Examining the Effects of Cash Flow Constraints on the Operational Efficiency of SMEs in Ilorin Metropolis

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CERTIFICATION

This is to Certify that this project has been read and approved as meeting the requirement for the award of Higher National Diploma (HND) in the Department of Business Administration, Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin

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This project is dedicated to almighty allah

ACKNOLEDGEMENT

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ABSTRACT

This study examined the effects of Naira currency shortages on small and medium enterprises (SMEs) in Ilorin, Kwara State, Nigeria. Utilizing a descriptive survey methodology, the research focused on a population of 206 SMEs within the Ilorin Metropolis. A sample of 248 SMEs was selected through stratified sampling techniques. Data were gathered using a questionnaire developed by the researchers and were analyzed using frequency counts and percentages. The study addressed two research questions through mean ratings, while hypotheses were tested using Pearson Product-Moment Correlation (PPMC) at a significance level of 0.05. The findings indicated that Naira scarcity had a detrimental effect on the operations of SMEs in Ilorin Metropolis. A significant negative correlation was observed between Naira shortages and both the activities and profitability of these enterprises. Furthermore, the study revealed a notable negative relationship between the challenges faced by SMEs and Naira scarcity. Conversely, a positive correlation was found between the coping strategies employed by SMEs and the currency shortage. In light of these findings, it is recommended that the government and SME associations work together with relevant authorities to formulate policies aimed at alleviating currency fluctuations. Such collaboration would foster a more stable business environment, allowing SMEs to plan and operate more efficiently.

CHAPTER ONE
INTRODUCTION

Background to the Study

The Federal Government of Nigeria has consistently emphasized the importance of small and medium-scale enterprises (SMEs) as a vital driver of economic development, aligning with the strategies of many developing nations. This focus on SMEs stems from their crucial roles in job creation, economic growth, and poverty alleviation. It is widely acknowledged that SMEs are essential for the economic advancement of countries like Nigeria. Recently, there has been a heightened emphasis on SMEs due to their potential to train and nurture local entrepreneurs, thereby supporting the broader goal of creating a robust entrepreneurial ecosystem for sustainable development.

The significance of SMEs lies in their capacity to generate employment, reduce income inequality, and contribute to the production of goods and services within the economy. Additionally, SMEs facilitate skill development, promote backward integration, and drive technological innovation by adapting emerging technologies. Recognizing these contributions, both the Federal and state governments have implemented policies to foster a supportive environment for SMEs. Initiatives include the establishment of microfinance institutions aimed at promoting SME growth and enhancing economic sustainability.

In 2022, during President Buhari's administration, the Naira redesign policy was introduced to combat corruption and crime while steering Nigeria towards a cashless economy. Spearheaded by then Central Bank of Nigeria (CBN) governor Godwin Emefiele and endorsed by President Muhammadu Buhari, the policy aimed to address security concerns related to money laundering, kidnapping, and terrorism, while also improving healthcare and overall security. However, the implementation of the Naira redesign has led to severe repercussions, including loss of life, business closures, and a decline in public trust in the banking system and government.

Furthermore, the scarcity of the redesigned Naira notes has disrupted economic activities, particularly affecting SMEs that heavily depend on cash transactions. This shortage has impeded citizens' ability to conduct transactions and make purchases, resulting in delayed sales and reduced prices for goods, further exacerbating the challenges faced by SMEs in the informal sector. Consequently, despite the policy's intended objectives, the Naira scarcity has inadvertently intensified the difficulties encountered by small and medium-sized enterprises in Nigeria.

Statement of Problem

The implementation of a currency replacement strategy in Nigeria, which involves introducing new currency notes while phasing out certain denominations, has resulted in a significant cash shortage (Central Bank of Nigeria [CBN], 2022). This scarcity has profoundly impacted various segments of the population, impairing their ability to meet financial obligations and hindering economic growth in Ilorin Metropolis. The economic fallout has been likened to a tsunami, causing widespread hardship for the community (Ayodele, 2023). The CBN has justified this currency overhaul, stating that the new denominations, coupled with policies limiting large cash withdrawals, aim to combat money laundering and encourage the adoption of digital payments in Nigeria, Africa's largest economy (CBN, 2022). However, the challenges faced by individuals and business owners in accessing the new currency notes suggest potential shortcomings in the planning and execution of the currency replacement initiative (Ayodele, 2023). While the government envisions a transition to a cashless society to stimulate economic growth and inclusivity, critics question the feasibility of this shift, citing decades of entrenched corruption among public officials accused of misappropriating public funds, which further exacerbates the struggles of those already living in poverty (Ayodele, 2023).

In light of this situation, this research aims to assess the impact of the shortage of new Naira notes on the growth of small and medium enterprises (SMEs) in Ilorin Metropolis. The study seeks to provide a comprehensive understanding of the challenges posed by the scarcity of new currency notes and their effects on business development in Nigeria.

Several studies have explored the impact of Naira currency on small and medium enterprises, both within Nigeria and beyond. Lawal (2023) examined how the scarcity of new Naira notes has contributed to slow business growth in Nigeria. Obilor (2023) analyzed the effects of the Naira redesign in 2023 on informal sectors in rural Anambra State. Okere (2021) focused on the impact of Naira devaluation on SMEs, particularly among selected mini-importers in Lagos. Amagoro (2022) studied the effects of cash management on the financial performance of SMEs in Pallisa Town. Osita et al. (2023) investigated the aftermath of the Naira redesign on SMEs in Nigeria. Folorunso and Adebayo (2023) explored the impact of cashless policies and the Naira redesign on economic development in the Federal Capital Territory, Abuja.

This study aims to address a notable gap in the existing literature, as previous research, while occasionally relevant, often lacks a specific focus on the challenges faced by SMEs in Ilorin Metropolis. By concentrating on the effects of Naira scarcity on these enterprises, this research intends to provide valuable insights into this specific and underexplored area, thereby enhancing the understanding of the difficulties faced by businesses within the local economy.

Research Questions:

This study will address the following research questions:

i. To what extent does the scarcity of Naira impact small and medium enterprises (SMEs) in the Ilorin metropolis?

ii. What effect does Naira scarcity have on the profitability of SMEs in the Ilorin metropolis?

iii. What challenges do SMEs face during the period of Naira scarcity in the Ilorin metropolis?

iv. How does SMEs in the Ilorin metropolis cope with Naira scarcity, and what strategies do they employ to mitigate its effects?

Objectives of the Study

The primary aim of this study is to examine the impact of Naira scarcity on the performance of small and medium enterprises in the Ilorin metropolis. The specific objectives are as follows:

i. To investigate the effects of Naira scarcity on small and medium enterprises.

ii. To determine the impact of Naira scarcity on the profitability of SMEs in the Ilorin metropolis.

iii. To explore the challenges encountered by SMEs during the Naira scarcity in the Ilorin metropolis.

iv. To assess the coping strategies adopted by SMEs during the Naira scarcity in the Ilorin metropolis.

Research Hypotheses

The study will test the following hypotheses:

i. H01: There is no significant relationship between Naira scarcity and the performance of small and medium enterprises.

ii. H02: There is no significant relationship between Naira scarcity and the profitability of SMEs in the Ilorin metropolis.

iii. H03: There is no significant relationship between the challenges faced by SMEs and Naira scarcity in the Ilorin metropolis.

iv. H04: There is no significant relationship between the coping strategies employed by SMEs and Naira scarcity in the Ilorin metropolis.

