

## Micro, Small and Medium- Sized Enterprises and Economic Growth in Ebonyi State, Nigeria

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### Abstract

The importance of MSME cannot be overstated in both developed and developing countries as they provide a substantial contribution to both the creation of jobs and the GDP, this study was on MSMEs and Economic growth in Ebonyi State. The main objective of the study was to examine MSMEs as pillar of economic growth in Ebonyi state. However, the specific objectives are; to determine the effects of MSMEs on employment generation in Ebonyi state. to examine the effects of MSMEs on increased income level of Ebonyi state indigenes and to determine the challenges confronting performance of MSMEs in Ebonyi state. data was collected from 25 selected MSMEs each across the 13 LGAs in the state totaling 325 for which 298 were properly filled and used for analysis. Analysis was done with regression through SPSS version 26 findings indicated that the level of employment generation (EMGS), and reduction of MSMEs challenges (RECS) with P- values of 0.085 and 0.259 respectively do not significantly influence economic growth in Ebonyi State, however, increased income level with P- value of 0.000 has significant influence in Economic growth. The study recommended among others that the government should establish more micro finance banks to enable MSMEs have access to capital and also provide more amenities for improved performance of MSMEs in the state.

**Key words:** micro, small and medium enterprises, economic growth, employment generation increased income level and reduction of MSMEs challenges

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### I. Background of the Study

Globally, micro, small and medium sized enterprises (MSMEs) have been recognized as a major pillar of economic growth and productivity, this is owing to their significant contributions in the areas of employment generation, poverty reduction, wealth generation food security MSMEs impact hugely on providing competition, satisfying the needs of the society and other firms through making goods and services available which other firms use as raw materials to further produce goods and as such seen to be the life blood and important agent of economic growth to a developing country (Ebitu et al., 2016). Thailand, China, and Malaysia, for instance, MSMEs account for more than seventy percent contributions to export and this has been accounted for as one of the major reasons why these countries experience rapid economic growth in recent times (Duro, 2018).

World Bank (2020: P67) reported that, MSMEs account for over 50% of GDP and 75% of job creation globally and about 90% of enterprises, that is also how their role in sustaining the economy of Nigeria cannot be overrated. MSMEs contribute about 46.31% to the GDP with over 96.7% of Nigerian business outfits, providing 84.02% of jobs thereby increasing growth, and employment and in all boosting economic capacity (NBS,2021: 212). The report also revealed that MSMEs accounted for 6.21% of gross exports. A strong MSME sector also promotes innovations and investment opportunities which in turn facilitates employment generation and sustainable growth in the GDP of an economy (Jegadeshwari & Velmurugan, 2017); (Ogbeide & Adeboje, 2017).

The Nigerian Small and Medium Businesses Development Agency (SMEDAN, 2018) reports that a good number of Nigerian MSMEs fail during the first five years of operation as a result of challenges ranging from; inadequate financing and infrastructure deficits (Abdul, 2022). Corporate Affairs Commission (CAC) in Nigeria, record a significant number of business registrations but also note a concerning number of deregistration due to business failures (Corporate Affairs Commission, 2022). The issue of MSME failure is persistent, This continuity of failure highlights the structural and systemic challenges that hinder MSME growth. When MSMEs fail, its resultant effects are on increase in unemployment, reduced income level of the citizens among others which impedes the growth and development of the nation's economy.

Ebonyi State is located in the southeastern geopolitical zone of Nigeria, bordered by Benue, Enugu, Cross River, and Abia State. It was created in 1996 from parts of old Enugu and Abia State and has its capital in Abakaliki, it is one of the smallest states of Nigeria, Ebonyi is the 33<sup>rd</sup> largest in area and 29<sup>th</sup> most populous with an estimated population of nearly 2.9 million as of 2016. Micro, Small and medium sized enterprises are the backbone of Ebonyi State's economy as there is visible little presence of functional, large-scale business enterprises. Ebonyi state has 13 local government areas they are as follows: Abakaliki, Afikpo North, Afikpo South (Edda) Ebonyi, Ezza South, Ikwo, Ishielu, Ivo, Izzi, Ohaozara, Ohaukwu, and Onicha. With the state capital in Abakaliki MSMEs enterprises dominate economic activity and provides most of the State's jobs. Consequently, greater population of the residents depend on government, and MSMEs businesses for employment and economic empowerment. Major players in the MSMEs business sector in Ebonyi state include: fabrication, farming and agro business, wholesale and retail trade, manufacturing, vehicle repair/servicing, hotels and restaurants, building and construction and so on. These businesses are mostly informal, family owned, do not have shareholders and most importantly requiring competencies for good performance.

