**EFFECT OF THE NAIRA DEVALUATION ON SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA: A STUDY OF SOME SELECTED ENTERPRISES IN ANAMBRA STATE.**

**BY**

**MADUIKE CHARLES EMEKA**

**REG. NO: 2O13404004**

**A PROJECT SUBMITTED TO THE**

**DEPARTMENT OF ENTREPRENEURSHIP STUDIES**

**FACULTY OF MANAGEMENT SCIENCE,**

**CHUKWUEMEKA ODUMEGWU OJUKWU UNIVERSITY**

**IGBARIAM CAMPUS**

**JULY, 2017.**

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**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF B.Sc DEGREE (HONS) IN ENTREPRENEURSHIP**

**JULY, 2017.**

**APPROVAL PAGE**

This project has been approved for the Department of Entrepreneurship Studies Chukwuemeka Odumegwu Ojukwu University, Igbariam Campus, for the Award of Bachelor of Science (B.Sc) Degree in Entrepreneurship Studies.

By

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**CERTIFICATION**

This is to certify that this research project titled "Effect of Naira Devaluation on Small and Medium Enterprises in Nigeria: A study of selected SMEs in Anambra State." was carried out by Maduike Charles Emeka with Reg. No: 2013404004 in the Department of Entrepreneurship Studies, Faculty of Management Sciences, Chukwuemeka Odumegwu Ojukwu University Igbariam Campus, for the Award of a Bachelor of Science (B.Sc) Degree in Entrepreneurship Studies.

**----------------------- ----------------------------**

**Maduike Charles Emeka Dr. C.E Umeora**

**Student Supervisor**

**DEDICATION**

I humbly dedicate this work to God Almighty, for his guidance and protection throughout my stay in school and the knowledge and wisdom he has granted me.

**ACKNOWLEDGEMENTS**

My appreciation first and foremost goes to the Almighty God for his blessings, protection, favour and endless mercy upon me from the day I was born up to this present stage of my life.

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Finally I will not fail to thank my friends like Cosmas, Gabriel, Wisdom and my course mates who either directly or indirectly contributed to my completion of this research work, may the Almighty God bless you all, Amen.

**ABSTRACT**

*The study examine the effect of naira devaluation on small and medium scale enterprises in Nigeria of a case study of some selected small scale enterprises in Anambra state, the study has the following objectives; To assess the dependency level of SMEs on foreign goods and services, To determine the effect of the naira devaluation on financial performance of SMEs in Nigeria, To examine the effect of the naira devaluation on import volume of SMEs in Nigeria, To examine the effectiveness of the naira devaluation in encouraging the growth of indigenous small and medium scale business in Nigeria. Concerning methodology, this study focused on the effect of the naira devaluation on the performance of small and medium scale enterprises in Nigeria; hence the population for this study is five firms in Anambra state. The respondents were drawn from business managers and workers .A total sample size of two hundred (200) respondents was selected from the research population using the convenient sampling method, based on the findings, data for this study was gathered through the use of primary data (questionnaire) and the secondary data. The questionnaire is the major instrument of data collection in this study; the study is recommended to the government and the general public that, Value Creation should be the trademark of Small and Medium Scale enterprises in Nigeria. To earn foreign exchange and encourage high export rates of our local products, business operators must think outside the box. Goods and services that can attract foreigners should be produced to reduce the effect of the naira devaluation; the government should take diversification of the economy seriously. Policies should be designed and implemented to fast track the diversification of the Nigerian economy. Oil prices should not be allowed to be the prime determinant of the value of the naira. Other areas such as agriculture, tourism, education should be explored to attract more foreign exchanges and revenue. Enabling environment for business to strive should be created. Small and medium scale enterprises should be encouraged to grow and survive rather than starving it to death through under financing.*

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**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the Study**

Nigeria with abundance of many natural resource endowments like crude oil, coal, plantations etc is deemed blessed. Her vast resources in commercial quantities have placed her on a high status among oil producing nations in the world. Her oil and gas industry which has been widely described as the nation’s financial lifeline has helped her attain this enviable position. This has conceived the segmentation of the four (4) key economic segments in Nigeria which are oil-related activities, the public sector (Government and Parastatals - that remains heavily dependent on oil derivatives), the organized private sector and informal sector (World Bank 2002). The first segment of the economy is based heavily upon and centered on oil. The most dominant of this sector is shown by the share of oil revenues that accrues as a percentage of exports since oil now accounts for more than 80 percent of the country’s exporting earnings (CBN Statistical record 2015).

In recent times, the drop in oil price has left our nations like Nigeria who run an oil based economy with undervisified economies or mono-economy in economic crises. This has consequently affected the demand and supply sides of the economy. The government of today in Nigeria usually depends on foreign exchange reserves generated from crude oil to manage excessive variability in exchange rate and recently crude oil prices have dropped exceedingly. This has tremendous implications for foreign exchange income or earnings. The capacity of the Central Bank of Nigeria (CBN) to fund foreign exchange market has been called to question. Low level of foreign exchange reserves induces free movement of exchange rate. Issues are also on the rise of the demand side. There has been a high demand for foreign exchange in the last five (5) years as a result of factors like; heavy dependence on the importation of finished products, the industrial sector’s dependence on imported raw materials with other inputs, reversal of capital flow by investors and high speculative demand which has caused uncertainty in the foreign exchange market (CBN report, August 2013). Therefore, the increased foreign exchange demand in the face of unstable supply is leading to volatility in exchange rate.

Devaluation originally refers to a sharp fall in country’s currency within a fixed exchange rate. In 1960 after independence agriculture which used to be the pivot of the economy, showed greater decline. This came as a result of the discovery of crude oil in 1970’s with its value to the economy of the whole world. The revenue from crude oil appeared to have boosted the Nigerian economy with impact towards social and economic development than agriculture. This has led to the sudden laxity and disregard for agricultural activities. The impact of this is thus; the contributions of agriculture to the Gross Domestic Product (GDP) were negligible. The retrogressions are; contribution of agriculture to the Gross Domestic Product which fell 39.9 percent between 1971 and 1974 to 18 percent with occasional rise. Within this period the Nigeria devaluation was very high.

Currency devaluation is a micro-economic fiscal policy that dwells on deliberate reduction in the value of local currency with the purpose of increasing gains in tradable items. The cost of goods and services are cheaper in a nation where there is no currency devaluation. Reduction in the prices of goods and services can help stimulate or facilitate trading activities in a country with the purpose of enhancing economic growth and development to help alleviate poverty. The Babangida led administration’s currency devaluation became popular in Nigeria when in 1986 he came up with the Structural Adjustment Program (SAP). This came as a policy designed to help achieve a realistic exchange rate for the naira that was believed to be overvalued then. This posed a threat to the economic growth and development of our nation, Nigeria because overvalued currency further worsens balance of payment problem (Todaro, 2003). On the basis of this, the nation was encouraged to embrace the devaluation policy as pre-requisite for economic recovery.

Campbell (2004), in his work looks at currency devaluation as a deliberate downward adjustment in the official exchange rate established by a government against specified standard lowering importation of goods and services, for the achievement of balanced growth, with the aim of alleviating poverty.

**1.2 Statement of the Problem**

Nigeria as a developing economy is still dependent on import. Her high dependency on goods and services from foreign countries may likely bring about more negative impacts than positive impacts as a result of devaluing the naira. Although, some financial and economic analysts have praised the Monetary Policy Committee (MPC) of the Central Bank of Nigeria for taking a bold step to devalue the naira late 2014, which was not accomplished. Moreover, devaluation if properly managed can be used as a fiscal policy tool to discourage imports, achieve balance of payment as well as encourage and promote enterprise activities, but Nigeria is not there yet as most Small and Medium Scale Enterprises (SMEs) still depend on products from other countries to still survive in business. The implication of the devaluation of naira is that imports will become more expensive. An import dependent economy like Nigeria cannot afford to devalue her currency because the country is not producing a product that would attract buyers from other countries and SMEs are not well equipped by the government to engage into production of such products.

Majority of SMEs still depend on products from China, U.K, U.S.A, Japan e.t.c. The over dependence of SMEs on foreign products is suicidal as a drop in the value of naira will bring about higher cost of sales, and other operational costs. SMEs will spend excessively to spend more money to buy products and materials from other countries. This can result to inflation, low patronage of goods and services and resultant collapse on small and medium businesses.