Scope of the Study

This study focuses on examining the effect of Naira scarcity on the operational performance of Small and Medium Enterprises (SMEs) in Nigeria, specifically addressing those located in the Ilorin metropolis. The research will be conducted within the geographical boundaries of Ilorin Metropolis in Kwara State, Nigeria, which includes the three local government areas: Ilorin-East, Ilorin-South, and Ilorin-West.

Significance of the Study

This study is highly relevant for a range of stakeholders, including government entities, SME operators, banks, and civil society, as it addresses the challenges faced by SMEs in light of Naira scarcity. By highlighting these issues, the research establishes a foundation for developing strategies to alleviate them, which is crucial for economic development.

Additionally, the study contributes to the field of monetary economics by empirically investigating the impact of Naira scarcity on the economy, thereby filling a gap in the existing literature. It serves as a valuable resource for policymakers, business owners, and the public, offering insights that can inform decision-making and influence economic development throughout Nigeria.

In the context of rising poverty levels and the pursuit of the Millennium Development Goals, this research provides timely insights into factors affecting SME performance amid Naira scarcity. Its aim is to inform policymakers and financial institutions about necessary interventions to support SME growth and resilience in Ilorin Metropolis. Ultimately, the study seeks to foster a more favorable business environment for SMEs, aligning with broader developmental objectives and enhancing the socioeconomic well-being of the region.

Definition of Terms

Naira Scarcity

Naira scarcity refers to the insufficient availability of physical Naira currency for financial transactions and business operations in the Ilorin metropolis.

Small and Medium Enterprises (SMEs)

In the context of this study, SMEs are defined as businesses operating in Ilorin that fall within the thresholds established by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). This includes enterprises with an annual turnover ranging from ₦5 million to ₦500 million and employing between 10 and 300 individuals.

Profitability

Profitability refers to the income generated by SMEs from their business activities in the Ilorin metropolis during the period of Naira scarcity.

Business Challenges

Business challenges encompass the difficulties faced by enterprises in Ilorin amid Naira scarcity. These challenges may include issues related to cash flow, liquidity, payment delays, increased transaction costs, and other obstacles that hinder the smooth operation of businesses.

Coping Strategies

Coping strategies are the specific actions or adjustments undertaken by businesses in Ilorin to mitigate the negative effects of Naira scarcity on their financial stability and operational efficiency, with the aim of ensuring business sustainability. These strategies may involve diversifying payment methods, seeking alternative funding sources, optimizing inventory management, implementing cost-cutting measures, and adopting innovative approaches to navigate the challenging economic landscape resulting from Naira scarcity.

CHAPTER TWO

LITERATURE REVIEW

Concept of Small and Medium Scale Enterprises

Small and medium-scale enterprises (SMEs) play a crucial role in driving industrial development in nations. Their significance extends beyond the production of goods and services, as they are major contributors to employment opportunities due to their labor-intensive nature. Additionally, SMEs serve as vital training grounds for entrepreneurs and typically utilize locally sourced raw materials (Akinola et al., 2023). When effectively managed, these enterprises have the potential to evolve into major corporations. This importance has led both government bodies and international agencies to actively collaborate in promoting sustainable industrial growth and job creation, aiming to foster the rapid development of SMEs (Nwankwo et al., 2023).

The SME sector is fundamental to economic development, and its importance cannot be overstated. Experiences from developed economies underscore the pivotal role of SMEs, especially in less developed countries (LDCs). Scholars like Ibe & Ugochukwu (2023) refer to SMEs as the "engine of growth," noting that countries prioritizing their SME sector often witness significant reductions in socioeconomic challenges. These improvements include enhanced living standards, lower crime rates, increased per capita income, and accelerated GDP growth, highlighting the critical contribution of SMEs to economic advancement.

There is a broad consensus on the necessity of genuine commitment from all stakeholders to advance the SME sector, ultimately leading to significant economic transformation and prosperity. A vibrant SME sector is essential for holistic national economic development. Beyond job creation, SMEs also address issues related to rural-urban migration and optimize resource use (Ogunleye, 2023). By producing intermediate goods for larger companies, SMEs contribute to economic growth and strengthen industrial linkages and integration. A dynamic and efficient SME sector benefits various stakeholders, including employees, customers, employers, and the broader economy.

Clients appreciate the personalized service and attention characteristic of SMEs, fostering dynamic and innovative practices. In turn, entrepreneurs in the SME sector, motivated by competition, continuously seek to enhance their skills and capabilities. This is crucial for managing relationships with financiers, auditors, regulators, and industry peers. To achieve this, SME entrepreneurs actively engage in chambers of commerce, trade groups, forums, and exhibitions, facilitating the exchange of ideas and knowledge (Ogunleye, 2023). These interactions aim to maintain operational efficiency and profitability while contributing significantly to overall economic growth.

SMEs are widely recognized as key drivers of economic growth and development, and their role in nurturing the private sector and fostering partnerships has been acknowledged by governments, development agencies, and multilateral institutions (Erdin & Ozkaya, 2020). Consequently, these entities actively seek opportunities to promote and advance SMEs. However, Nigeria has faced significant challenges in its pursuit of industrial development, primarily due to the lack of a robust SME sector (Okijie & Effiong, 2024). Despite its large population and abundant resources, Nigeria has not fully leveraged its potential as a thriving hub for SMEs, despite its strategic position as a marketing center for West and East Africa (Audu, 2020).

Several factors contribute to the underperformance of SMEs in Nigeria, emphasizing the need for a conducive environment to support their growth. This includes mobilizing domestic savings for investment, contributing to GDP and Gross National Income (GNI), utilizing local raw materials, creating jobs, alleviating poverty, improving living standards, and fostering skill acquisition and technological advancement (Abisuga-Oyekunle, 2020). Achieving these objectives requires a dynamic industrial policy and active government involvement in economic development strategies, ensuring comprehensive stakeholder participation (Omeihe, 2023). This collaborative approach is essential for effectively harnessing and coordinating resources to realize the multifaceted benefits of successful SME operations.

Importance of SMEs on the Development of the Nigerian Economy

Small and medium-scale enterprises (SMEs) are vital drivers of industrial development worldwide. Their significance extends beyond the mere production of goods and services; they are major contributors to employment opportunities due to their labor-intensive nature. Additionally, SMEs serve as essential training grounds for entrepreneurs and typically rely on locally sourced raw materials (Akinola et al., 2023). When managed effectively, these enterprises can evolve into major corporations. This importance has prompted both governmental bodies and international agencies to actively collaborate in promoting sustainable industrial growth and job creation, aiming to accelerate the development of SMEs (Nwankwo et al., 2023).

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1. Small Scale Industries Credit Scheme (SSICS) 1971

2. Nigerian Bank for Commerce and Industries (NBCI) 1973 3.

Nigerian Industrial Development Bank (NIDB) 1964

4. SME Apex Unit of Central Bank (1989)

5. National Economic Reconstruction Fund (NERFUND) 1989

6. The African Development Bank/ Export Stimulation Loan (ADB/ESL) 1989

7. Nigerian Export Import Bank (NEXIM)

8. National Directorate of Employment (NDE)

9. Industrial Development Co-ordinating Centre (IDDC)

10. Community Banks

11 Family Economic Advancement Programme (FEAP)

12. State Ministry of Industry SME Schemes

13. Small and Medium Industries Equity Investment Scheme (SMIEIS)

14. Bank of Industry (BOI)

15. Small and Medium Enterprises Developing Agency of Nigeria (SMEDAN)

16. Credit Guarantee Scheme for SMEs (Peter et al., 2018).

Qualities of SMEs in Nigeria

One notable characteristic of Nigeria's small and medium-sized enterprises (SMEs) is their ownership structure, which is primarily individual or family-based. Consequently, many SMEs operate as sole proprietorships or partnerships. Even when officially registered as limited liability companies, the actual ownership often reflects a single individual, a family, or a partnership (Ogunleye et al., 2023).