### **Statement of Problem**

MSMEs are pillars of economic growth because it generates employment that take people out of poverty, it is highly regarded as the core in any economy as they perform a vital role in growth, employment creation, poverty reduction, innovative thinking and entrepreneurship (Adeosun and Shittu, 2021). This statement is true particularly in Nigeria that is rich and diverse economic landscape. With about 200 million people (World Bank, 2021), and has a vast pool of entrepreneurial talents and resources that can be harnessed through SMEs to Cause economic growth and productivity. The importance of MSME cannot be overstated in Nigeria as they provide a substantial contribution to both the creation of jobs and the GDP. It has long been acknowledged that micro, small and medium-sized businesses (MSMEs) play a critical role in reducing poverty, fostering economic growth, and creating jobs in both developed and developing countries (UNCTAD, 2020).

The Nigerian Government recognizes MSMEs as pillar to achieving growth and development because they can enhance a country's economic growth and sustainability by diversifying economic activities, reducing dependence on a few sectors, and providing a buffer against external shocks (Aikor, 2021). MSMEs are seen as a means to diversify Nigerian economy away from its heavy dependence on oil and this diversification is crucial for Nigeria to withstand economic shocks and ensure long-term sustainability given Nigeria's vulnerability to global commodity price. Because of the role of MSMEs in economic growth of Nigerian economy, government has over the years come up with programmes and initiatives to enhance performance and sustainability of the contributions of MSMEs to the growth of the economy such as : Nigerian industrial policies 1980 to 2020, the Structural Adjustment

Programme (SAP) by the Babaginda's Military Regime precisely in July 1986, The national economic empowerment development strategy (NEEDS), Central Bank of Nigeria's (CBN) intervention Funds, The National Integrated Industrial Development (NIID, 2007): This formed the industrial policy direction of the Yaradua's Administration, Backward Integration Plan (BIP). With the objective to domesticate production for selected priority products, National Enterprises Development Programme (NEDEP) introduced to provide training, access to finance, and market linkages to MSMEs. However, (Surya et al., 2021) indicates that the impact of NEDEP has been limited, with many SMEs still facing challenges in accessing these resources.

Despite all these efforts of Nigerian government through its numerous initiatives and programmes, in enhancing MSMEs their performance in Nigeria has been a subject of concern for several years compare to their counterparts in other countries African nations (Aremu et al., 2015). . According to data from the Nigerian Bureau of Statistics (NBS), Approximately 96% of Nigerian enterprises are MSMEs, accounting for 50% of the country's GDP (NBS, 2022). Despite their significant presence, the performance of these enterprises remains unenhanced. For example, Ghana's SME sector has been found as a significant contributor to employment and economic growth. The Association of Ghana Industries (AGI) reported that SMEs in Ghana contribute approximately 70% to Ghana's GDP and account for about 92% of businesses in the country (International Trade Centre, 2016). Translating into higher job creation. Also, according to the Small Business Institute (SBI) and the Small Business Project (SBP), SMEs contributed approximately 52% of total economic output in South Africa in 2019 (Small Business Institute, 2021). Which has reportedly grown since then. We can therefore conclude that despite MSMEs prevalence in the Nigerian economy, their contribution to job creation, income level and challenges remain unclear.

### **Objective of the Study**

The major objective of this study is to examine MSMEs as pillar of economic growth in Ebonyi state. However, the specific objectives are;

- i. To determine the effects of MSMEs on employment generation in Ebonyi state.
- ii. To examine the effects of MSMEs on income level of Ebonyi state indigenes
- iii. To determine the challenges confronting performance of MSMEs in Ebonyi state.