**1.3 Objectives of the Study**

The main objective of the study is to examine the effect of the devaluation of the naira on small and medium enterprises (SMEs) in Nigeria. Specific objectives of the study are;

1. To access the dependency level of SMEs on foreign goods and services.
2. To examine the effect of the naira devaluation on import volume of SMEs in Nigeria.
3. To determine the effect of the naira devaluation on financial performance of SMEs in Nigeria.
4. To examine the effectiveness of the naira devaluation in encouraging the growth of indigenous small and medium scale enterprises in Nigeria.

**1.4 Research Questions**

In order to achieve the objectives of the study and guide the study accordingly, the following research questions were formulated;

1. How dependent are SMEs in Nigeria on foreign goods and services?
2. What effects does naira devaluation have on import volume of SMEs in Nigeria?
3. How does devaluation of the naira effect financial performance of SMEs in Nigeria?
4. What is the effect of naira devaluation in encouraging the growth of indigenous small and medium scale enterprises in Nigeria?

**1.5 Research Hypotheses**

The following hypotheses were formulated for the study;

**Ho:** There is no significant relationship between the naira devaluation and import volume of SMEs in Nigeria.

**Hi:** There is a significant relationship between the naira devaluation and import volume of SMEs in Nigeria.

**Ho:** The devaluation of naira has not been effective in encouraging the growth of indigenous small and medium scale businesses in Nigeria.

**Hi:** The devaluation of naira has been effective in encouraging the growth of indigenous small and medium scale businesses in Nigeria.

**1.6 Significance of Study**

The study is effectively significant as it add to existing literature on naira devaluation and how it affects small and medium scale enterprises and the economic growth of Nigeria. It will serve as a guide to further research, academic work and as a self-help study material for those who might wish to gain firsthand knowledge about naira devaluation. It is also believed that Nigeria policy makers will find it as a formulation and implementation of policies on devaluation of naira and how it facilitates growth in Nigeria.

**1.7 Scope and Limitations of the Study**

The study covers the effect of devaluation of the naira on small and medium scale enterprises in Nigeria using response from some selected SMEs in Anambra state such as; Chedos International LTD., Eleson Industries Nigeria LTD., Panac Industry Ltd., Alo Aluminium and Cometstar Manufacturing Company LTD. as case study.

**1.8 Definition of Terms**

**SMEs**: Small and medium enterprises are non-subsidiary independent firms which employ less than a given number of employees.

**Naira**: The currency of Nigeria.

**Devaluation**: Devaluation on modern monetary policy is a reduction in the value of a currency with respect to those goods, services or other monetary units with which that currency can be exchanged.

**Exchange Rate**: It is the rate or measure at which one currency will be exchanged for another.

**Import**: It is the movement of product into a jurisdiction, especially across a national boarder from an external source.

**Export**: It is the shipping of products out of the port of a country. The seller of such product is referred to as “exporter” and is based in the country of export where as the overseas based buyer is referred to as “an importer”.

**Balance of Payment (BOP)**: It is the record of all economic transactions between the residents of a country and the rest of the world in a particular period of time (over a quarter of a year or more commonly over a year).

**CBN**- Central Bank of Nigeria: A financial institution in charge of all commercial banks in Nigeria.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Conceptual Issues**

Number of concepts has been documented in this regards. Among these studies is the work of Osoba (2010) that argued that financing strength is the main determinant of small and medium enterprises growth in developing countries.

Similarly, Yue and Ma (2008) studied issues pertinent to the sustainable development of technological innovation in small and medium enterprises (SMEs). At the end of their study, they argued that sustainable development of technological innovation in SMEs is a systematic engineering, which involves a number of issues such as technical level, capabilities of key research and develop personnel, availability of fund for research development and business development. SMEs need to develop and implement strategy based on their own characteristics and strive to realize sustainable growth in the long run which cannot be resolved in a short time.

Oluba (2009) summarized the contribution of SMEs to an economy, especially developing ones; greater utilization of raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

Ogunsiji and Ladamu (2010) argued that entrepreneurial orientation is the panacea to the gradual declining productivity. They opined that in Nigeria, there is need for non-stop growth, harmonious and balanced blend of resources with the other engines of growth. Each of these engines of growth like people, market, capital, technology and organization can only flower and blossom fully where the efficacy of human resource skills exists.

**2.2 Theoretical Framework**

Dependency theory properly captured this study when adopted to mean an economic system where one country relies upon another country for the purpose of its economic growth and development. The underlining tune in this dependency theory is economic relationship. The dependent nations as referred to in this theory are the peripheries or less developed nations. The theory holds that the economic policies that regulate the economic activities of the less developed nations are externally formulated and dedicated by the developed countries. In this case, the policy flows from the developed countries to the less developed ones, thereby creating room for slope sidedness. That is, a situation that represents master-servant relationship between the developed and less developed nations since the less developed nations are fenced out in the making of the existing global economic policies. Because the policies lack the merit of consensus, scholars such as; Baran (2010), Amin (2013), Gunder (2008), Meier (2011), Wallerstein (2004 and 2005), Dos Santos (2012), Richard (2006), Fanon (2009), Offiong (2001) and Chuke (2007) argued that it will not serve the interest of the less developed economies but the industrialized nations of the world in which the policies are formulated. Their argument is from the point of view of democratic participation in decision and policy making in matters of public interest that guarantee citizen participation in development process (Iyoha, 2013). In other words, when policy lacks the participation of the people, it hardly meets its desired goal because the wish and aspirations of the citizens are excluded. Amin (2013) opines that dependency approach will result to core regions exploiting the periphery regions through unequal exchange which he refers to as unequal international specialization. This unequal exchange as manifested by dependency approach will result to exploitation of the periphery by the center. This exploitative relationship will evolve a situation where the advanced countries are getting richer on the expense of the developing nations, while the developing nations are deep-neck into poverty.

Indeed, dependency approach is apparently driven by wealth, science and technology from the point of view of the operations of the global financial institutions such as IMF (International Monetary Fund) and World Bank, which externally dictate the economic policies of the third world state without regard to their environmental variations. In application, this theory corroborates with the situation obtainable in poverty alleviation programs established in the third world states particularly in Nigeria, where such programs like National Poverty Eradication Program (NAPEP) and National Directorate of Employment (NDE) operates under the harsh effect of devaluation policy as micro-economic policy formulated for Nigeria by IMF and World Bank. The operators and the target group designed to benefit the program are helpless under the tutelage of the global policy of currency devaluation. Because the policy of devaluation of currency is externally dictated, it retards the efficacy of the established poverty alleviation program thereby leaving Nigeria to be rated among the poorest nations in the world. Since the policy is externally dictated, it fails to tackle poverty problem ravaging Nigerians within the context of its environmental setting.

**2.2.1 Overview of Small and Medium Scale Enterprises**

This has been a no consensus all over the globe as to what a small business is in precise terms. This is because; difference in the pattern of overall industrial and economic growth, difference in size of capital and personnel, insufficient standard criteria in a business enterprises, political and environmental difference around the globe e.t.c.

However, the third National Development Plan (1970-1980) refers to the term small business as “the manufacturing establishment employing less than ten people on whose investment in machinery and equipment do not exceed N600000 (six hundred thousand naira)”.

Central Bank of Nigeria (CBN) in its credit guidelines (2013) defined small business as those businesses with annual turnover of less than N500000 (five hundred thousand naira).

The federal ministry of industries in 2005 defined a small business enterprise as “all manufacturing unit with a total capital investment of up to N60000 (sixty thousand naira) and paid employment of up to 50(fifty) people”.

However, due to changes in economic condition particularly with the introduction of structural adjustment program (SAP) to the economy, it defined,” a small industry as those industries with total investment of between N100000 (one hundred thousand naira) and N2000000 (two million naira) exclusive of land including working capital. United States committee for Economic Development (ED) in this view suggested that a small scale business will have at least two of the following features. They are; owner management character; capital is supplied and ownership is held by an individual or small group; the firm is relatively small by individual standard; local area of operating through their product; high mortality rate. In view of the difficulty of having an accepted definition of small scale business and following the contribution of United States for economic development, we have to agree with Osaybemi (2008), who regarded a small scale as one whose scale of operations is less than the average. All that is needed to do is just take an average figure of certain variable and all business which fall below this average can be referred to as small scale business.