In Nigeria's dynamic SME landscape, labor-intensive production processes are a distinctive feature. These enterprises, spread across various sectors, heavily rely on human capital as the driving force behind their operations. The deployment of a substantial workforce is a common strategy among SMEs, contrasting with capital-intensive models that depend on machinery and automation. This focus on labor can be attributed to economic factors, the availability of manpower, and the need for cost-effective solutions. In Nigeria's bustling markets and workshops, the energy of workers engaged in diverse production stages underscores the labor-intensive nature of these enterprises (Aremu & Adeyemi, 2023). Both skilled and unskilled workers play vital roles in the production chain.

This labor-centric approach also reflects Nigeria's socio-economic context, where a large workforce seeks employment and entrepreneurial opportunities. SMEs leverage this talent pool to drive productivity and meet market demands. While this focus on labor presents challenges, such as scalability issues and operational complexities, it remains a defining characteristic of Nigeria's SME landscape. The synergy between these businesses and the workforce enhances the resilience and adaptability of the SME sector in the dynamic Nigerian economy (Aremu & Adeyemi, 2023).

Another distinct feature of SMEs in Nigeria is the concentrated management focus on a key individual. This central figure plays a crucial role, often serving as the linchpin of the business. In sole proprietorships or partnerships, leadership and decision-making authority are typically centralized around this individual. The success and sustainability of the business often depend on the capabilities and vision of this key person. While this concentration can lead to quicker decision-making and streamlined operations, it also introduces vulnerabilities. The business's dependency on the key individual makes succession planning essential for long-term sustainability. Any absence or change in leadership can disrupt operations, highlighting the need for strategic planning and organizational resilience in navigating the complexities of the business landscape (Hassan & Olanira, 2023).

A significant challenge faced by SMEs in Nigeria is their restricted access to long-term funding. Many SMEs struggle to secure extended financial support, limiting their capacity to undertake projects with longer gestation periods or to invest significantly in growth initiatives. This often forces them to rely on short-term financing options, hindering strategic and sustainable development. Addressing this issue is crucial for fostering the growth and resilience of Nigeria's SME sector.

Other common challenges observed in Nigerian SMEs include inadequate inter- and intra-sector connections, insufficient managerial expertise due to financial constraints that limit the recruitment of skilled labor, substandard product quality, and poor documentation of policies, strategies, finances, and plans (Abdullahi et al., 2023). These issues collectively contribute to the hurdles faced by SMEs in Nigeria and highlight the multifaceted nature of the challenges that need to be addressed to improve the sector's performance and sustainability.

Prospects of SMEs in Nigeria

Despite the significant challenges faced by small and medium-sized enterprises (SMEs) in Nigeria, it is important to note that the government has taken proactive measures. Recognizing the critical role of SMEs in generating employment and driving economic growth, the government is aware of the numerous obstacles these businesses encounter. Over the past several decades, various initiatives have been implemented to address these challenges. Specialized support institutions and relief programs have been established to alleviate, if not completely eliminate, the common constraints faced by SMEs. These efforts include dedicated banks focused on financing SMEs, alongside various agencies aimed at enhancing the prospects for these enterprises (Ogunleye et al., 2023).

However, the effectiveness of government policies supporting SMEs has been notably insufficient. This ineffectiveness often stems from flaws in the formulation, conceptualization, or implementation of these policies. Recent studies highlight a key issue: the failure to involve SME operators, managers, and owners in the policy development process (Basil, 2023). As a result, these policies frequently fail to address the real challenges faced by SMEs, leading to misplaced priorities. To enhance policy effectiveness and achieve desired outcomes, it is essential to engage all stakeholders from the SME sector in both the formulation and implementation stages. Such collaboration ensures that policies are informed and aligned with the practical needs of SMEs. Despite these shortcomings, there is optimism as governments at local, state, and federal levels demonstrate their commitment to revitalizing SMEs.

Recent initiatives, such as the establishment of the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), along with the institutionalization of the Small and Medium Industries Equity Investment Scheme (SMIEIS) by the Bankers' Committee, reflect the government's dedication to supporting SMEs (Tende, 2023). Furthermore, the federal government's focus on the objectives of NEPAD, its endorsement of multilateral agencies and loans, and its backing of international development finance facilities like the European Investment Bank (EIB) signify positive progress. Additional promising initiatives include government programs aimed at poverty alleviation and support for those whose jobs may be affected by current reforms, as well as the proposed establishment of a Credit Guarantee Scheme for SME loans (Tende, 2023).

In parallel with government efforts, the private sector and professional groups are also committed to developing the SME sub-sector. The capital market, led by the Nigerian Stock Exchange (NSE) and the Securities and Exchange Commission (SEC), is expanding its facilities to make funding more accessible for SMEs. Professional associations, such as the Chambers of Commerce, the Nigerian Association of Small and Medium Enterprises (NASME), and the Nigerian Association of Small-Scale Industries (NASSI), are actively advocating for improved welfare and a more conducive operational environment through lobbying efforts directed at the government (Basil, 2023).

With increasing awareness in the Nigerian investing community and the expanding capital market, many SMEs are expected to pursue participation in capital markets for funding. There is also a renewed interest in establishing venture capital firms aimed at fostering SME growth. Financial institutions, including some banks, are exploring avenues to deploy funds from the Small and Medium Industries Equity Investment Scheme (SMIEIS) since its inception. The ongoing reforms from various government ministries and agencies, coupled with challenges posed by the global economic downturn, may lead to significant job losses. The SME sector represents a potential refuge for individuals affected by these changes. Therefore, it is crucial for the government to recognize the importance of this vital sub-sector within the Nigerian economy (Tende, 2023).

Problem and Challenges of SMEs in Nigeria

The limited contribution of small and medium-sized enterprises (SMEs) to the Nigerian economy, despite ongoing support from various administrations, raises significant concerns. This situation indicates the presence of underlying issues that have not been adequately addressed. According to Basil (2005), a substantial number of SMEs fail within their first five years, with a smaller percentage disappearing between the sixth and tenth year, leaving only about five to ten percent of new businesses that manage to survive and thrive.

One of the primary challenges facing SMEs in Nigeria is the inadequacy, inefficiency, and occasional non-functionality of infrastructure. This issue drives up operational costs, forcing SMEs to independently secure essential utilities such as roads, water, electricity, transportation, and communication, thereby increasing their financial burdens. Additionally, bureaucratic inefficiencies in the administration of government support and incentives deter potential entrepreneurs and hinder the growth of existing SMEs (Abdullahi, Jakada & Kabir, 2016).

Another significant hurdle is the difficulty in accessing funding or credit, largely due to banks' reluctance to extend loans. This hesitancy arises from various factors, including poor documentation of business proposals, lack of suitable collateral, high costs associated with managing small loans, and elevated interest rates.

In Nigeria's business environment, SMEs face discrimination from financial institutions, particularly banks, which are often hesitant to support startups. This reluctance stems from an inherent aversion to the perceived risks of lending to SMEs, especially those in their early stages. The financial sector typically views startups as risky ventures due to their limited track records, which leads to discriminatory practices that sideline these enterprises from financial support (Abdullahi, Jakada & Kabir, 2016).

