 |
| 1994 | 54.7 | 20552.5 | 57.0 | 21.89 | 2.0 |
| 1995 | 60.0 | 32374.5 | 72.8 | 84.58 | 1.8 |
| 1996 | 65.6 | 42302.1 | 29.3 | 79.6 | 3.4 |
| 1997 | 70.0 | 40844.3 | 8.5 | 74.63 | 2.8 |
| 1998 | 74.6 | 42600.7 | 10.0 | 84.37 | 4.5 |
| 1999 | 78.2 | 46824 | 6.6 | 92.53 | 6.4 |
| 2000 | 80.8 | 44542.3 | 6.9 | 109.55 | 5.5 |
| 2001 | 70.5 | 52428.4 | 18.9 | 112.49 | 7.3 |
| 2002 | 70.1 | 82368.4 | 12.9 | 126.4 | 8.4 |
| 2003 | 60.8 | 90176.6 | 14.0 | 135.41 | 8.0 |
| 2004 | 54.4 | 54981.2 | 15.0 | 132.67 | 10.5 |
| 2005 | 60.0 | 50672.6 | 17.5 | 130.4 | 12.7 |
| 2006 | 65.0 | 25713.7 | 8.2 | 128.27 | 13.5 |
| 2007 | 58.0 | 41100.4 | 5.4 | 117.97 | 14.6 |
| 2008 | 55.5 | 13383.9 | 6.7 | 135.0 | 14.0 |
| 2009 | 50.0 | 15478.4 | 7.8 | 155.4 | 15.5 |
| 2010 | 45.0 | 17368.6 | 6.0 | 154.5 | 16.3 |

Source: Central Bank of Nigeria Statistical Bulletin (2010)

**TABLE 4.1.2: Regression result on SME’s financing and poverty reduction in Nigeria**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. error | t-statistics | Prob. |
| C | 12.34426 | 34.23342 | 0.360591 | 0.7234 |
| LSME | 1.279128 | 3.794494 | 0.337101 | 0.7407 |
| INFLR | -0.232513 | 0.099851 | -2.328604 | 0.0343 |
| LEXHR | 13.28199 | 3.737154 | 3.554038 | 0.0029 |
| UEMPR | -2.355174 | 0.578637 | -4.070211 | 0.0010 |

R2 = 0.744711

R2 (adjusted)=0.676634, F-statistic = 10.93922 (P.V.=0.000235),

SER = 6.449445, Durbin-Watson statistic = 1.010993

Regression Result

Dependent Variable: PR

Method: Least Squares

Date: 10/21/14 Time: 10:23

Sample: 1991 2010

Included observations: 20

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 12.34426 | 34.23342 | 0.360591 | 0.7234 |
| LSME | 1.279128 | 3.794494 | 0.337101 | 0.7407 |
| INFLR | -0.232513 | 0.099851 | -2.328604 | 0.0343 |
| LEXHR | 13.28199 | 3.737154 | 3.554038 | 0.0029 |
| UEMPR | -2.355174 | 0.578637 | -4.070211 | 0.0010 |
| R-square | 0.744711 | Mean dep var |  | 60.42000 |
| AdjustedR square | 0.676634 | S.D. dep var |  | 11.34161 |
| S.E. of regression | 6.449445 | Akaikeinfocriteri |  | 6.778183 |
| Sumsquared resi | 623.9300 | Schwarz criterion |  | 7.027116 |
| Log likelihood | -62.78183 | Hannan-Quinn cri |  | 6.826777 |
| F-statistic | 10.93922 | Durbin-Watson stat |  | 1.010993 |
| Prob(F-statistic) | 0.000235 |  |  |  |

Table 4.1.1 depicts the relationship between poverty rate,SME’s financing inflation rate, exchange rate and unemployment rate in Nigeria. The first column shows the years from 1991 to 2010 which represent the period of the study while, the other columns capture the poverty rate, SME’s financing, inflation rate, exchange rate and unemployment rate for the period under review.

Table 4.1.2 represents the empirical result of the ordinary least square (OLS) estimates. The following statistics are taken care of; the coefficient of multiple determination (R2), f-ratio, the standard error of the regression (SER) and Durbin-Watson (DW) statistics.

We use R2 to measure the overall goodness of fit of the regression plane; the higher the R2, the better the goodness of fit. To pass the goodness of fit test, the coefficient of determination must have a value of at least fifty percent. The magnitude of the f-statistics is a test of the significance of the relationship between the dependent variable and the independent variables of a model taken as a whole, while Durbin-Watson statistics is used to test for the first-order autocorrelation of the random variable. Because multiple regression model was used, we also included the adjusted R2 or coefficient of multiple regression. This is the standard and procedure in most research of this magnitude.