**2.2.2 Features of Small and Medium Scale Enterprises in Nigeria**

1. Small and medium scale enterprises are mainly in the form of sole proprietorship and partnership. However, some are incorporated as limited liability companies.
2. Most SMEs have labour intensive production processes and centralized management.
3. SMEs have limited access to long and short term capital.
4. There is no separation of ownership from control. Management structure is simple, making for ease in decision making.
5. SMEs are common in many lines of economic activities manufacturing, transportation, and communication etc.
6. Most SMEs depend largely on local raw materials.
7. Operates with modest technology obtainable locally (usually very simple) but a number of them increasing.

**2.2.3 The Contribution of Small Scale Businesses to the Economic Growth of Nigeria**

There are various reasons for stressing conscious planning and development of small scale business industries in Nigeria, some will be enumerated in this project as found out in the course of the research that small scale business have dot to contribute to the changing of a depressed Nigerian economy. Such contributions include the following;

**Employment Creation:** small scale industries create employment to the Nigeria citizens which will reduce dependence on government to provide job for everybody and also to a large extent reduce government expenditure in a way of contributing to a balanced budget for the economy. The most cumbersome task challenge in industrial promotion in any economy is the ability to create employment with risking an unmanageable high rate of inflation. Nigeria witnessed an era of retrenchment of works in both private and public sectors of the economy coupled with the large number of graduates from over tertiary institutions every year. The level of unemployment rise to an alarming and unbearable rate. Energetic men and women were seen every day on the street of urban cities and town struggling to sell stuffs like cigarettes, biscuits, and drinks e.t.c just to earn a living. Government did not go on to depend entirely on large enterprises to private employment to the generality of the public. It is to this end that the following questions arise;

* At what rate could new jobs be created to absorb large number of graduates from tertiary institutions and retrenched workers in particular?
* How fast could new jobs be created to absorb the unemployment?

It is in answering these questions that it became clear that it is very necessary to adopt a strategy that would get the unemployed to start and manage their own small scale business to generate employment for them and others, this is how the National Directorate of Employment (NDE) was established with the sole aim of training men and women in manpower development so that new jobs would be created.

Information from the National Economic Reconstruction Fund (NERFUND) in December, 1996 indicates that expected employment to be generated by the first twenty six enterprises that got approval for loans stood at one thousand three hundred and one or an average of fifty workers or employees per enterprise. Small scale industries are generally labour intensive meaning that a given unit of investment in that sector directly increases employment opportunities. Other roles and contributions of SMEs in developing the economy of Nigeria are;

1. They act as catalyst for technological development. In most cases SMEs use less complex information that can help to promote needed technology and leads to innovation.
2. Employment opportunities. SMEs have a higher capacity for generating employment as their modes of operation are more labour intensive. They are found in virtually all areas of economic activities and every where even in rural areas.
3. They provide training ground for the establishment and management of the large firm. Over time some of these firms grow in size by expansion or by merging with other firms. As these enterprises grow in size, the managers learn on the job.
4. They encourage and promote private sector initiatives and development. All SMEs are privately owned and managed; their continued existence improves the level of private sector participation in economic development.
5. SMEs help to fill the gap left and sub-serviced by the large firms.
6. SMEs help to tap the relatively ignored and other unexploited resources and areas of production.
7. They are major sources of domestic’s capital formation through their mobilization of private savings and channeling of such into productive investments.
8. SMEs aid the process of redistribution of incomes in many countries both in pure financial terms (wages and profit) and in other terms.
9. SMEs act as industrial links between local producers of raw materials and large industrial concerns.
10. SMEs have positive implications for improving the standard of living of the citizen and generation of foreign exchange through export.

**2.3 The Concept of Currency Devaluation**

Devaluation originally refers to a sharp fall at currency within a fixed exchange rate. In 1960 after independence, agriculture which used to be the pivot of the economy, showed greater decline. This came as a result of the discovery of crude oil with its value on the economyof the whole world. The revenue from crude oil appeared to have helped the Nigerian economy with impacts towards social and economic development than agriculture. This led to the sudden neglect of agricultural activities. The impact of this is thus; the contributions of agriculture to the Gross Domestic Product fell at 39.9 percent between 1971 to1974 to 18 percent with occasional rise. Within this period the Nigerian devaluation was very high.

Currency devaluation is a micro-economic fiscal policy which dwells on deliberate reduction in the value of local currency with the purpose of increasing gain in tradable items. Cost of goods and services are cheaper in a nation where currency is devalued compared to another where there is no currency devaluation. Reduction in the prices of goods and services can help stimulate trading activities in a country with overall purpose of enhancing economic growth and development to help alleviate poverty.

The Babangida led administration’s currency devaluation became popular in Nigeria when in 1986 he came up with the Structural Adjustment Program. This came as a policy designed to help achieve a realistic exchange rate for the naira that was overvalued then. This posed an unhealthy threat to the economic growth and development of our nation, Nigeria because overvalued currency further worsens balance of payment problems (Todaro, 2010). On this basis, the nation was encouraged to embrace the devaluation policy as pre-requisite for economic recovery.

**2.3.1 The Naira Devaluation:**

Fitch ratings-London 27th November, 2014: the Central Bank of Nigeria (CBN) move to devalue the naira and raise interest rates will have only a limited impact on Nigerian bank at present, but FX risks are high for the sector, Fitch ratings says “Nigerian banks’ viability ratings, which reflects their intrinsic credit strength are low (in the ‘B’ range) and incorporates the challenging and volatile operating environment in Nigeria so the policy move is unlikely to change their ratings”. Around 40% of Nigerian banks lending is in foreign currency, but they have small net long balance sheet positions to foreign exchange, so the impact of the weaker naira on banks’ credit risk liquidity and solvency is likely to be manageable. The CBN devalued the mid-point of the naira’s official trading band from N155/USD to N168/USD and widened the band significantly. The CBN also raised the benchmark interest rate to 13%, from 12%, the first change since October 2011 and the cash reserve requirement (CRR) on private sector deposits to 20% (from 15%). The interest rate hike would not necessarily lead to higher impaired loans, but higher funding cost will compress margins. For some banks, higher rates will lead to mark-to-market losses on government securities held in available for-sale portfolios, although the impact or capital is likely to be moderate. We also expect cost of funding to rise because of further tightening in inter-bank liquidity owing to the high CRR. The cash reserve requirement (CRR) on public sector deposits remains unchanged at 75%. The recent surge in banks’ US dollar debt funding and lending leaves banks more vulnerable to FX risks, especially if there is further devaluation. Nigerian banks have risen funding internationally over the last year helped by stronger investor appetite for Nigerian debt.

The CBN cut banks’ foreign currency borrowing limits to 75% of shareholders’ funds and introduced a new 20% net open position cap on overall foreign currency assets and liabilities (the 1% net open position cap on the trading book remains unchanged) in late October. All Fitch rated banks are below the new limits, but we believe only four have sufficient capacity to raise benchmark size amount within the constraints, so issuance volume are likely to fall.

The new net open position is also likely to curb the rise in US dollar lending, predominantly for the oil, gas and powers sectors, where demand has been strong. Nigerian banks typically lend in foreign currency only to major corporate bodies extend their FX borrowings, the devaluation could impact their debt servicing ability and raise assets quality risks for banks. Inflationary pressures from the devaluation could also affect consumer disposable income and banks’ retail loans.

The FX limit could make it harder for banks to raise tier 2 capitals to meet regulatory requirements. We believe capital ratios may fall 200-300bp with Basel 11 implementations in 4Q14 and revised capital rule, close to or below 15% at some banks which is low in Nigeria. Te devaluation will also be a drag on capital ratios as risk-weighted assets of foreign currency loans rise. But we expect this negative drag to be modest and largely off-set by revaluation gains from long FX positions and retained earnings. Capital shortfalls may be met by raising common equity, if the FX limit constrains banks’ ability to raise subordinated tier 2 capitals internationally since there are no established local currency debt markets to tap.

**2.4 Empirical Literature**

The reviewed literature in this study accounted for the empirical and theoretical analysis of currency devaluation in Nigeria and elsewhere in the world.

Iyoha (2013), in his empirical study of local government and rural development ascertained that the IMF and World Bank call for the eradication of poverty by way of given the poor greater access to services and infrastructure which was a contradiction in relation to the terms given by SAP that stipulates currency devaluation. His study revealed that devaluation of currency in Nigeria created tremendous inflationary pressures on the economy; a situation in which local authorities were limited in discharging their statutory functions. He further emphasized that devaluation of currency reduced local authorities’ purchasing power resulting in their inability to supply basic infrastructural services for the grass root populace. The aggregate result of his finding is that devaluation of currency reduces poverty.