Stringent criteria imposed by banks create formidable barriers for SMEs. The demand for extensive documentation of business proposals can be overwhelming, particularly for entrepreneurs lacking the resources or expertise to prepare such documents. This creates a Catch-22 situation where the enterprises most in need of financial support struggle to meet the complex requirements set by financial institutions (Abdullahi, Jakada & Kabir, 2016).

Moreover, collateral requirements further complicate the challenges for SMEs. Many startups cannot provide the substantial collateral that banks demand, as they often lack the physical assets or financial stability to meet these conditions. This lack of adequate collateral leaves many SMEs without the funding necessary for growth and development.

Insufficient training and leadership development also pose significant challenges for SMEs in Nigeria (Abdullahi, Jakada & Kabir, 2016). Although there are numerous training institutions, they often do not address the specific needs of SMEs in vital areas such as accounting, marketing, technology, international trade, administration, and management. This gap leaves SMEs to navigate the complexities of success on their own, facing the inherent difficulties of the Nigerian business environment.

High administrative and managerial costs associated with small loans further discourage banks from engaging with SMEs. Financial institutions often perceive the effort required to manage these loans as outweighing potential returns, leading to systemic neglect of businesses that could significantly contribute to economic development. Additionally, exorbitant interest rates on loans exacerbate the financial challenges for SMEs, making it difficult for them to service loans and invest in growth, thereby stifling expansion and innovation (Oburo, 2021).

Addressing discrimination against SMEs in Nigeria requires a multi-faceted approach. Financial institutions must reassess their risk evaluation processes, adopting more inclusive criteria that consider the unique challenges faced by startups. Efforts should also be made to simplify documentation requirements and offer more flexible collateral options to accommodate the diverse nature of SMEs. Ultimately, creating a supportive financial ecosystem for SMEs is not only an economic necessity but also a pathway to unlocking the potential of these enterprises to drive innovation, job creation, and overall economic growth in Nigeria (Oburo, 2021).

Naira Scarcity in Nigeria

The concept of Naira scarcity in Nigeria refers to the limited availability of the national currency, the Nigerian Naira, within the financial system. This situation is characterized by a reduced circulation of Naira, particularly in physical cash, leading to various economic challenges. A shortage of Naira can create difficulties in conducting transactions, disrupt economic activities, and pose challenges for businesses and individuals in accessing cash for daily operations. Additionally, efforts to redesign the currency or transition to a cashless system may contribute to a perceived scarcity, impacting overall liquidity and the functioning of the economy. Factors Contributing to Naira Scarcity in Nigeria

Several factors contribute to the scarcity of currency in Nigeria, including:

Economic Instability: The overall economic environment in Nigeria is marked by instability, which affects the availability of the Naira. Economic fluctuations can lead to uncertainty in currency circulation.

Inflation: High inflation rates significantly erode the purchasing power of the Naira, making it scarcer in real terms. Inflation is a pervasive force that influences the value of the national currency, leading to increased costs of goods and services, which further diminishes the accessible currency for consumers and businesses alike (Lawal, 2023).

Dependence on Oil Exports: Nigeria's heavy reliance on oil exports as a primary revenue source makes the economy vulnerable to fluctuations in the global oil market. As oil prices rise and fall, so does the inflow of foreign exchange, which directly impacts the stability of the Naira. During periods of high inflation and declining oil prices, the Naira faces intensified pressure, exacerbating its scarcity (Otto & Ukpere, 2016).

Operational Challenges for SMEs: Small and Medium Enterprises (SMEs) are particularly affected by Naira scarcity. They face increased operational costs and reduced market demand, which complicates their financial management and access to credit.

Government Monetary Policies: Policies implemented by the government can also influence the availability of the Naira. Inconsistent monetary policies may lead to further complications in currency circulation and availability.

In summary, the scarcity of the Naira in Nigeria is a multifaceted issue influenced by economic instability, inflation, dependence on oil exports, operational challenges for SMEs, and government monetary policies. These factors collectively impact both macroeconomic conditions and the daily operations of businesses and individuals.

Foreign Exchange Reserves

The role of foreign exchange reserves emerges as a pivotal factor influencing the occurrence of Naira scarcity. Imagine these reserves as the economic fortification that guards against the volatility of global financial currents. When these reserves dwindle, akin to breaches in the protective walls, the repercussions cascade through the economic ecosystem. Nigeria's foreign exchange reserves, a reservoir of foreign currencies such as the U.S. Dollar, Euro, and British Pound, are akin to the lifeblood that sustains international trade and financial transactions. The health of these reserves directly impacts the availability of foreign currency in the Nigerian market, forming a symbiotic relationship with the strength of the Naira. Consider a scenario where external economic factors, such as fluctuating oil prices or geopolitical events, lead to a depletion of Nigeria's foreign exchange reserves (Gbadebo, 2023). As these reserves diminish, the ability to meet the burgeoning demand for foreign exchange becomes strained.

This phenomenon creates a ripple effect, disrupting the equilibrium between the Naira and foreign currencies. In practical terms, businesses reliant on imported goods and services find themselves navigating turbulent waters. The diminished availability of foreign currency hampers their capacity to settle international transactions, causing delays and increasing the cost of imports. This, in turn, reverberates across supply chains, impacting the overall cost structure and operational efficiency of enterprises (Gbadebo, 2023). Furthermore, the dwindling foreign exchange reserves exacerbate challenges faced by the Central Bank and monetary authorities in stabilizing the Naira's value. With reduced reserves, interventions to support the Naira become less sustainable, potentially leading to a depreciation of the national currency (Gbadebo, 2023).

Government Policies

The phenomenon of Naira scarcity finds its roots intertwined with the intricate web of government policies. Within this context, the implementation of monetary and fiscal policies emerges as a pivotal force shaping the dynamics of currency availability. Monetary policies, as wielded by the government through the central bank, exert a profound influence on the Naira's fate. For instance, decisions related to money supply can significantly impact the quantity of Naira circulating in the economy. If the government pursues expansionary monetary policies, increasing the money supply to stimulate economic activity, it may inadvertently lead to a devaluation of the Naira due to inflationary pressures. Conversely, contractionary monetary policies aimed at curbing inflation may result in reduced money supply, potentially contributing to a scarcity of Naira. Similarly, fiscal policies, encompassing government decisions on taxation, public spending, and budgetary allocations, play a crucial role in determining the availability of Naira. For instance, if the government implements austerity measures, reducing public spending, it may lead to a contraction in economic activities, affecting the circulation of Naira (Lawal, 2023).

On the other hand, expansive fiscal policies, involving increased government spending, can stimulate economic growth but may also pose challenges if not carefully calibrated, impacting the stability of the Naira. Interest rates, as a component of monetary policy, constitute another dimension of influence (Friedman & Kuttner, 2010). Policies that alter interest rates can affect borrowing costs for businesses and individuals. For instance, the government opts for a high-interest-rate regime to combat inflation, it may constrain borrowing and investment, potentially impacting economic activities and the demand for Naira (Yusuf & Mohd, 2021). Trade regulations, forming a crucial part of the policy landscape, can directly influence the availability of Naira by affecting international trade. Policies that restrict imports or exports can impact the balance of trade, affecting the demand for foreign exchange and subsequently influencing Naira scarcity. For instance, if stringent trade restrictions limit the inflow of foreign currency, it can strain the availability of Naira in the domestic market (Lawal, 2023).