From the result in table 4.1.2, the explanatory power of the model as informed by the adjusted R-square is seventy four percent, and is statistically significant given the high value of the f-statistics (i.e. 10.93922). In the same vein, R2 turn out with sixty eight percent. To this end, the model demonstrates a good fit given that about seventy four percent of the variation in the dependent variable (poverty rate) is jointly explained by changes in the observed behaviour of the independent variables. The relatively high adjusted R- square of seventy four percent, shows that the model fits the data well. About twenty six percent variation in poverty rate can be explained by other unknown variables not captured in the model. The high significant f- statistics value of 10.93922 confirms that the high adjusted R-square did not occur by chance. Therefore, the model is robust. The a prior expectations about the signs of the parameter estimates are confirmation to economic theory. Here all the variables except inflation rate and unemployment rate entered the model with positive signs. By interpretation, a one percent change in SME’s financing will affect poverty rate by one hundred and twenty eight percent all things being equal. Again, a one percent change in exchange rate affect poverty rate by one hundred and thirty percent. For inflation rate and unemployment rate, a one percent change in the variables will negatively affect poverty rate by twenty three and two hundred and thirty six percent respectively.

To test for the auto correlation in the residual, the calculated Durbin-Watson (DW) statistics is used to compare with the table DW value. For there to be no autocorrelation in the residual of the model, the calculated DW value must be greater than dl. Given that, the calculated DW statistics = 1.010993, dl =0.792 and du =1.991 since k=5 variables and n=20 years and at five percent level of significance, it can be concluded that the model is free from auto correlation of the residual.

From the foregoing, with t-ratio

Ho: X2 = 0 and is formally tested against the alternative Ha: X2 = 0

**Decision rule:**

Accept H0: If calculated t-statistics is less than the tabulated t-statistics value Reject Ho: If calculated t-statistic is greater than the tabulated t-statistic value.

Ho1: There is no significant relationship between small and medium enterprises financing and poverty reduction in Nigeria

Ha1: There is a significant relationship between small and medium enterprises financing and poverty reduction in Nigeria.

With reference to table 4.1.2 and using the t-statistic to test for the significance of the estimated coefficient, the calculated t-statistic computed is 0.337101 and the table value is 0.1312 at ninety five percent confidence interval. Given that the calculated t-statistics is greater than the table value, that is, 0.337101>0.1312 with the degree of freedom n-2 (i.e. 20-2)=18 at one tail five percent level of significance, the null hypothesis of no significance is rejected, and the alternative accepted.

Ho2: There is no significant relationship between unemployment rate and poverty reduction in Nigeria. Ha2: There is a significant relationship between unemployment rate and poverty reduction in Nigeria.

Also, from table 4.1.2 the calculated t-stat value of -4.070211 was found to be less than the tabulated t- stat of 0.1312 at five percent level of significance. Going by this, the null hypothesis of no significance is accepted and the alternative rejected.

From the data analysis and the test of hypothesis, it was discovered that there is a significant relationship between SME’s financing and poverty reduction in Nigeria. To this end, SME’s financing had a positive correlation with poverty rate. This indicates that loans to small and medium scale entrepreneurs positively influence poverty in Nigeria. This finding is in agreement with the study of Aderibigbe (2000) who find out a positive relationship between loans to SME’s and poverty reduction in Nigeria.

In addition, the study revealed that unemployment has a very strong negative correlation with poverty in Nigeria. This indicates that the more people remain unemployed the poorer they will become. This is in line with the work of Latefee (2003) who discovered a negative correlation between poverty and unemployment.

**CHAPTER FIVE**

**CONCLUSION AND RECOMMENDATIONS**

**5.1 Conclusion**

In this study, the researcher has painstakingly assessed the impact of small and medium enterprises financing on poverty reduction in Nigeria. This study proffers a framework for tackling poverty in Nigeria.

It is therefore concluded that small and medium enterprises financing has a significant relationship with poverty in Nigeria, while unemployment has a strong negative relationship with poverty in Nigeria.

**5.2 Recommendation**

From the foregoing, it is therefore recommended as follows:

1. Adequate attention should be given to SME’s through channeling of more resources to the sector. This would to a great extent reduce poverty in Nigeria
2. The government should as a matter of urgency diversify the economy and create more jobs for the increasing population to reduce the unemployment rate in the country. This would go a long way to reduce poverty in Nigeria.
3. Finally, it is apposite to suggest that prospective researchers in this area should broaden their study to cover a wider spectrum of poverty reduction in Nigeria.

**REFERENCES**

Acemoglu, D., Robinson, J. & Johnson, S. (2001). The colonial origins of comparative development: An empirical investigation. American Economic Review 91

Aderibigbe, J. O. (2000). The role of the financial sector in poverty reduction. CBN Economic and Financial Review 39(4)

African Development Bank (2006). Micro finance policy and strategy for the bank group. Operation, Policies and Review Department.