Voir (2011), in his study analyzed the impact of devaluation on small scale enterprises in Burkina Faso, using the cost of production and profitability of the small scale enterprises. He found that the rate of turn-over in business activities reduced by 22% and imported inputs also increased in prices. According to Voir, there was profit made in areas of building contractors which could be seen in the growth of these activities which small scale business owners like; restaurant owners, provincial retailers, blacksmiths, carpenters and mechanics e.t.c. suffers the scourge of devaluation.

However, devaluation has weakened many small enterprises which are not producing export products, because of the depression of urban markets with the fall of purchasing power of the households.

Famine Early Warning System Network (FEWS NET) is a USA funded aid activity with the mandate to assess and report on Nigeria food security update. In its efforts to carry out across state study on the impact of devaluation on food prices in February 2009, observed that both wholesale and retail prices for maize and sorghum in the market have increased sharply from December 2008 to January 2009 and this increase in price has remained significantly above the five-year average (2003/2008) for the same period (FEWS NET, 2009).

In the same vein, Egedegbe (2009) argues that devaluation of the naira has negative impacts on all Nigerians. That is, companies and individuals particularly the poor. Devaluation made the companies to be operating at a lost due to high cost of imported inputs which made their major part of net profits go up in smoke, while on the part of the masses the price of electronics, cars and even rice a staple food in Nigeria has gone up astronomically which negatively affected the poor ( Egedegbe, 2009).

Abayomi (2007), in assessing the impact of devaluation of naira, opines that Nigeria a dependent economy, devaluation can only make goods and services expensive. In addition to the falling naira exchange rate according to Adebayo is the crippling effect of inflation in Nigeria (Adebayo, 2009). The devaluation of the naira has made the rich richer through importation of rice which is a stable food in urban areas but difficult for the poor to purchase due to its high price. In general terms, devaluation induces inflation which hurt the poor particularly hard.

Several methodologies had been explored to determine the effect of exchange rate volatility on firms’ performance; some include ordinary least square, two stage least square, three stage least square, error correction model, pooled regression, fixed effect, random effect and dynamic model e.t.c. Similarly, various measures of exchange rate volatility have been used in the literature which include percentage change in exchange rate. The choice is driven by a number of factors including, among others, the time horizon considered (short-run vs. long-run). Often, the volatility measure incorporates some variant of the standard deviation of the difference in the annual or monthly exchange rate.

Jasen (2007) stated that these approaches ignore information on the stochastic process by which exchange rate are generated since they constitute an unconditional measure.

Mustafa and Rebecca (2008) explored the linkage between the level and the volatility of exchange rates and firms’ capital investment behavior in Mexico using sectoral data from 1994 to1999. The econometric model is a variant of Campa and Goldberg (2001) model. The variables of interest in this study include investment in manufacturing sector, sales, real exchange rate, volatility of exchange rate and annual interest rate. Autoregressive Conditional Heteroskedasticity (ARCH) model was used to measure exchange rate volatility. Panel regression with fixed effect was conducted to analyze the model. The use of static regression in this study would not give a detail result about the difference in the effect of exchange rate across which could be provided using dynamic model.

Aghion .P, Bacchetta .P, Ranciere .R and Rogoff .K, (2009) employed dynamic panel data estimator developed in Arellano and Bond (1991) which has been extended in the study by Arellano and Bover (1995), Blundell and Bond (2001) and Windmejer (2004). This method reduces the problem arising from joint endogenity of all explanatory variables in a dynamic formulation and addresses potential biases induced by country specific effects, using a firm’s level data set.

Mustafa and Firat (2011) explored the effects of exchange rate uncertainty on growth performances of domestic versus foreign and publicly traded versus non-traded firms in Turkey. The study employed dynamic panel estimation technique specific method following Blundell and Bond (2001). The system method has been argued to be suitable for controlling endogenity, state dependence and simultaneity bias.

Chang and Hsu, (2013) examined the size effects of exchange rate volatility spill over for firms performance in Taiwan tourism industry. The estimation was based on conditional models in the volatility specification. The study utilized daily data from 1st July 2008 to 29th June 2012 for 999 firms which cover the period of global financial crisis. Other earlier studies had shown mixed findings on the effect of exchange rate volatility on economic variables at firm’s level. While some indicated the existence of negative and significant relationship among exchange rate movement and firms’ performance, others indicated a positive effect on the variables.

Tarek .H, Faouzi .T, and Terence Y, (2005) revealed that the overall effect of exchange rate on investment in Canadian manufacturing industries is statistically insignificant. The analysis provides different evidences among investment in different sectors. When exchange rate volatility is high, industries tend to reduce investment. In a low volatility regime, investments in manufacturing increases. Fuentes (2006) paper analyzed the effect of uncertainty on plant-level investment using an exogenous source of uncertainty to test the main prediction of investment theory. The estimated reduced form equation for investment indicates a significant and negative effect of exchange rate uncertainty on investment.

In addition, Varela (2007) reported a negative non-negligible effect of exchange rate volatility on output. Similarly, the finding of Varga (2012) shows a strong negative exposure of Taiwanese firms from an appreciation of the domestic currency. Empirical result indicates that the exposure is non-linear.

According to Mahagankar .P, Schweickert .R, Chavali A.S (2009), the impact of real exchange rate volatility on export activities reveals a strong indirect effect for the OECD countries. This implies that volatility negatively affects export activity. The study by Mustafa and Firat (2011) found that while exchange rate volatility affects productivity negatively, having access to foreign or domestic equity or debt market does not alleviate these effects in Turkey. These results indicates that while export oriented firms are affected less by exchange rate appreciation, they are more sensitive to exchange rate volatility. The empirical analysis of Cheung and Senguputa (2012) for Indian non-financial sectors firms reveals that, on average there has been a strong and significant negative impact of currency appreciation as well as currency volatility on Indian firms’ export shares. Analyzing base on firm level data covering exporters from China.

Hericourt and Pencot (2012) confirmed a trade deterring effect of real exchange rate volatility; this magnitude depends mainly on the extent of financial constraints. It implies that firms tend to export less and fewer products to destinations with higher exchange rate volatility.

However, the empirical finding of Tang (2011) emphasizes a positive and significant impact of exchange rate volatility on regions production networks and exports in South Asia. The empirical enquiry of Aghione .P, Bacchetta .P, Ranciere .R and Rogoff .K, (2009) reveals that the more financially developed a country is, the faster it will grow a more flexible exchange rate. This implies that exchange rate volatility will be harmful to firms that have high liquidity needs in countries with low degree of financial development.

Anubha, (2013) pointed out that real exchange rate movements have a significant impact on Indian firms’ performance through the cost as well as revenue channel. The impact depends upon the share of imports and exports along with the degree of market power.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Research Design**

Research design is the overall plan for connecting the conceptual research problems to the pertinent empirical research. In other words, the research design articulates what data is required, what methods are going to be used to collect and analyse this data and how all of this is going to answer the research questions.

According to Kerlinger (2000), research design is the plan, structure and strategy of investigation conceived so as to control variance. Thus, the research design that was adopted in this study was the descriptive design. The adoption of this design was informed because; the study involved the collection of data to accurately and objectively describe existing phenomena and determining the nature of a situation as it exists at the time of investigating the population under study.

**3.2 Population of the Study and Method of Population Determination**

This study focused on the effect of the naira devaluation on the performance of small and medium scale enterprises in Nigeria but due to time and financial constraints, the researcher could not reach the entire states in Nigeria. For this reason, only five medium scale enterprises in Anambra state were selected for effectiveness and accuracy in solving the problem.

Therefore, for the purpose of this study, the population comprised of workers and managers of the five selected medium scale enterprises which amount to 250 used for the investigation.

**3.3 Sampling Procedure and Sample Size Determination**

According to Nwanna (2005), sampling techniques are procedures adopted to systematically select the chosen sample in a specified way under control. This research work adopted the convenience sampling technique in selecting the respondents from the total population.

A total sample size of 200 respondents was selected from the research population using the convenient sampling method. A sample of convenience is the terminology used to describe a sample in which elements have been selected from the target population on the basis of their accessibility or convenience to the researcher.