Balance of Trade

The occurrence of Naira scarcity is tied to the dynamics of its trade balance, specifically the ratio of imports to exports. This crucial aspect plays a pivotal role in influencing the demand for foreign exchange, thereby shaping the availability of the national currency (Frieden, 2016). To delve into the mechanics of this relationship, consider the scenario where Nigeria experiences a trade deficit, implying that the value of its imports surpasses that of its exports. This imbalance has profound implications for the country's foreign exchange reserves (Inuwa, et al., 2022). When the demand for foreign currency intensifies due to a high volume of imports, it places significant pressure on the available reserves. For instance, Nigeria relies heavily on importing goods and services, such as machinery, technology, or consumer products, and these imports outweigh the earnings generated from its exports, a trade deficit ensues (Owolabi, 2011). The increased demand for foreign exchange to settle these import transactions becomes a critical factor in the depletion of reserves, creating a strain on the availability of foreign currency. This strain, in turn, contributes to the scarcity of the Naira within the domestic economy (Inuwa, Muhammed & Kauji, 2022).

As businesses and individuals struggle to obtain the required foreign exchange for international transactions, the resulting scarcity reverberates across various sectors. Companies face challenges in sourcing raw materials and maintaining stable supply chains, leading to potential disruptions in production and increased costs (Inuwa, et al., 2022). In such a scenario, the ripple effects extend beyond the business realm to the everyday lives of individuals. Consumers may experience a decline in their purchasing power as the cost of imported goods rises, impacting inflation rates and overall economic stability. Therefore, the intricate interplay between Nigeria's trade balance and the demand for foreign exchange underscores the importance of addressing trade imbalances and diversifying the economy (Olufemi, Felix & Osariemen, 2023). A strategic focus on boosting exports, reducing import dependence, and implementing policies that support a more favorable balance of trade becomes imperative in mitigating the impact of Naira scarcity and fostering a resilient economic environment.

External Debt and Financial Flows

External debt, essentially the amount that a country owes to foreign creditors, serves as a critical variable influencing the state of the Naira (Ogbonna et al., 2021). When the level of external debt is unfavorable, reflecting a disproportionate burden relative to the country's capacity to repay, it sets off a chain reaction that reverberates through the entire economic system. For instance, if Nigeria accumulates a substantial external debt without corresponding avenues for repayment or investment returns, it creates an environment where financial stability becomes precarious. Furthermore, the rhythm of financial flows, encompassing the movement of capital in and out of the country, is a nuanced dance that significantly impacts the availability of Naira. Reduced financial inflows, whether in the form of foreign investments, remittances, or other monetary streams, contribute to a shrinking pool of foreign exchange (Imoagwu et al., 2023).

This diminution in foreign exchange reserves further tightens the supply of Naira, intensifying the challenge of currency scarcity. To illustrate, imagine a scenario where Nigeria experiences a decline in foreign direct investments due to global economic uncertainties. The reduced influx of foreign capital not only limits the country's capacity to service its external debt but also diminishes the overall availability of foreign exchange (Imoagwu et al., 2023). This, in turn, places immense strain on the stability of the Naira, exacerbating the challenges posed by currency scarcity.

Impact of Naira Scarcity on SMEs

The impact of Naira scarcity on Small and Medium Enterprises (SMEs) in Nigeria is profound and multi-faceted, significantly affecting their operations and overall economic health. The impact of Naira scarcity on Small and Medium Enterprises (SMEs) in Nigeria is discernible through a notable reduction in the purchasing power of consumers. The devaluation of the Naira contributes to a scenario where SMEs encounter formidable obstacles in sustaining competitive pricing for their goods and services. Consequently, this predicament precipitates a decline in consumer spending, thereby exerting adverse effects on the revenue streams of SMEs operating within the Nigerian economic landscape. The phenomenon of Naira scarcity serves as a catalyst for an intricate web of repercussions that reverberate throughout the business ecosystem, with SMEs bearing a substantial brunt (Osita et al., 2023). The devalued Naira diminishes the affordability of goods and services for consumers, thereby altering their consumption patterns. SMEs, grappling with the challenge of maintaining competitive pricing under these circumstances, witness a contraction in demand as consumers become more discerning and cautious in their spending habits (Lawal, 2023).

In the face of reduced purchasing power, SMEs are compelled to navigate a delicate balance between sustaining profitability and accommodating the financial constraints of their customer base. The inherent challenge lies in mitigating the impact of Naira scarcity on pricing strategies while concurrently ensuring the viability and sustainability of their businesses. As consumers experience a decline in their purchasing power, SMEs find themselves compelled to explore alternative avenues to enhance operational efficiency and cost-effectiveness. Moreover, the cumulative effect of reduced consumer spending on SMEs is manifested in diminished revenue streams, posing a significant threat to their overall financial health (Osita et al., 2023). The intricate interplay between Naira scarcity and consumer purchasing power underscores the imperative for SMEs to adopt adaptive strategies to navigate the challenging economic milieu. In essence, the impact of Naira scarcity on SMEs in Nigeria extends beyond immediate financial constraints, permeating the very fabric of their market dynamics and necessitating strategic resilience to weather the ensuing challenges (Osita et al., 2023).

The deleterious impact of Naira scarcity on Small and Medium Enterprises (SMEs) in Nigeria is conspicuously manifested through formidable cash flow challenges (Abdulrasheed, 2021; Adeniran, 2020). SMEs, constituting a substantial segment of the economic landscape, are highly dependent on cash transactions for their daily operations. Any inadequacy in the circulation of Naira, the national currency, precipitates significant disruptions in cash flow dynamics, thereby exerting profound implications on the financial health and sustainability of these enterprises. In the intricate web of SME operations, the scarcity of Naira engenders a cascade of challenges that reverberate throughout the financial ecosystem. One pivotal repercussion is the impediment it imposes on the seamless execution of day-to-day transactions. The reliance on physical currency for myriad transactions renders SMEs vulnerable to the repercussions of Naira scarcity. In this context, the shortage of Naira in circulation impedes the smooth conduct of transactions, injecting an element of unpredictability and complexity into the financial operations of SMEs. A primary consequence of Naira scarcity is the hindrance it poses to timely payments by SMEs (Okerer, 2021).

These enterprises often face difficulties in meeting their financial obligations to suppliers, which, in turn, can strain relationships and disrupt the supply chain. The challenge of fulfilling operational expenses becomes accentuated, exerting pressure on the financial resilience of SMEs. Consequently, the viability of day-to-day business activities becomes precarious, as SMEs grapple with the dual challenge of reduced liquidity and constrained access to essential financial resources. Furthermore, Naira scarcity exacerbates the intricacies associated with managing working capital for SMEs. The fundamental nature of these enterprises necessitates a delicate balance in maintaining an optimal level of working capital to sustain ongoing operations. The shortage of Naira impedes this delicate equilibrium, as SMEs face heightened difficulties in securing the necessary funds to support their day-to-day activities. This, in turn, can lead to inefficiencies, suboptimal utilization of resources, and, in extreme cases, the jeopardization of the very existence of these enterprises.