Anyanwu, C. M. (2004). Micro finance institutions in Nigeria: Policy, practice and potentials paper presented at the G24 workshop on constrictions to growth in sub-Sahara, Africa, Pretoria, South Africa, November

Ashraf, N., Karlan, D. (2006a). Deposit collectors, Advances in Economic Analysis and Policy 6(2) Barro, R. J. (1997). Determinants of economic growth. Cambridge, MA: MIT Press

Central Bank of Nigeria (1990). CBN prudential guideline for licensed banks, November 7

Central Bank of Nigeria (2005). Microfinance policy, regulatory and supervisory framework for Nigeria Coleman, B. (1999). The impact of group lending in Northeast Thailand: Journal of Development Economics 60 Deaton, A. (1997). The analysis of household surveys, World Bank

Duflo, E. and Saez, E. (2004). Participation in retirement benefit plan. Quarterly Journal of Economics

Dunford, C. (2000). In search of social practices for microfinance. Journal of Microfinance, 2(1)

Easterly, W. & Levine, R. (2001). It’s not factor accumulation: Stylized facts and growth models. The World Bank Economic Review 15(2)

Edwards, S. (1998). Openness, productivity and growth: What do we really know? The Economic Journal, 108(447)

Ehigiamusoe, G. (2007). LAPO: A microfinance success story. The Nigerian Micro Finance Newsletter, 5(8) Hall, R. and Jones, C. I. (1999). “Why do some countries produce so much output per worker than others? The

Quarterly Journal of Economics, 114(1)

Haruna, D. (2007). Micro finance: The financial system that works for the majority. The Nigerian Micro Finance Newsletter, 5(8)

Hasan, R., Mitra, D. and Ulubasoglu, M. (2007). Institutions and policies for growth and poverty reduction: The role of private sector development. Asian Development Review 24(1)

Hasan, R., Quibria, G. and Kim, Y. (2002). Absolute poverty and role of policy: Evidence from cross-country data. East-West Center. Processed

Hassan, M. B., Banta, A., Odugbo, S. B. and Kudi, T. M. (2006). Impact of UNDP microfinance programme on poverty alleviation among farmers in selected local government areas of Kaduna State, Nigeria. International Journal of Sociology and Anthropology, 1(6)

Hulme, D. (2000). Impact assessment methodologies for microfinance: Theory, experience and better practice.

World Development 28

Kabeer, N. (1998). Money can’t buy me love? Re-evaluating gender, credit and empowerment in rural Bangloadesh. IDS Discussion Papers

Karlan, D. (2001). “Microfinance impact assessments: The perils of using new members as a control group”.

Journal of Microfinance

Khandker, S. (1998). Fighting poverty with microcredit. Washington D.C The international bank of reconstruction and development (The World Bank)

Latefee, H. I. (2003). Micro-credit and poverty reduction. Experiences of Grameen operation in Asia, Dhaka, Bangladesh: Grameen Trust

Mhammed, A. D. & Hasan, Z. (2008). Microfinance in Nigeria as the prospects of introducing its Islamic version there in the light of selected Muslim countries’ experience www.mpra.ub.uni-muenchen.de MPRA Paper No 8127

Mondal, W. I. (2009). Poverty alleviation and micro credit in sub-Saharan Africa. International Business and Economics Research Journal, 8(1)

Montgomery, F., Dehejia, R. H. (2005). “Do interest rates matter? Credit demand in the Dhaka slums” working paper

Nkamnebe, A. D. (2005). “Furthering peace and prosperity in sub-Saharan Africa: The marketing perspectives”.

International Journal of Applied Management,Winter(ed1-12)

OGAP (2003). Microfinance consensus guidelines: Guiding principles on regulation and supervision of microfinance.

Olaleye, O. (2008). Nigeria’s micro-financing sector’s under developed? This Day. August 5 Otero, M. (1999). Binging back development in microfinance. Journal of Microfinance, 1(1)

Rahman, A. (1999). Micro credit initiatives for equitable and sustainable development who pays? World Development, 27(1)

Ravallion, M. (1995). Issues in measuring and modeling poverty. Unpublished paper: The World Bank, Washington, DC

Ravallion, M. and Datt, G. (1999). When is growth pro-poor? Evidence from the diverse experience of India’s states. Policy research working paper no. 2263. World bank, Washington, DC

Robinson, M. S. (2001). The microfinance revolution. The world bank and open society institute

Shultz, C. J. and Pecotich, A. (1997). “Marketing and development in transition economies of southeast Asia: Policy explication, assessment and implications”. Journal of Public Policy and Marketing, 16

The World Bank (2007). Impact evaluation for microfinance: Review of methodological issues. Doing impact evaluation No7

Yaron, J., Benjamin, M. & Peperk, G. (1997). Rural finance issues designed and well practices search and training institution. World Bank Agricultural and Natural Resources Development, Washington DC