Some factors helped in the selection using the convenience technique such as; availability of some elements or units at the time of data collection, the geographical setting and most importantly the overriding principle of the researcher’s convenience and respondent availability.

**3.4 Method of Data Collection and Data Sources**

Data collection involves a search for relevant information that will proffer solutions to specific problems. Every researchers efforts therefore centers on the search for such information which could be obtained either from primary or secondary sources. But for the purpose of this study or research, data for this study was gathered through;

* **Primary Sources of Data:** this involves getting information from the respondents through the use of questionnaire. Questionnaire is the major instrument of data collection in this study.
* **Secondary Sources of Data:** this involves research made from the extensive review of all related literatures written by re-owned authors. However, the following publications are reviewed: Journals, Magazines, Text-books, Government publications.

**3.5 Instrument Development:**

The major instrument used for the research was a carefully formulated questionnaire. The development of the instrument was possible as a result of the assistance of my supervisor. The schedule for the questionnaire started with a covering letter of appeal in which the purpose of the data collection was briefly explained to the correspondents.

This letter of appeal was necessary to facilitate an encouragement on the part of the respondents to participate effectively in the exercise.

Also, anonymity was granted to the participants and this help prevent faking the information required thereby enhancing the validity and the reliability of the study.

The questionnaire was divided into two (2) parts;

* Part A comprises of respondents personal data.
* Part B contains many research assertions which helped elicit the effect of the naira devaluation on SMEs.

More so, the research instrument used for the study is a five Likert scale described below;

|  |  |
| --- | --- |
| **Options** | **Weight** |
| Strongly Agree | 5 |
| Agree | 4 |
| Indifferent | 3 |
| Disagree | 2 |
| Strongly Disagree | 1 |

**3.6 Instrument Validation:**

Instrument is said to be valid when it measures what it is intended to be measured (Deng and Ali, 2002). To ensure the face and content validity of the items on the instrument measuring the different variables in the study, the questionnaire was submitted to my supervisor to ascertain whether the items measured what they purported to measure. My supervisor certified the instrument as being valid to measure what it is set out to measure at least in content and face validity.

During the process, his comments and corrections led to changes being effected on the items in the questionnaire in terms of appropriateness and phraseology, tautology, grammar and organization of the instrument were identified and the necessary corrections were made.

**3.7 Instrument Reliability Test:**

According to Nisbet and Entwistle (2005), the reliability of a test indicates how consistent it gives the same or nearly the same result when it is administered the second time.

Thus, to assess the reliability of the research instrument, a test-retest approach was employed. Some respondents were given the same questionnaire twice at a space of two (2) weeks interval. The second result obtained coincided with the former. Thus, the measure shows consistency over time.

**3.8 Method of Data Analysis and Statistical Tools:**

The data to be obtained out there in the field should be presented in a tabular form and analyzed through the use of a simple percentage table to enhance quick and easy understanding of the respondents responses or opinions to the topic been researched on.

However, the statistical tool employed to test the earlier stated hypothesis study is the regression and chi-square, a non-parametric test. Chi-square (x2), test is an important tool used for hypothesis with a view to making inferences. Basically, it is used when one wishes to compare an observed distribution with expected distribution. It is often referred to as goodness of fit test. The choice of the use of chi-square becomes necessary if our target population is in various areas and professions such that a reliable sampling frame will conveniently contain all the elements needed from the population.

The formula for the correlation of x2 is given as;

X2 =∑ (of - ef)2

ef

Where:

of = observed frequency

ef = expected frequency

X2 = is the chi-square value.

Under the use of chi-square in this study, at 95% level of significance is assumed to determine the critical value of decision making.

To find the critical chi-square (x2) distribution table, we begging by finding the degree of freedom. This is found by multiplying the number of columns less one.

That is degree of freedom (df) = (rows-1) (columns-1) then using the degree of freedom derived against the 95% level of confidence in the x2 distribution table, the critical value is obtained.

**Decision Rule**

The rule when the chi-square (x2) is employed to a given hypothesis to accept the null hypothesis (Ho), if the calculated chi-square (x2) value is less than the Chi-square (x2) critical value and then reject the alternative hypothesis (Hi).

We reject the null hypothesis (Ho), if the calculated Chi-square (x2) value is greater than the Chi-square (x2) critical value and then accept the alternative hypothesis (Hi).

**CHAPTER FOUR**

**DATA PRESENTATION, ANALYSIS, AND INTERPRETATION**

**4.1 Presentation of Data**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sample size** | **Questionnaire Distributed** | **Unreturned Questionnaire** | **Total** |
| 200 | 200 | 0 | 200 |

**4.1.1 Bio Data of Respondents**

| **Table 1: Gender Distribution of Respondents** | | | | | |
| --- | --- | --- | --- | --- | --- |
|  | | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Male | | 115 | 57.5 | 57.5 | 57.5 |
| Female | | 85 | 42.5 | 42.5 | 100.0 |
| **Total** | | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 1 shows gender distribution of respondents used for the study. 115 Respondents representing 57.5% were Male respondents, while the remaining 85 respondent representing 42.5% were Female respondents.

This clearly shows that Male respondents dominated their Female counterparts for the study. This is explained by the nature of the business or import task, as more Males are interested in import activities than Females.

**Table 2: Age Distribution of Respondents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| 1-20 Years  21-40 Years  41-60 Years  60 and Above  **Total** | 5  173  20  2  **200** | 2.5  86.5  10.0  1.0  **100.0** | 2.5  86.5  10.0  1.0  **100.0** | 2.5  89.0  99.0  100.0 |

**Source:** Field Survey, 2017

Table 2 shows age distribution of the respondents. 5 respondents representing 2.5% are between ages 1-20, 173 respondents representing 86.5% fall between ages 21-40 years, 20 respondents representing 10% fall between the ages 41-60, the remaining 2 respondents representing 1% are 60 years and above.

This clearly shows that majority of the respondents fall within the age bracket 21-40 years. This implies that majority of the respondents are still in their youthful age.

**Table 3: Educational Background of Respondents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Basic Education | 10 | 5.0 | 5.0 | 5.0 |
| SSCE | 35 | 17.5 | 17.5 | 22.5 |
| OND | 101 | 50.5 | 50.5 | 73.0 |
| HND | 20 | 10.0 | 10.0 | 83.0 |
| B.Sc | 29 | 14.5 | 14.5 | 97.5 |
| M.Sc | 5 | 2.5 | 2.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 3 shows educational background of the respondents used for the study. 10 respondent representing 5% have basic education, 35 respondent representing 17.5% are SSCE holders, 101 respondent representing 50.5% are OND holders, 20 respondents representing 10% are HND holders, and 29 respondents representing 14.5% are B.Sc holders, while the remaining 5 respondents representing 2.5% are M.sc Holders.

This shows that the respondents for the study are educated people as majority of the respondents have post secondary education. A good amount of the respondents are OND, HND, and B.sc holders. This implies that the respondents are qualified to participate in the study as they will at least have a fair knowledge of happenings in the economy in relation to naira devaluation and performance of their businesses.

**Table 4: Years of Experience in Business**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| 1-10 Years | 165 | 82.5 | 82.5 | 82.5 |
| 11-20 Years | 33 | 16.5 | 16.5 | 99.0 |
| 21-30 Years | 1 | .5 | .5 | 99.5 |
| 30 and above | 1 | .5 | .5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 4 shows years of business experience of the respondents. 165 respondents representing 82.5% have 1-10 years business experience, 33 respondents representing 16.5 have 11-20 years experience, 1 respondents representing 0.5% have 21-30 years business experience, the remaining 1 respondent representing 0.5% have business experience of 30 years and above.

This clearly shows that majority of the respondents have between 1-10 years business experience, while a few have business experiences of more than 10 years. This goes to further validate the selected respondents for the study. This means that the respondents have vast experience in business; hence, they will be able to respond to the various questions formulated for the study and aid the researcher in achieving stated objectives for the study.

**Table 5: Location of Respondents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Awka | 21 | 10.5 | 10.5 | 10.5 |
| Onitsha | 42 | 21.0 | 21.0 | 31.5 |
| Nnewi | 100 | 50.0 | 50.0 | 81.5 |
| Ihiala | 28 | 14.0 | 14.0 | 95.5 |
| Ogbaru | 9 | 4.5 | 4.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 5 shows the geographical location of selected respondents for the study. 21 respondents representing 10.5% leave in Awka, 42 respondents representing 21% leave in Onitsha, and 100 respondents representing 50% leave in Nnewi, 28 respondents representing 14% leave in Ihiala, while the remaining 9 respondents representing 4.5% leave in Ogbaru.