In addition, Naira scarcity also cause operational disruptions that are particularly pronounced for businesses reliant on physical cash transactions. A study of the prevailing economic conditions reveals that the shortage of Naira, the national currency, introduces complexities for SMEs, hindering their daily operational activities (Lawal, 2023). One of the primary consequences of Naira scarcity on SMEs is the impediment to smooth business transactions due to difficulties in obtaining the requisite change. SMEs engaged in cash-intensive transactions, such as retail and service-oriented businesses, encounter challenges in facilitating customer transactions when faced with a shortage of smaller denominations (Okerer, 2021). This issue not only disrupts the efficiency of daily operations but also adversely affects customer satisfaction and loyalty. Moreover, the scarcity of Naira contributes to delays and inefficiencies in the day-to-day financial activities of SMEs. Businesses often face hurdles in accessing the necessary cash for essential operations like paying suppliers, meeting payroll obligations, and covering other operational expenses (Okerer, 2021).

The resultant slowdown in the liquidity cycle directly impacts the operational agility of SMEs, impeding their ability to respond swiftly to market demands and changes. Furthermore, the operational disruptions caused by Naira scarcity can have a cascading effect on the supply chain of SMEs (Ashiru et al., 2023). Difficulties in obtaining change or conducting seamless transactions may lead to delays in procurement, production, and distribution processes. As a consequence, SMEs find themselves grappling with logistical challenges and increased lead times, affecting their overall operational efficiency (Kumar et al., 2019). Research indicates that SMEs operating in sectors with high cash dependency, such as retail, agriculture, and informal services, are more susceptible to the adverse effects of Naira scarcity. The operational disruptions these businesses experience can result in revenue losses, increased transaction costs, and diminished competitiveness within the market (Lawal, 2023).

The effect of Naira scarcity also has profound effect in the realm of limited access to credit. Naira scarcity can engender a constricting effect on credit conditions, thereby intensifying the challenges faced by SMEs in securing loans from financial institutions (Oke, 2019). This limitation on credit accessibility, a direct consequence of the scarcity of the national currency, poses a significant impediment to the operational and developmental facets of SMEs (Osita et al., 2023). The tightening of credit conditions, exacerbated by Naira scarcity, places SMEs in a precarious position, hindering their ability to obtain vital financial resources for various business initiatives. One of the immediate ramifications is the curtailment of SMEs' expansion plans, constraining their capacity to explore new markets, invest in advanced technologies, and broaden their product or service offerings. Moreover, the limited access to credit exacerbates the challenges associated with capital-intensive projects and working capital needs, inhibiting the overall growth potential of SMEs (Okerer, 2021).

These businesses, often reliant on external financing to fund their operations, find their avenues for capital acquisition significantly curtailed, impeding their competitiveness and resilience in the market (Nankunda, 2023). The adverse effect of Naira scarcity on credit access for SMEs is not confined solely to operational constraints. It extends to stymying investment opportunities critical for fostering innovation, enhancing productivity, and ensuring long-term sustainability. The constrained access to credit impedes SMEs from undertaking strategic investments in research and development, technology adoption, and capacity-building initiatives that are pivotal for their competitiveness in dynamic business environments (Osita et al., 2023).

The scarcity of Naira in Nigeria has far-reaching implications for Small and Medium-sized Enterprises (SMEs), influencing different facets of their operations, financial well-being, and potential for growth, (Nnaji, 2020). Overcoming these challenges necessitates a comprehensive approach that involves implementing effective government policies, fostering financial inclusion initiatives, and adopting innovative strategies by small businesses. These measures are essential to enable SMEs to navigate and flourish within the constantly evolving economic landscape.

Appraisal of the Literature Reviewed

All the literature reviewed centred on the currency scarcity and small and medium scale enterprises. In the literature review revealed that the scarcity of new Naira notes in Nigeria was a pressing issue, significantly impacted the rate of business growth in the country. Lawal (2023) researched on the effect of evaluation of the scarcity of new naira notes and slow business growth in Nigeria. Obilor (2023) carried out study on the effect of Naira redesign in 2023 on the informal sectors in rural areas in Anambra state. The study revealed that Naira redesign appears to have created unintended consequences that extend beyond its initial objectives, such as scarcity which impacted the daily operations of businesses, particularly SMEs. Okere (2021) research on the effect of the Naira devaluation on small and medium scale enterprises in Nigeria, a study of selected mini-importers in Lagos. Amagoro (2022) impact of cash management on the financial performance of SME's in Pallisa town. Osita et al. (2023) research on aftermath of the Naira redesign on small and medium enterprises (SMES) in Nigeria. Folorunso and Adebayo (2023) researched on the impact of cashless and naira redesign polices on economic development in Federal Capital Territory, Abuja.

However, most of the aforementioned studies were a complete departure from this present study (though some are similar) were conducted outside the locale where this present study intends to be conducted and hence, this is the gap the study intends to fill by the effect of Naira scarcity on small and medium enterprises in Ilorin metropolis.

CHAPTER THREE

METHODOLOGY

This chapter explores the methodology and procedures used in the study, detailed under the following subheadings: Research Design, Population, Sample and Sampling Technique, Research Instrument, Procedure for Data Collection, and Data Analysis Technique.

Research Design

In this study, a descriptive research survey design was employed. Descriptive survey research is effective for assessing specific characteristics within a particular context at a given time (Adeyemo, 2023). The primary objective of this design is to provide a thorough description of the event being investigated, utilizing the collected data to clarify the situation. This approach was considered appropriate as it allows the researcher to draw inferences and generalizations about the population through careful selection and sampling of participants. Furthermore, this design aids in objectively representing the nature of the situation, offering an unbiased depiction of the existing phenomenon (Creswell, 2023).

Population, Sample and Sampling Technique

This study examined a population of individuals involved in 521 small and medium-sized enterprises (SMEs) throughout Kwara State. The focus was specifically on approximately 206 SMEs located in Ilorin, as reported by the Kwara State Ministry of Enterprise (2023). Given the large size of this population, it was essential to create a representative subset to ensure thorough coverage within the study's timeframe.

To achieve this, stratified sampling techniques were utilized, categorizing enterprises within the Ilorin metropolis. Thirty percent of the 206 enterprises were randomly selected, resulting in a sample size of 62 enterprises. In each selected enterprise, four employees were sampled, leading to a total of 248 respondents who completed questionnaires. This method aimed to capture a representative perspective from both managerial and employee levels across the various SMEs in Ilorin metropolis, Kwara State.

Research Instrument

Research instruments are tools used to collect data for analyzing information, addressing research questions, and, when applicable, testing hypotheses (Olu, 2008). For this study, a questionnaire developed by the researcher was employed, focusing on the impact of Naira scarcity on small and medium-sized enterprises in Ilorin. The questionnaire consisted of two sections: Section A gathered demographic data from respondents, while Section B examined the effects of Naira scarcity on SMEs, featuring twenty-five items.

A four-point Likert scale was utilized, with options including Strongly Agreed (SA), Agreed (A), Disagreed (D), and Strongly Disagreed (SD). Respondents indicated their choices by ticking (✓) the corresponding boxes.

To ensure the instrument's validity, the questionnaire was presented, along with the research objectives, questions, and hypotheses, to faculty members in the Department of Business Administration at the Institute of Finance and Management Studies, Kwara State Polytechnic, Ilorin, for their feedback. The final draft was revised based on their suggestions and then resubmitted to the researcher’s supervisor for final approval and administration.

The reliability of the instrument refers to its ability to produce consistent results over repeated trials. To assess this, a test-retest method was employed. The instrument was administered to SME operators in Oyo State—who were not part of the study sample—twice, with a two-week interval between administrations. The results were analyzed using Pearson Product Moment Correlation (PPMC) statistics, yielding a reliability coefficient of 0.84.