The research questions are structured in a way that will enhance the actualization of the objective of the study.

### **Hypotheses of the Study:**

**Ho<sub>1</sub>** there is no significant effect between MSMEs and employment generation in Ebonyi State

**Ho<sub>2</sub>** there is no significant effect between MSMEs and income level of Ebonyi State indigenes

**Ho<sub>3</sub>** the challenges confronting MSMEs does not have significant effect on MSME performance in Ebonyi State.

## **II. Review of Related Literature**

### **Conceptual Review.**

The term Micro, Small and Medium Scale Enterprises (MSMEs) has no generally established definition, because the criteria for defining and classifying an enterprise as either micro, small, medium or large varies from one country to another and depending on whether the country is a developed or developing one. A micro business for example in one country may be a small business in another country. Here in Nigeria, the major criteria used in defining micro, Small or medium Sized Enterprises are number of employees, capital strength, sales value, initial capital, relative size, ownership structure and the industry type.

(SMEDAN, 2020) states that enterprises with less than 10 employees are micro businesses, enterprises with 10 and 49 both inclusive are classified as small enterprises, whereas, enterprises with 50 to 199 both inclusive are classified as medium sized enterprises.

(2010 National MSME Collaborative Survey) described Micro Enterprises as those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira with a workforce not more than ten employees. Small Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira with a total workforce of above ten, but not exceeding forty-nine employees. And, Medium Enterprises are those enterprises with total assets excluding land and building) are above Fifty Million Naira, but not exceeding Five Hundred Million Naira with a total workforce of between 50 and 199 employees. If there exists a conflict on classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (N7M) but employs 7 persons), the employment-based classification will take precedence and the enterprise would be regarded as micro.

### **Roles of MSMEs**

According to (Obitayo,1991), roles of MSMEs are as follows:

1. Mobilization and utilization of domestic savings.
2. Producing specialized items in small quantities to meet current and diverse demands.
3. supporting in the development of local technology.
4. Providing an effective way of stimulating indigenous entrepreneurship.
5. Ensuring a structural balance in terms of large and small-scale industrial sectors, as well as urban areas.
6. Ensuring the supply of high-quality parts and components, and intermediate products thereby strengthening the international competitiveness of manufactured goods.
7. Producing specialized items in small quantities to meet current and diverse demands.
8. Mitigating rural-urban migration.

MSMEs are believed to contribute to the Nigerian economy in terms of the production of different goods and services and, the creation of jobs at relatively low capital cost, especially in emerging service sector, providing a vehicle for future industrial expansion. It was explained that MSMEs are known for improved forward and backward linkages between, socially, economically and geographically diverse sectors of the economy, provide opportunities for developing and adopting appropriate technological approaches, it provides an excellent breeding ground for entrepreneurial, managerial and administrative talents, supports industrial diffusion and regional balance, and others (Hamilton & Nwokah, 2009).

### **Challenges of MSMEs.**

As a result of the limited size of MSMEs they have difficulty accessing financial and human resources that would enhance their productivity, including attracting human resources with the latest skill and knowledge of new technology, finance, and managerial practices” (Albaz et al., 2020).

The challenges of MSMEs in relation to finance include the following among others:

1. Lack of capital to purchase equipments

2. Non operational guarantee system.
3. Digital gap.
4. Inaccessibility of financial resources owing to bureaucracy and limited size of businesses.
5. informality

as a result of the challenges facing MSMEs in several countries, Nigeria inclusive, most of them have created a government agency, programs and initiatives to support growth in this type of company. However, implementations of these government agencies' activities, initiative and programs becomes difficult as a result of differences in market needs to the specific MSMEs', limited size of their businesses, and the diversity of situations that should be faced (Albaz et al., 2020). One of the most important MSMEs challenges is access to financial resources. "The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal MSMEs in developing countries, have an unmet financing need of US\$5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending" (World Bank, 2020).

#### **Reasons why some MSMEs fail.**

- Lack of access to the financial market;
- Limited access to the market;
- Lack of skilled workers or poor access to public and private institutions for the development of workers skill ;
- Restricted access to new and advanced technology and equipment;
- Reduced access to information vital to have strong and affective business management;
- Absence of business management skills.