**4.1.2 Analysis of data in line with Research Question 1**

**Table 6: Do you Import?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Yes |  | 200 | 100.0 | 100.0 | 100.0 |

**Source:** Field Survey, 2017

Table 6 shows responses gotten from the respondents when asked if they import goods and services. All 200 respondents representing 100% agreed that they are into the importation business.

This shows that the respondents are into importation business, and hence they are the right people for the study, as the study seeks to examine the effect of the naira devaluation on the performance of small and medium scale enterprises in Nigeria.

**Table 7: If 'Yes' what type of Product do you import?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Computer Wares | 37 | 18.5 | 18.5 | 18.5 |
| Clothes | 19 | 9.5 | 9.5 | 28.0 |
| Food and Health products | 10 | 5.0 | 5.0 | 33.0 |
| Home Appliances and Gadgets | 121 | 60.5 | 60.5 | 93.5 |
| Automobile Parts | 13 | 6.5 | 6.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 7 highlights the type of products the respondents import. 37 respondents representing 18.5% import computer wares, 121 respondents representing 60.5% import gadgets, and 10 respondents representing 5% import food and health products, 19 respondents representing 9.5 % import cloths, while the remaining 13 respondents representing 6.5% import automobile parts.

This clearly shows that majority of the respondents selected for the study import home appliances from other countries for their sale.

**Table 8: I depend largely on other countries for supply of the above products mentioned**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 101 | 50.5 | 50.5 | 50.5 |
| Agree | 87 | 43.5 | 43.5 | 94.0 |
| Indifferent | 8 | 4.0 | 4.0 | 98.0 |
| Disagree | 3 | 1.5 | 1.5 | 99.5 |
| Strongly Disagree | 1 | .5 | .5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 8 shows the dependency of the respondents on foreign products. 101 respondents representing 50.5% strongly agree that they rely on other countries for their products, 87 respondents representing 43.5% Agree, 8 respondents representing 4% were indifferent, 3 respondents representing 1.5% disagreed, while the remaining 1 respondent representing 0.5% strongly disagree.

This clearly shows that majority of the respondents strongly agreed and agreed that small and medium scale enterprises in Nigeria largely depend on foreign products for survival. This to a large extent entails that SMEs in Nigeria depend on imports for sales as majority of the respondents asserted to this.

**Table 9: I outsource other stages of production to Foreign Contractors/firms**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 30 | 15.0 | 15.0 | 15.0 |
| Agree | 47 | 23.5 | 23.5 | 38.5 |
| Indifferent | 92 | 46.0 | 46.0 | 84.5 |
| Disagree | 29 | 14.5 | 14.5 | 99.0 |
| Strongly Disagree | 2 | 1.0 | 1.0 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 9 shows the level or degree in which SMEs outsource other stages of production such as fabrication, services, branding, marketing etc to foreign firms and contractors. 30 respondents representing 15% strongly agree, 47 respondents representing 23.5% agree, 92 respondents representing 46% were indifferent, 29 respondents representing 14.5% disagree, while the remaining 2 respondents representing 1% strongly disagree.

This means that outsourcing of other stages of production is not really ascertained by the respondents as majorities were indifferent when answering the question. However, majority of the respondents on the hand strongly agreed or agreed that other stages of production are usually outsourced to foreign firms and contractors.

**Table 10: SMEs in Nigeria depend on foreign goods/services for their growth and survival**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 167 | 83.5 | 83.5 | 83.5 |
| Agree | 27 | 13.5 | 13.5 | 97.0 |
| Indifferent | 3 | 1.5 | 1.5 | 98.5 |
| Disagree | 2 | 1.0 | 1.0 | 99.5 |
| Strongly Disagree | 1 | .5 | .5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 10 shows level on dependence of SMEs on Foreign Products for their growth and survival. 167 respondents representing 83.5% strongly agree, 27 respondents representing 13.5% agree, 3 respondents representing 1.5% were indifferent, 2 respondents representing 1% disagree, while the remaining 1 respondent representing 0.5% strongly disagree.

This clearly shows that SMEs rely largely on foreign goods and services for their growth and survival as majority of the respondents asserted to this.

**Table 11: What Factors account for the dependence of SMEs on Foreign products?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Price | 104 | 52.0 | 52.0 | 52.0 |
| Quality | 7 | 3.5 | 3.5 | 55.5 |
| Lack of Local Substitutes | 6 | 3.0 | 3.0 | 58.5 |
| Easy to Import | 83 | 41.5 | 41.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 11 highlights the various factors that account for dependence of SMEs on foreign products. Among the listed factors from the survey, Price was the major factor as most of the respondents asserted that foreign goods were cheaper than indigenous products. 104 respondents representing 52% asserted to this fact. 7 respondents representing 3.5% indicated quality, 6 respondents representing 3% indicated lack of substitute products, while the remaining 83 respondents representing 41.5% indicated that foreign products were easy to import.

This clearly shows that price is a major determinant of dependency of SMEs on foreign products. This makes sense as majority of products imported from China seems to be cheaper and favorable for SMEs whose ultimate goal is to maximize profit and minimize cost of sales and production.

**4.1.3 Analyses of Data in line with Research Question 2**

**Table 12: Are you aware of the Current Devaluation of the Naira?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Yes | 200 | 100.0 | 100.0 | 100.0 |

**Source:** Field Survey, 2017

Table 12 shows the level of awareness of respondents on the issue of the naira devaluation. All 200 respondents representing 100% are aware of the naira devaluation. This shows that the respondents are well qualified to answer questions to achieve research objective 2.

**Table 13: The Current Naira Devaluation has affected my Business Negatively**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 173 | 86.5 | 86.5 | 86.5 |
| Agree | 24 | 12.0 | 12.0 | 98.5 |
| Indifferent | 3 | 1.5 | 1.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 13 shows the effect of the naira devaluation on the financial performance of the respondents. 173 respondents representing 86.5% strongly agree that the naira devaluation has negatively affected their businesses, 24 respondents representing 12% agree, 3 respondents representing 1.5% were indifferent on the matter.

This clearly shows that the naira devaluation has negatively affected the financial performance of SMEs in Nigeria as majority of the respondents asserted to this. This further implies that although the naira devaluation has some positive effect on the economy, and SMEs in a country, its effects in Nigeria is Negative due to over dependency of SMEs on Foreign products and high level of imports into the country. This could reduce the Gross Domestic Product of Nigeria and cause Inflation if no properly monitored. Worse still, SMEs can collapse as a result of low patronage.

**Table 14: I have incurred losses as a result of exchange rate fluctuations**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 20 | 10.0 | 10.0 | 10.0 |
| Agree | 87 | 43.5 | 43.5 | 53.5 |
| Indifferent | 43 | 21.5 | 21.5 | 75.0 |
| Disagree | 33 | 16.5 | 16.5 | 91.5 |
| Strongly Disagree | 17 | 8.5 | 8.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 14 shows responses of respondents on losses accrued due to the naira devaluation. 20 respondents representing 10% strongly agree that they have made losses, 87 respondents representing 43.5% agree, 43 respondents representing 21.5% were indifferent, 33 respondents representing 16.5% disagree, while the remaining 17 respondents representing 8.5% strongly disagree.

**Table 15: High Cost of Sales have resulted in poor patronage and low turnover for my products**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 67 | 33.5 | 33.5 | 33.5 |
| Agree | 33 | 16.5 | 16.5 | 50.0 |
| Indifferent | 17 | 8.5 | 8.5 | 58.5 |
| Disagree | 70 | 35.0 | 35.0 | 93.5 |
| Strongly Disagree | 13 | 6.5 | 6.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 15 shows effect of the naira devaluation on patronage and turnover. 67 respondents representing 33.5% strongly agree, 33 respondents representing 16.5% agree, 17 respondents representing 8.5% were indifferent, 70 respondents representing 35% disagree, while 13 respondents representing 6.5% strongly disagree.

