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ABSTRACT

The study examine the effect of naira devaluation on smalland medium scale enterprise in Nigeria of a case study of some selected mini importers in Lagos, thestudy has the following objectiveTo assess the dependency level of SMEson foreign goods and services, To determine the effect of the naira devaluationon financial performance of SMEs in Nigeria, To examine the effect of the nairadevaluation on import volume of SMEs in Nigeria, To examine the effectivenessof the naira devaluation in encouraging the growth of indigenous small and mediumscale business in Nigeria, concerning methodologyThisstudy focused on the effect of the naira devaluation on the performance ofsmall and medium scale enterprises in Lagos state; hence the population forthis study is the entire city of Lagos. The respondents were drawn frombusiness men and women mostly importers in Lagos.A total sample size of twohundred and forty (200) respondents was selected from the research populationusing the convenient sampling method, based on the findings, datafor this study was gathered through the use of primary data (questionnaire).The questionnaire is the major instrument of data collection in this study; thestudy is recommended to the government and the general public that, ValueCreation should be the trademark of Small and Medium Scale enterprises inNigeria. To earn foreign exchange and encourage high export rates of our localproducts, business operators must think outside the box. Goods and servicesthat can attract foreigners should be produced to reduce the effect of thenaira devaluation; the government should take diversification of the economyseriously. Policies should be designed and implemented to fast track thediversification of the Nigerian economy. Oil prices should not be allowed to bethe prime determinant of the value of the naira. Other areas such asagriculture, tourism, education should be explored to attract more foreignexchanges and revenue Enabling environment for business to strive should becreated. Small and medium scale enterprises should be encouraged to grow andsurvive rather than starving it to death through under financing.

CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Nigeriawith abundance of resources like crude etc is deemed blessed. Her vastresources in commercial quantities have placed her on a high pedestal among oilproducing nations in the world. Her oil and gas industry which has been widelydescribed as the nation’s financial lifeline has helped her attain thisenviable position. There are several journals to this and about its role andsignificance in the Nigeria of today. This has birthed the segmentation of thefour key economic segments in Nigeria which are oil-related activities, thepublic sector (Governments and parastatals - that remains heavily dependent onoil derivatives), the organized private sector, and the informal sector (WorldBank 2002). The first segment of the economic activity is heavily based uponand centered on oil. The most dominance of this sector is shown by the share ofoil revenues that accrues as a percentage of exports since oil now accounts formore than 80 percent of the country’s export earnings/income.

Inrecent times, the drop in oil prices has left nations like Nigeria who run anoil based economy with undiversified economies in economic crises. Thischallenge brought about by exchange rate fluctuations is eventually leading tothe devaluation of the Naira. This has affected the demand and supply sides ofthe economy. The government of the day in Nigeria usually relies on foreignexchange reserve generated from crude oil to manage excessive volatility inexchange rate and recently crude oil prices have dropped drastically. This hastremendous implication for foreign exchange earnings. The capacity of theCentral Bank of Nigeria (CBN) to fund foreign exchange market has being calledto question. Low level of foreign exchange reserve induces free movement ofexchange rate. Issues are also on the rise on the demand side. There has beinga high demand for foreign exchange in the last five (5) years as a result offactors like, heavy dependence on imported finish products, the industrial sector's dependence on importedraw materials with other inputs, reversal of capital flow by investors and highspeculative demand which has caused uncertainty in the foreign exchange market(CBN report, August 2013). Therefore, the increased foreign exchange demand inthe face of unstable supply is leading to volatility in exchange rate.

Devaluationoriginally refers to a sharp fall in currency within a fixed exchange rate .In1960 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 oilwith its value to the economy of the whole world. The revenue from crude oilappeared to have helped the Nigerian economy with impact towards social andeconomic development than agriculture. This has led to the sudden neglect foragricultural activities. The impact of this is thus; the contributions ofagriculture to the Gross Domestic Product were Negligible! The retrogressionsare thus; contribution of agriculture to the Gross Domestic product fell 39.9percent between 1971 to 1974 to 18 percent with occasional rise. Within thisperiod the Nigeria devaluation was very high.

Currencydevaluation is a macro-economic fiscal policy which dwells on deliberatereduction in the value of local currency with the purpose of increasing gain intradable items. Cost of Goods and services are cheaper in a nation wherecurrency is devalued compared to another where there is no currencydevaluation. Reduction in prices of goods or services can help stimulatetrading activities in a country with overall purpose of enhancing economicgrowth and development to help alleviate poverty.

TheBabangida led administration's currency devaluation became popular in Nigeriawhen in 1986 he came up with the Structural Adjustment Programme. This came asa policy designed to help achieve a realistic exchange rate for the naira thatwas over-valued then. This posed an unhealthy threat to the economic growth and development of ourNation, Nigeria because overvalued currency further worsens balance of paymentproblem(Todaro,1989). On the basis of this, the nation was encouraged toembrace tthe devaluation policy as prerequisite for economic recovery.