### **III. Empirical Review**

Ikpe & Elumalue (2024) carried out a research on Micro, Small and Medium enterprises and sustainable economic development in Nigeria. He said that, Sustainable economic growth and development may practically be impossible if the indices of growth are not given the required attention that will translate into an enviable sustainability of the fabrics of growth in Nigeria. This has become important given the decline in micro, small and medium enterprise subsector in Nigeria. The essence of the research was to empirically examine the impact of micro, small and medium enterprises on sustainable economic development in Nigeria. The study covered from the year 2000 to 2020 and annual time series data were sourced from the CBN Statistical Bulletin, World Development Indicator (WDI) and National Bureau of Statistics (NBS). The co integration and ECM frameworks were used. The results showed that the output of micro, small and medium enterprises has a significant and positive impact on the Per Capita Income (PCY), the exchange rate (EXR) has a significant and positive impact on the micro, small and medium enterprises and Prime Lending Rate (PLR) has a negative and insignificant impact on the micro, small and medium enterprises. Thus, from the results, the study recommended, amongst others, the clustering of micro, small and medium enterprises with similar products, to further improve their output and development process vis-a-vis the growth and development of Nigeria.

Awoyemi & Aderonke (2020) studied the growth prospect of financing MSMEs in Nigeria and the challenges that constitute a hindrance to growth in Nigeria. Their study adopted a descriptive analysis, simple percentages and deductive method. Findings showed that inaccessibility to funds owing to different reasons and challenges were the major factors that hamper the growth and survival of MSMEs in Nigeria, It was also revealed that financial institutions sees MSMEs as high-risk debtors without creditworthiness. To this end, it was recommended that the Federal Government should formulate policies that will encourage MSMEs to begin to source funds from the capital market through the introduction of the third-tier security market.

#### **Theoretical Framework**

This study is anchored on Solow- Swan exogenous growth theory propounded by Robert Solow 1956. This theory tries to explain the relationship between MSMEs and sustainable economic growth and development of a nation. The Solow–Swan model or exogenous growth model propounded by Robert Solow, 1956; Trevor Swan 1956 is an economic model of long run economic growth. Long-run economic growth can be achieved through employment generation and increase in the income of the citizens . These factors provide the required increase in

Growth and productivity driven by technological progress. Economic sustainability refers to practices that support long-term economic growth without negatively impacting on social, environmental, and cultural aspects of the community. The importance of MSME is to cause a transformation in all aspects of country's economy involving both qualitative and quantitative improvements. The theory of economic development which essentially has to do with "how primitive and poor economies can evolve into sophisticated and relatively prosperous ones" is of critical importance to underdeveloped and developing countries, and it is usually in this context that the issues of economic growth and development are discussed (Kruger, 2020 P340-341).

The development of MSMEs as an economic tool may well fall under the classical economic development theory, where production is left in the hands of private individuals. That is the promotion of a free market economy. Again, the support provided by the government in the form of policies and direct intervention makes it akin to the Keynesian idea of government intervention in the economy. Both schools of thought are likely the rationale for the clamour by developing and underdeveloped countries to take a new path for economic development following the end of World War II in the 1940s up to the 1950s. Specifically, the growth theory with particular reference to the Harrod-Dormar Model, and the Solow-Swan Model of economic growth are relevant to this study. The Harrod-Dormar places particular attention on the rate of income growth necessary for smooth and uninterrupted working of the economy. First, it emphasizes that investment creates income, and second, it augments the productive capacity of the economy by increasing its capital stocks (Jhingan, 2016) In a similar vein, the Solow-Swan growth theory postulates a continuous production function linking output to the inputs of capital and labour which leads to the steady state equilibrium of the economy.