**Table 16: Since the naira devaluation, I hardly make profits**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 72 | 36.0 | 36.0 | 36.0 |
| Agree | 81 | 40.5 | 40.5 | 76.5 |
| Indifferent | 38 | 19.0 | 19.0 | 95.5 |
| Disagree | 5 | 2.5 | 2.5 | 98.0 |
| Strongly Disagree | 4 | 2.0 | 2.0 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 16 shows the effect of the naira devaluation on profits. 72 respondents representing 36% strongly agree 81 respondents representing 40.5% agree, 38 respondents representing 19% were indifferent, 5 respondents representing 2.5% disagree, 4 respondents representing 2% strongly disagree.

**4.1.4 Analysis of Data in line with Research question 3**

**Table 17: How frequent do you import?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Very often | 113 | 56.5 | 56.5 | 56.5 |
| Often | 57 | 28.5 | 28.5 | 85.0 |
| Moderate | 18 | 9.0 | 9.0 | 94.0 |
| Seldom | 4 | 2.0 | 2.0 | 96.0 |
| Very Seldom | 8 | 4.0 | 4.0 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 17 shows frequency of imports of the respondents. 113 respondents representing 56.%% import very often, 57 respondents representing 28.5% import often, 18 respondents representing 9% import moderately, 4 respondents representing 2% import seldom, while the remaining 8 respondents representing 4% import less often. This implies that majority of the respondents import very often and often as indicated above.

**Table 18: How would you rate your status as an importer?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Large Quantities | 7 | 3.5 | 3.5 | 3.5 |
| Moderate Quantities | 182 | 91.0 | 91.0 | 94.5 |
| Small Quantities | 11 | 5.5 | 5.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 18 shows volume of imports made by the respondents. 7 respondents representing 3.5% import in large quantities, 182 respondents representing 91% import in moderate quantities, while the remaining 11 respondents representing 5.5% import in small quantities. This shows that that majority of the respondents are mini importers as the import in moderate or small quantities.

**Table 19: The Naira Devaluation has forced me to reduce the volume of Import**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 125 | 62.5 | 62.5 | 62.5 |
| Agree | 63 | 31.5 | 31.5 | 94.0 |
| Indifferent | 10 | 5.0 | 5.0 | 99.0 |
| Disagree | 2 | 1.0 | 1.0 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 19 shows the effect of the naira devaluation on volume of imports. 125 respondents representing 62.5% strongly agree that the naira devaluation has reduced their import volume, 63 respondents representing 31.5% agree, 10 respondents representing 5% were indifferent, while 2 respondents representing 1% disagreed. This clearly shows that the naira devaluation has reduced import volume of SMES as majority of the respondents asserted to this. Since it is more expensive to import goods and services from other countries against the weak naira, most SMEs have reduced quantities they buy from other countries, in-order to reduce cost of sales and minimize losses.

**Table 20: If the Naira continues to be devalued, I may be forced to further reduce my import volume**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 158 | 79.0 | 79.0 | 79.0 |
| Agree | 14 | 7.0 | 7.0 | 86.0 |
| Indifferent | 26 | 13.0 | 13.0 | 99.0 |
| Disagree | 1 | .5 | .5 | 99.5 |
| Strongly Disagree | 1 | .5 | .5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 20 shows responses on whether imports will further be reduced if the naira is continuously devalued. 158 respondents representing 79% strongly agree, 14 respondents representing 7% agree, 26 respondents representing 13% were indifferent, 1 respondent representing 0.5% disagree, 1 respondent representing .5% strongly disagree.

**Table 21: Are you of the view that the Naira Devaluation can encourage indigenous Products and impact positively on the Overall economy?**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 83 | 41.5 | 41.5 | 41.5 |
| Agree | 51 | 25.5 | 25.5 | 67.0 |
| Indifferent | 3 | 1.5 | 1.5 | 68.5 |
| Disagree | 29 | 14.5 | 14.5 | 83.0 |
| Strongly Disagree | 34 | 17.0 | 17.0 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 21 shows awareness of the respondents on the benefits or positive impact of the naira devaluation on the economy of Nigeria. 83 respondents representing 41.5% strongly agree, 51 respondents representing 25.5% agree, 3 respondents representing 1.5% were indifferent, 29 respondents representing 14.5% disagree, while the remaining 34 respondents representing 17% strongly disagree.

**Table 22: As a result of the Naira Devaluation am now buying Nigerian made substitute materials to what I Import**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Strongly Agree | 109 | 54.5 | 54.5 | 54.5 |
| Agree | 41 | 20.5 | 20.5 | 75.0 |
| Indifferent | 18 | 9.0 | 9.0 | 84.0 |
| Disagree | 27 | 13.5 | 13.5 | 97.5 |
| Strongly Disagree | 5 | 2.5 | 2.5 | 100.0 |
| **Total** | **200** | **100.0** | **100.0** |  |

**Source:** Field Survey, 2017

Table 22 shows the effectiveness of the naira devaluation in encouraging local made products in Nigeria. 109 respondents representing 54.5% strongly agree that they are buying local made products as a result of the naira devaluation, 41 respondents representing 20.5% agree, 18 respondents representing 9% were indifferent, 27 respondents representing 13.5% disagree, 5 respondents representing 2.5% strongly disagree. This implies that the naira devaluation got some positive impact on the Nigerian economy, as local products are being patronized as a result of expensive imports from other countries. This in turn will increase Gross Domestic Product of the Economy as well as encourage the growth and survival of indigenous business who may not be able to compete favorably with foreign businesses and their products.

**4.2 Test of Hypotheses**

Having given a careful analysis of the responses, the hypothesis earlier formulated in chapter one of this study are approached by the use of chi-square at 0.05 (5%) level of significance.

**Hypothesis One**

**Ho**: There is no significant relationship between the naira devaluation and import volume of SMEs in Nigeria.

**H1**: There is a significant relationship between the naira devaluation and import volume of SMEs in Nigeria.

**Question 19:** **The Naira Devaluation has forced me to reduce the volume of Import**

|  | **Observed N** | **Expected N** | **Residual** |
| --- | --- | --- | --- |
| Strongly Agree | 125 | 50.0 | 75.0 |
| Agree | 63 | 50.0 | 13.0 |
| Indifferent | 10 | 50.0 | -40.0 |
| Disagree | 2 | 50.0 | -48.0 |
| **Total** | **200** |  |  |

**Source:** Field Survey, 2017

**Test Statistics**

|  | I depend largely on other countries for supply of the above products mentioned | The Naira Devaluation has forced me to reduce the volume of Import |
| --- | --- | --- |
| Chi-Square | 246.100a | 193.960b |
| Difference | 4 | 3 |
| Significance | .000 | .000 |
| 1. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 40.0. | | | |
| 1. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 50.0. | | | |

From the value, X2C= 246.1, X2T at 0.05 with df=4 is 9.49

**Decision Rule**

Since the test statistics X2C=246.1 is greater than the actual value X2T = 9.49, the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted which states There is a significant relationship between the naira devaluation and import volume of SMEs in Nigeria.

**Hypothesis Two**

**Ho**: The devaluation of the naira has not been effective in encouraging the growth of indigenous small and medium scale businesses in Nigeria.

**H1**: The devaluation of the naira has been effective in encouraging the growth of indigenous small and medium scale businesses in Nigeria.

**Question 21: Are you of the View that the Naira devaluation will Encourage indigenous products?**

|  | **Observed N** | **Expected N** | **Residual** |
| --- | --- | --- | --- |
| Strongly Agree | 83 | 40.0 | 43.0 |
| Agree | 51 | 40.0 | 11.0 |
| Indifferent | 3 | 40.0 | -37.0 |
| Disagree | 29 | 40.0 | -11.0 |
| Strongly Disagree | 34 | 40.0 | -6.0 |
| **Total** | **200** |  |  |

**Test Statistics**

|  | Are you of the view that the Naira Devaluation can encourage indigenous Products and impact positively on the Overall economy |
| --- | --- |
| Chi-Square | 87.400a |
| Difference | 4 |
| Significance | .000 |
| a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 40.0. | |

From the value, X2C= 87.4, X2T at 0.05 with df=4 is 9.49

**Decision Rule**

Since the test statistics X2C=87.4 is greater than the actual value X2T = 9.49, the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted which states The devaluation of the naira has been effective in encouraging the growth of indigenous small and medium scale businesses in Nigeria.

**4.3 Discussion and Implication of Findings**

The first objective of the study was to assess the dependency level of Small and Medium Scale Enterprises on Foreign Products and imports. Findings from the study revealed that SMEs are totally dependent on importation of goods and services (see table 8). There is a high dependency of SMEs on foreign importation. SMEs rely largely on foreign countries for goods and services they sell in Nigeria.