Campbell(2004), in his work, looks at currency devaluation as a deliberate downwardadjustment in the official exchange rate established by a government againstspecified standard or another currency. The concern of the above scholasticdiscourse simply mean that devaluation of currency is about stimulating exportsand lowering importation of goods and services, for the achievement of balancedgrowth, with the general goal of alleviating poverty.

1.2 STATEMENT OF THE PROBLEM

Nigeriaas a developing economy is still import dependent. Her high dependency on goodsand services from foreign countries may likely bring about more negativeimpacts 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 nairalate 2014, but the question still remains- has the government done enough tocreate the enabling environment for businesses to produce locally and achievemore foreign exchange? Without a doubt, devaluation if properly managed can beused as a fiscal policy tool to discourage imports, achieve balance of paymentas well as encourage and promote businesses, but Nigeria is not there yet, asmost Small and Medium Scale Businesses still depend on goods and services fromother countries to still be in business.

Theimplication of the devaluation of the naira is that imports will become moreexpensive. An import dependent economy like Nigeria cannot afford to devalueher currency because the country is not producing a product that would attractbuyers from other countries and SMEs are not well equipped by the government toproduce these products.

Majorityof SMEs still depend on goods and services from China, UK, USA etc, sinceimporting tends to be cheaper than producing locally. The overdependence ofSMEs on foreign products is suicidal as a drop in the value of Naira willresult to higher cost of sales, and other operational/manufacturing costs. SMEswill have to spend more money to buy goods and services from other countries.This can result in inflation, low patronage of goods and services and resultantcollapse of small and medium businesses.

1.3 OBJECTIVES OF THE STUDY

Themain aim of the study is to examine the effect of the devaluation of the nairaon small and medium scale businesses in Nigeria, using mini importers in Lagosstate as a case study. Specific objectives of the study are:

1.To assess the dependency level of SMEson foreign goods and services.

2.To determine the effect of the nairadevaluation on financial performance of SMEs in Nigeria.

3.To examine the effect of the nairadevaluation on import volume of SMEs in Nigeria.

4.To examine the effectiveness of thenaira devaluation in encouraging the growth of indigenous small and mediumscale business in Nigeria.

1.4 RESEARCH QUESTIONS

In-orderto achieve the objectives of the paper and guide the study accordingly, thefollowing research questions were formulated:

1.How dependent are SMEs in Nigeria onForeign goods and services?

2.How does devaluation of the nairaaffect financial performance of SMEs in Nigeria?

3.What effects does the nairadevaluation have on import volume of SMEs in Nigeria?

4.Have the devaluation of the naira beeneffective in encouraging the growth of indigenous small and medium scalebusinesses in Nigeria?

1.5 RESEARCH HYPOTHESES

Thefollowing hypotheses were formulated for the study:

1.**Ho**:SMEs dependence on foreign goods and services is high.

Hi:SMEs dependence on foreign goods and services is Low.

2.**Ho**:There is no significant relationship between the naira devaluation andfinancial performance of SMEs in Nigeria.

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

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

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

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

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

1.6 SIGNIFICANCE OF THE STUDY

Thestudy is significant as it would add to existing literature on Nairadevaluation and how it affects small and medium scale enterprises and theeconomic 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 tofirsthand knowledge about naira devaluation.

Itis also hoped that Nigeria policy makers will find it’s a helpful material inthe formulation and implementation of policies on devaluation of naira and howit facilities growth in Nigeria.

1.7 SCOPE AND LIMITATIONS OF THESTUDY

Thestudy covers the effect of devaluation of the naira on small and mediumbusinesses in Nigeria, using responses from selected mini importers ofelectronic gadgets such as laptops, ipads, phones, television and general waresin Lagos state as a case study.

Everyresearch study comes with a constraint. For the purpose of achieving statedobjectives for the study, the researcher confronted both financial and timeconstraints. Funds to print and distribute questions coupled with tight lectureschedules were the limitations for the study.

1.8 DEFINITION OF TERMS

SME:Small and Medium Scale Enterprise.

Naira:The Currency of Nigeria.

Devaluation:Devaluation on modern monetary policyis a reduction in the value of a currencywith respect to those goods, services or other monetary units with which thatcurrency can be exchanged.

Exchange rate:an exchange ratebetween two currenciesis the rate at which one currency will be exchanged for another.

Import:An import is agood brought into a jurisdiction, especially across a national border, from anexternal source

Export:The term exportmeans shipping the goods and services out of the port of a country. The sellerof such goods and services is referred to as an "exporter" and isbased in the country of exportwhereas the overseas based buyer is referred to as an "importer

Balance of Payment:The balance of payments (BOP) of a country is the record of alleconomic transactions between the residents of a country and the rest of theworld in a particular period (over a quarter of a year or more commonly over ayear).

CBN:Central Bank of Nigeria

E-Commerce:Electronic commerce,commonly known as E-commerce or e-Commerce, is trading in

products or services using computernetworks, such as the Internet.
Jumia:An e-commerce site for buying and selling electronic gadgets and general wares.
Abadie:An e-commerce website mainly for buying foreign and indigenous products inNigeria.

REFERENCES

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