#### IV. METHODOLOGY

The study adopted descriptive survey research design this is because the result would be generalized for the entire population of interest and being a case study; it sought to explore effects of MSMEs on economic growth in Ebonyi State. The study collected data through questionnaire from 325 MSMEs across the 13 local governments in Ebonyi state, the study collected data from 25 MSMEs in each of the 13 LGAs. Primary source of data was collected through the use of structured questionnaire designed to reflect the modified five (5) point Likert scale of strongly agree, agree, undecided, disagree, strongly disagree and was used by the researchers to elicit information from the respondents on all aspects of the subject matter of the study. 325 questionnaires were issued to respondents but 298 were properly filled and used for the analysis. Method of data analysis was multiple regressions with the help of SPSS version 23

##### Model Specification

The data were analyzed quantitatively, using summary statistics, and Multiple Regression analysis. SPSS version 23 was used as statistical tool in analyzing the data. All tests were carried out at 0.05 level of significance. The model meant to analyze the relationship between MSMEs and economic growth was specified as follows:

$$EOG = f(EPG, INL \text{ and } REC) \quad (1)$$

Specifying econometrically, the equation becomes:

$$EOG = \alpha_0 + \alpha_1 EPG + \alpha_2 INL + \alpha_3 REC + \mu_t \quad (2)$$

Where:

- EOG = Economic Growth
- $\alpha_0$  = The intercept
- $\mu_t$  = Stochastic error margin
- EPG = Employment generation
- INL = Income level
- REC = Reduction of challenges

The *a priori* or sign expectations for the coefficients are:

$$\alpha_1 > 0, \alpha_2 > 0 \text{ and } \alpha_3 > 0 \text{ or } \alpha_i^* > 0$$

##### Results and Interpretation

**Table 1: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.469 <sup>a</sup>	.220	.212		.419	2.315

a. Predictors: (Constant), RECS, INLS, EMGS

b. Dependent Variable: ECGS

Source: Empirical analysis 2026

From the model summary shown on table above, it was observed that R is 0.469, R Square equal to 0.220 and Adjusted R Square equal to 0.212. Judging from and with the adjusted R square, it suggest a good model representation on the indication that economic growth of Ebonyi State are influenced by the independent variables (employment generation, increased income level, and reduction of MSMEs challenges) which account for 46.9% while the remaining 53.1% are accounted by other factors. This outcome is also supported by the Durbin-Watson figure of 2.315 showing no presence of multi-collinearity issues and as such, the model shows statistical significance (.000).

**Table 2: ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.517	3	4.839	27.539	.000 <sup>b</sup>
	Residual	51.483	293	.176		
	Total	66.000	296			

a. Dependent Variable: ECGS

b. Predictors: (Constant), RECS, INLS, EMGS

Source: Empirical analysis 2026

The ANOVA summary as presented on table 2 above shows that the outcome is statistically significant with p-value (.000) < 0.05 and the F value of 27.539

**Table 3: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.901	.262		11.075	.000
	EMGS	.065	.037	.099	1.729	.085
	INLS	.219	.029	.416	7.454	.000
	RECS	.062	.055	.060	1.130	.259

a. Dependent Variable: ECGS

Source: Empirical analysis 2026

From table 3 above, it is observed that Employment generation (EMGS), Increased income level (INLS) and Reduction of MSMEs challenges (RECS) had P-values of 0.085, 0.000, and 0.259 respectively Since the P-value ( 0.000, ) is less than 0.05, it suggests that only increased income level of Ebonyi state indigene is statistically significant whereas, P- values of 0.085 and 0.259 for Employment generation(EMGS) and Reduction of MSMEs challenges (RECS) are greater than 0.05, implying that they are not statistically significant. Leading to rejection of null hypothesis that increased income level (INLS) does not have significant effect on Economic growth in Ebonyi state, and upholding the null hypothesis which states that employment generation (EMGS) does not significantly influence Economic growth in Ebonyi State, and that reduction of MSMEs challenges (RECS) does not significantly influence Economic growth in Ebonyi state.

In view of the rejection of the null hypotheses, the alternate hypothesis is accepted that increased income level of indigenes (ICLS) significantly influence economic growth in Ebonyi state, however in view of upholding the null hypotheses that employment generation (EMGS) and reduction of MSMEs challenges (RECS) do not significantly influence economic growth in Ebonyi state were accepted, These outcomes were also supported by tolerance statistics level, VIF, and t-statistics as there are no multi-co-linearity problems among the explanatory variables in the study and as such affirming that MSMEs though influences economic growth as regards increased income level but does not do same in terms of employment generation and reduction of MSMEs challenges.