This has strong implications to the economy of Nigeria. As a developing country and an import dependent nation this implies that inflation and further weakening of the naira may arise. As imports gets more expensive and our indigenous goods gets cheaper for foreigners, prices of goods and services may sky rocket since almost every factor and stage of productive activity business carry out is imported or outsourced to foreign firms.

The naira which is the official currency of Nigeria becomes weak when compared to other hard currencies in the world. When devaluation continues for a long time without much progress in the economy, stagflation may occur. Considering the rate at which the Nigerian economy is import dependent, if value is not created or added on locally produced products, the economy may experience stagflation.

The second objective of the paper was to examine the effect of the naira devaluation on the financial performance of Small and Medium Scale Enterprises in Nigeria. Findings from the study revealed that the naira devaluation has a negative effect on the financial performance of small and medium scale enterprises (See table 13). This could further be demonstrated with the decline in profits, Higher cost of Sales, Low Turnover and Low patronage (See tables 14, 15, 16 & 17).

The whole problem still boils down to the problem of over dependency on imports from other countries. SMEs are suffering the negative effects of currency devaluation instead of enjoying the positive effects because the enabling environment for SMEs to get easy access to funds to manufacture world class products that can attract foreign exchange is absent. The creativity and innovation of business owners is limited to China products. Many are not thinking of manufacturing the products here in Nigeria. Necessary funds to project locally made goods and service are not readily available as financial institutions are scared of giving out credit facilities to SMEs due to their risky nature.

Implications of SMEs collapsing are vast and can damage any economy. SMEs which are the engine of any given economy are vital for the growth and development of the economy. If SMEs are not given the necessary attention by the government, the contribution of small businesses to the Gross Domestic Product of the Nigerian economy will be reduced, and this does not encourage development.

The third objective of the paper is to examine the effect of the naira devaluation on import volume of SMEs. The study revealed that the devaluation has actually reduced the import volume of small and medium scale owners who are active in import activities in the economy. The constant devaluation of the naira will also discourage more imports if implemented by the government.

The implication of this finding is that, Nigeria has two options. Local content is either promoted to attract more foreign exchange or we diversify into more productive avenues in the economy. The drop in oil prices should not be the sole determinant of the value of the naira. Other areas such as agriculture, technical skills etc should be explored. To gain more foreign exchange and earn more revenue into the federations account, local content must be promoted. Value must be created and added to Nigerian made goods, so that more foreign exchange can be earned to mitigate the negative effects of the naira devaluation.

Finally, the last object was to examine the effectiveness of the naira devaluation in encouraging locally produced goods and services. Findings from the study revealed that, the naira devaluation has actually encouraged some of the business men and women to start looking at Nigerian made goods, since it is now expensive to import.

This will yield more revenue to the government through taxes and royalties, and strengthen the purchasing power of the naira.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of Findings**

The paper examined the effect of the naira devaluation on small and medium scale enterprises. Findings from the study revealed that the naira devaluation has both negative and positive effects on businesses and the economy of Nigeria as a whole. Based on the data analysis, the following were discovered,

* Naira devaluation has a negative effect on the financial performance of SMEs in Nigeria such as; low profit, high cost of sales and low patronage.
* Naira devaluation has reduced the import volume of SMEs in Nigeria.
* Naira devaluation has encouraged SMEs in Nigeria to start creating local products.
* SMEs in Nigeria largely depend on foreign product for growth.
* SMEs in Nigeria outsource stages of production to foreign firms and contractors.

**5.2 Conclusion**

Devaluation of the naira affects small and medium scale enterprises in Nigeria in a negative way due to over dependence of SMEs on Imports and over dependence of the government on Oil revenue. This ripple effect has brought about losses to many business owners and hardship to many citizens who bear the high cost in the market.

Analyzing the naira devaluation Under the Babangida administration, the devaluation of Naira gingered stagnation, increased unemployment and hike in prices of basic foods. It forced many infant industries to fold up as they were unable to import essential materials needed for production. Furthermore, the inflationary spiral engendered by the devaluation of the Naira lowered the purchasing power of the income workforce. It also resulted in the low pricing and purchase of agricultural products. The failure of the policy of poverty alleviation programmes in achieving its set goals in the face of currency devaluation is akin to the theoretical conception (dependency theory) used in this study. The theory holds that devaluation policy is alien to Nigerian environment because of its external dictate. Therefore, poverty alleviation programs’ inability to achieve their goals is consequence upon the interface of an ailing foreign policy of devaluation.

**5.3 Recommendations**

* Value Creation should be the trademark of Small and Medium Scale enterprises in Nigeria. To earn foreign exchange and encourage high export rates of our local products, business operators must think outside the box. Goods and services that can attract foreigners should be produced to reduce the effect of the naira devaluation and substitute import.
* The government should take diversification of the economy seriously. Policies should be designed and implemented to fast track the diversification of the Nigerian economy. Oil prices should not be allowed to be the prime determinant of the value of the naira. Other areas such as agriculture, tourism, education should be explored to attract more foreign exchanges and revenue.
* Enabling environment for business to strive should be created. Small and medium scale enterprises should be encouraged to grow and survive rather than starving it to death through under financing.
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**APPENDIX I**

Department of Entrepreneurship Studies,

Faculty of Management Sciences,

Chukwuemeka Odumegwu Ojukwu University,

Igbariam Campus.

July, 2017.

Dear Sir/Madam

**REQUISITION FOR COMPLETION OF QUESTIONNAIRE**

I am a final year student of the above named department and institution. This questionnaire is designed for academic purposes and to assist the researcher to determine the effect of the naira devaluation on small and medium enterprise in Nigeria.

You are kindly requested to answer the questions set out in the attached questionnaire to the best of your knowledge and ability. Please be rest assured that all information supplied by you shall be treated in strict confidence and will not in any way prejudice your work.

Thanks for your understanding and co-operation.

**Yours faithfully,**

**Maduike Charles E.**

**APPENDIX II**

**SECTION A**

**Bio Data of Respondents**

Please tick where appropriate. Thanks

1. What is your Gender?

(a) Male

(b) Female

2. What is your age bracket?

(a) 1-20 Years

(b) 21-40 Years

(c) 41-60 Years

(d) 60 and Above

3. What is educational background?

(a) Basic Education

(b) SSCE

(c) OND

(d) B.Sc

(e) M.Sc

4. How many years of experience in business?

(a) 1-10 Years

(b) 11-20 Years

(c) 30 and above

5. Where is your location?

(a) Awka

(b) Onitsha

(c) Nnewi

(d) Ihiala

(e) Ogbaru

**SECTION B**

6. Do you Import?

(a) Yes (b) No (c) Not sure

7. If 'Yes' what type of Product do you import?

(a) Computer Wares

(b) Clothes

(c) Food and health items

(d) Home appliances and gadgets

(e) Automobile parts

8. I depend largely on other countries for supply of the above products mentioned

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

9. I outsource other stages of production to Foreign Contractors/firms

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

10. SMEs in Nigeria depend on foreign goods/services for their growth and survival

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

11. What Factors account for the dependence of SMEs on Foreign products?

(a) Price

(b) Quality

(c) Lack of local substitution

(d) Easy import

12. Are you aware of the Current Devaluation of the Naira?

(a) Yes (b) No (c) Not sure

13. The Current Naira Devaluation has affected my Business Negatively

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

14. I have incurred losses as a result of exchange rate fluctuations

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

15. High Cost of Sales have resulted in poor patronage and low turnover for my products

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

16. Since the naira devaluation, I hardly make profits

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

17. How frequent do you import?

(a) Very often

(b) Often

(c) Moderate

(d) Seldom

(c) Very seldom

18. How would you rate your status as an importer?

(a) Large Quantities

(b) Moderate Quantities

(c) Small quantities

19. The Naira Devaluation has forced me to reduce the volume of Import

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

20. If the Naira continues to be devalued, I may be forced to further reduce my import volume

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

21. Are you of the view that the Naira Devaluation can encourage indigenous Products and impact positively on the Overall economy

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed

22. As a result of the Naira Devaluation am now buying Nigerian made substitute products to what I Import

(a) Strongly Agreed

(b) Agreed

(c) Indifferent

(d) Disagreed

(e) Strongly Disagreed