Procedure for Data Collection

The researcher obtained a letter of introduction from the Department of Business Administration at the Institute of Management and Finance Studies. This letter, along with the researcher's school ID card, was presented to the business managers during the visits. Once permission was granted, the researcher, assisted by a research assistant, administered the questionnaires. To prevent loss, the completed questionnaires were collected immediately after they were filled out. The researcher and the assistant provided clear instructions to the respondents on how to complete the items.

Data Analysis Technique

The administered questionnaires were organized and coded to facilitate analysis. The data collected for this study underwent both descriptive and inferential statistical analyses. Percentages were utilized to analyze the demographic information of the respondents. The sole research question was addressed using mean ratings and standard deviations. Hypotheses 1, 2, 3, and 4 were tested using Pearson Product Moment Correlation (PPMC) at a significance level of 0.05, employing SPSS version 25.0 throughout the analysis.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

This chapter provides an analysis of the data collected through the questionnaire. The demographic characteristics of the respondents are presented using percentages, while the primary research question is addressed through rating. Hypotheses 1, 2, 3, and 4 were tested using Pearson Product Moment Correlation (PPMC) at a significance level of 0.05, with SPSS version 25.0 utilized for all analyses.

Demographic Characteristics of the Respondents

Percentage was use to describe the personal information of the respondents and the output is reported below.

Table 1: Demographic Characteristics of the Respondents

Gender	Frequency	Percentage (%)
Male	98	39.33
Female	150	60.67
Total	248	100.00
Age	Frequency	Percentage (%)
18-30years	98	39.17
31-40years	81	31.66
41-50years	51	22.17
51years above	18	7.00
Total	248	100.00
Educational Background	Frequency	Percentage (%)
Primary School	58	23.39
SSCE	54	22.00
NCE/ND	94	38.00
B. Sc	38	15.00
M. Sc	4	1.61
Total	248	100.00
Years of Business Experience	Frequency	Percentage (%)
0-5 years	104	42.00

6- 10 years	93	37.33
11 years and above	51	20.67
Total	**248**	**100.00**

Source: Field work 2025

Table 1 presents the distribution of respondents in this study. Of the 248 participants, 59 (39.33%) were male, and 91 (60.67%) were female. The table also indicates that 58 respondents (38.66%) were aged 18-30 years, 81 (31.66%) were in the 31-40 age group, and 51 (22.17%) fell within the 41-50 age range. Additionally, 18 participants (7.00%) were 51 years or older.

In terms of educational qualifications, 58 respondents (23.39%) held a primary school certificate, while 54 (22.00%) completed the SSCE. Those with NCE/ND qualifications comprised 94 participants (38.00%), and 38 (15.00%) possessed a B.Sc. degree. Only 4 individuals (1.61%) held an M.Sc. degree.

Regarding business experience, 104 respondents (42.00%) reported having 0-5 years of experience, while 93 participants (37.33%) had 6-10 years of experience. The remaining 51 individuals (20.67%) reported having 11 years or more of business experience. experience.

Answering of Research Question

Research Question: to what extent Naira scarcity effect small and medium scale enterprises in Ilorin metropolis?

Table 2: Effect of Naira Scarcity on SMEs in Ilorin Metropolis

Naira Scarcity affected:	Mean	Rank

operations of my business negatively.	3.8	1st
the increased operational costs for my business.	3.4	2nd
my business access to affordable credit loan.	2.6	4th
the purchasing power of my customers.	3	3rd
the growth prospects of my business.	2.2	5th

Table 2 presents the findings on the impact of Naira scarcity on businesses, as reflected in respondents' ratings of five statements. The statement "operations of my business significantly" received the highest ranking, with a mean value of 3.8. This was closely followed by "the increased operational costs for my business," which ranked second with a mean score of 3.4. The third statement, "the purchasing power of my customers," was rated third, with a mean value of 3.0. In fourth place, "my business access to affordable credit loans" received a mean score of 2.6. Finally, the statement "the growth prospects of my business" was ranked lowest, with a mean value of 2.2. These results suggest that Naira scarcity has had a negative impact on business operations in the Ilorin metropolis.

Testing of Hypothesis

Four research hypotheses were postulated for this study and they were all tested using PPMC at 0.05 level of significance.

Hypothesis One: *there is no significant relationship between Naira scarcity and activities small and medium scale enterprises.*

In order to test this hypothesis, responses of 248 small and medium scale enterprises responded to the questionnaire were collated, inputted on computer using SPSS package. The scale of measurement is of 4-point Likert (SD, D, A and SA) in ascending order from 1 to 4. Hence, it is an interval scale of measurement and subjected to PPMC analysis and the result is shown in Table 3.

Table 3: Relationship Between Naira Scarcity and Activities of Small and Medium Enterprises in Ilorin Metropolis

		Naira Scarcity	Activities of SMEs
Naira Scarcity	Pearson Correlation	1	-0.64**
	Sig. (2-tailed)		0.00
	N	248	248
Activities of SMEs	Pearson Correlation	-0.64**	1
	Sig. (2-tailed)	0.00	
	N	248	248

**. Correlation is significant at the 0.01 level (2-tailed).

$P < 0.05$

Table 3 displays the results of the Pearson Product Moment Correlation analysis conducted to investigate the relationship between Naira scarcity and the activities of small and medium enterprises in the Ilorin metropolis. The analysis yielded a significant p-value of 0.00, which is lower than the selected significance level of 0.05. Consequently, hypothesis one is rejected. This finding indicates a strong negative and significant relationship between Naira scarcity and the activities of small and medium enterprises in the Ilorin metropolis ($r (248) = -0.64; p < 0.05$).

Hypothesis Two: there is no significant relationship between naira scarcity and profitability of SMEs Ilorin metropolis.

Table 4: Relationship Between Naira Scarcity and Profitability of Small and Medium Enterprises in Ilorin Metropolis

		Naira Scarcity	Profitability of SMEs
Naira Scarcity	Pearson Correlation	1	-0.71**
	Sig. (2-tailed)		0.00
	N	248	248
Profitability of SMEs	Pearson Correlation	-0.71**	1

	Sig. (2-tailed)	0.00	
	N	248	248

**. Correlation is significant at the 0.01 level (2-tailed).

$P < 0.05$

Table 4 presents the results of the Pearson Product Moment Correlation analysis conducted to examine the relationship between Naira scarcity and the profitability of small and medium enterprises in the Ilorin metropolis. The analysis revealed a significant p-value of 0.00, which is below the selected significance level of 0.05. Consequently, hypothesis two is rejected. This finding indicates a strong negative and significant relationship between Naira scarcity and the profitability of small and medium enterprises in the Ilorin metropolis ($r (248) = -0.71; p < 0.05$).

Hypothesis Three: there is no significant relationship between challenges encounter by the SMEs and Naira scarcity in Ilorin metropolis.

Table 5: Relationship Between Challenges Encounter by Small and Medium Enterprises and Naira scarcity in Ilorin Metropolis

		Naira Scarcity	Challenges encounter of SMEs
Naira Scarcity	Pearson Correlation	1	-0.69**
	Sig. (2-tailed)		0.00
	N	248	248
Challenges encounter of SMEs	Pearson Correlation	-0.69**	1
	Sig. (2-tailed)	0.00	
	N	248	248

**. Correlation is significant at the 0.01 level (2-tailed).

$P < 0.05$

Table 5 presents the results of the Pearson Product Moment Correlation analysis conducted to examine the relationship between the challenges faced by small and medium enterprises and Naira scarcity in the Ilorin metropolis. The analysis revealed a significant p-value of 0.00, which is below the selected significance level of 0.05. Consequently, hypothesis three is rejected. This finding indicates a strong negative and significant relationship between the challenges encountered by small and medium enterprises and Naira scarcity in the Ilorin metropolis ($r (248) = -0.69; p < 0.05$).