### Test of Research Hypotheses

In testing the first, second, and third hypotheses, the P-values of the t-statistics in table 2 and 3 were used. The hypotheses were tested considering all diagnostic factors and regression results obtained in table 2 and 3 formed the basis for the test of hypotheses one, two, and three.

### Step 1 Restatement of the Null and Alternate Research Hypothesis

H0<sub>1</sub>: Employment generation does not influence economic growth in Ebonyi state

Ha1: Employment generation influences economic growth in Ebonyi state.

## **Step 2 Decision Rules**

**Decision Rule 1:** Accept the alternate hypothesis and reject the null hypothesis if the P-value is less than the chosen level of significance (0.05). It implies that the estimated variable has significant impact on the dependent variable.

**Decision Rule 2:** Uphold the null hypothesis and reject the alternate hypothesis if the P-value is greater than the chosen level of significance (0.05). It implies that the estimated variable has insignificant impact on the dependent variable.

## **Step 3: Decision**

Based on the regression result presented in tables 3 the coefficient of Employment Generation (EMGS) is 0.065 while the P-value is [0.085]. The parameter of EMGS is positive and insignificant in measuring Economic growth in Ebonyi State as confirmed by its P-value. Since 5% (0.05) level of significance is less than the P-value [0.085], we upheld the null hypothesis and conclude that the level of Employment generation has insignificant effect on Economic growth in Ebonyi State. The study accordingly could not reject the null the null hypothesis since the p-value is greater than 0.05 at 5% level of significance.

H0<sub>2</sub>: Increased income level of Ebonyi state indigenes does not significantly influence economic growth in Ebonyi State.

Ha<sub>2</sub>: Increased income level of Ebonyi State Indigenes significantly influence economic growth.

Based on the regression result presented in tables 3, the coefficient of increased income level, (ICLS) .219 while the P-value is [0.000]. The parameter of ICLS is positive and significant in measuring economic growth (ECGS) as confirmed by its P-value. Since 5% (0.05) level of significance is greater than the P-value [0.000], we reject the null hypothesis and conclude that the level of increased income level has significant effect on economic growth in Ebonyi state. The study accordingly could not uphold the null hypothesis since the p-value is less than 0.05 at 5% level of significance.

H0<sub>3</sub>: MSMEs challenges does not significantly influence economic growth in Ebonyi State.

Ha<sub>3</sub>: Reduction of MSMEs challenges significantly influences Economic growth in Ebonyi state. Based on the regression result presented in tables 3, the coefficient of reduction in MSMEs is 0.62 while the P-value is [0.259]. The parameter of RECS is positive and insignificant in measuring economic growth (ECGS) as confirmed by its P-value. Since 5% (0.05) level of significance is less than the P-value [0.62], we uphold the null hypothesis and conclude that the level of reduction of MSMEs challenges has insignificant effect on economic growth (ECGS). The study accordingly could not reject the null hypothesis since the p-value is greater than 0.05 at 5% level of significance.

## **V. Conclusion and Recommendations**

This research investigated MSME and economic growth in Ebonyi State, data was collected through questionnaire from 25 selected MSMEs each across the thirteen (13) LGAs totaling 325 from which, 298 were properly filled and used for analysis. Data was analyzed using regression with the help of SPSS version 23. Globally, MSME is key in the growth and development process. This is the reason why countries around the world encourage the development of the MSME sector to bring employment innovation and creativity which increases income of the citizens. Among the challenges of MSMEs identified in this study are lack of access to finance, lack of amenities such as electricity, good road network, technological advancement. etc the study also found out that the level of employment generated by MSMEs is not enough to positively influence economic growth in Ebonyi state.

Consequently, the study recommends among other things

- i. Government should encourage MSMEs by providing access to loans and grants such as establishing micro finance banks for giving out loan to MSMEs and a follow up on those who receive the loan to ensure that they are performing well,
- ii. Government should provide adequate amenities to encourage performance of MSMEs in the state which will lead to more employment generation in the state.
- iii. MSMEs that are into production of goods and services should be supported with equipments for their production thereby reducing their challenges.

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