Hypothesis Four: there is no significant relationship between coping strategies adopted by the SMEs and the naira scarcity in Ilorin metropolis.

Table 6: Relationship Between Coping Strategies Adopted by the Small Medium Enterprises and Naira Scarcity in Ilorin Metropolis

		Naira Scarcity	Coping strategies by SMEs
Naira Scarcity	Pearson Correlation	1	0.57**
	Sig. (2-tailed)		0.00
	N	248	248
Coping strategies by SMEs	Pearson Correlation	0.57**	1
	Sig. (2-tailed)	0.00	
	N	248	248

**. Correlation is significant at the 0.01 level (2-tailed).

$P < 0.05$

Table 6 presents the results of the Pearson Product Moment Correlation analysis conducted to examine the relationship between the coping strategies adopted by SMEs and Naira scarcity in the Ilorin metropolis. The analysis revealed a significant p-value of 0.00, which is lower than the chosen significance level of 0.05. As a result, hypothesis four is rejected. This indicates that there exists a significant positive relationship between the coping strategies adopted by SMEs and Naira scarcity in the Ilorin metropolis ($r (248) = 0.57; p < 0.05$).

Discussion of Findings

The study's findings revealed that Naira scarcity negatively impacted the operations of business enterprises in the Ilorin metropolis. Businesses encountered significant challenges in purchasing essential inputs, paying employees, and managing daily expenses, all due to the Naira shortage. This situation created a cascading effect on overall business operations, leading to decreased productivity and profitability. This aligns with the research by Mesagan et al. (2018), which found that currency depreciation adversely affects Nigeria's macroeconomic performance, emphasizing the need for trade and export diversification to mitigate these negative impacts. Similarly, Lawal (2023) noted that the scarcity of Naira notes slowed down economic activities in Nigeria, resulting in reduced local business operations.

The second finding indicated a strong negative significant relationship between Naira scarcity and the activities of small and medium enterprises (SMEs) in Ilorin. This suggests that Naira scarcity adversely affects working capital management for businesses. SMEs, which are particularly vulnerable to cash flow disruptions, struggle to meet their short-term financial obligations during Naira shortages. This outcome is consistent with Otitoju et al. (2023), who found that reduced cash withdrawal limits exacerbated Naira scarcity, severely impacting small businesses by decreasing sales volumes and slowing down economic activity. Aroghene (2023) also noted that limiting Naira availability significantly affects SME performance and growth. Furthermore, Osita et al. (2023) emphasized that the Central Bank of Nigeria should ensure adequate cash availability at dispensing outlets to facilitate trading activities.

The third finding revealed a significant negative relationship between Naira scarcity and the profitability of SMEs in Ilorin. This indicates that SMEs are particularly sensitive to currency fluctuations, with Naira scarcity adversely affecting their profitability and impeding business growth. This finding contrasts with Nwafor (2018), who suggested that Naira exchange rates do not significantly impact profitability or economic growth in Nigeria, although they do influence inflation.

The fourth finding demonstrated a significant negative relationship between the challenges faced by SMEs and Naira scarcity in Ilorin. Currency scarcity often leads to increased operating costs for businesses. SMEs, being more susceptible to economic fluctuations, struggle to absorb these rising costs, facing difficulties in meeting operational expenses, maintaining competitive pricing, and ensuring financial stability. This finding aligns with Abdullahi et al. (2015), who identified finance, infrastructure, and training as major challenges affecting SME performance in Nigeria. Additionally, Agwu and Emeti (2014) found that poor financing, inadequate social infrastructure, lack of managerial skills, and multiple taxation are significant challenges for SMEs in Port Harcourt, Nigeria.

The final finding indicated a positive significant relationship between the coping strategies adopted by SMEs and Naira scarcity in Ilorin. This aligns with the research by Suleiman et al. (2023), which highlighted the importance of reliable financial services and suggested implementing penalties for misuse of policies for personal gain to facilitate business transactions. Obilor (2023) found that many petty traders in the informal sector relied on the bank accounts of family members or friends to conduct their business, while others utilized point-of-sale (POS) systems or sold goods to acquaintances and shop owners as coping mechanisms during the Naira scarcity.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This study explored the impact of Naira scarcity on small and medium enterprises (SMEs) in the Ilorin metropolis, Kwara State, Nigeria. This chapter is organized into the following sections: discussion of findings, conclusion, recommendations, and suggestions for further studies.

Summary

The summary of this study provides valuable insights into the impact of Naira scarcity on business enterprises in the Ilorin metropolis.

First, it was found that Naira scarcity negatively affected the operations of businesses in the area. The limited availability of Naira currency created significant challenges, hindering the smooth functioning of enterprises.

Second, the study revealed a strong negative relationship between Naira scarcity and the activities of small and medium enterprises (SMEs). As Naira scarcity increased, these enterprises faced adverse impacts due to difficulties in conducting transactions, acquiring resources, and managing daily operations.

Furthermore, a significant negative relationship was established between Naira scarcity and the profitability of SMEs. As Naira scarcity intensified, the profitability of these enterprises declined, likely due to increased costs, reduced purchasing power, and overall negative effects on financial performance.

Additionally, the study identified a significant negative relationship between the challenges faced by SMEs and Naira scarcity. This suggests that Naira scarcity contributed to various challenges, including difficulties in accessing affordable credit, rising operational costs, and diminished growth prospects, further exacerbating the negative effects on businesses.

Lastly, the study found a positive relationship between the coping strategies adopted by SMEs and Naira scarcity. This indicates that SMEs in the Ilorin metropolis implemented various strategies to mitigate the effects of Naira scarcity. These strategies may have included diversifying revenue streams, seeking alternative funding sources, implementing cost-cutting measures, and exploring new markets.

Conclusion

The findings of this study provide a comprehensive understanding of the impact of Naira scarcity on small and medium enterprises (SMEs) in the Ilorin metropolis. The results clearly indicate that Naira scarcity has detrimental effects on business operations, establishing a significant negative relationship between currency availability and SME activities. This underscores the urgent need to address Naira scarcity to foster a supportive business environment.

Furthermore, the study reveals a significant negative relationship between Naira scarcity and the profitability of SMEs, highlighting the adverse financial consequences associated with currency shortages. It also emphasizes the compounded effects of Naira scarcity on the various challenges faced by these enterprises.

On a positive note, the study identifies a significant positive relationship between the coping strategies adopted by SMEs and Naira scarcity. This suggests that businesses equipped with effective coping mechanisms can better navigate the challenges posed by currency shortages, demonstrating the resilience and adaptability of SMEs.

Overall, the findings emphasize the importance of addressing Naira scarcity to create a conducive environment for SMEs in Ilorin. Strategic interventions aimed at mitigating the impacts of currency challenges, combined with the promotion of adaptive coping strategies, can enhance the resilience and sustained growth of small and medium enterprises in the region.

Recommendations

Based on the findings regarding the impact of Naira scarcity on small and medium enterprises (SMEs) in Ilorin, the following recommendations are proposed:

Government Support: The government should implement targeted support mechanisms to alleviate the negative effects of Naira scarcity on SMEs. This could include financial assistance, low-interest loans, and specific incentives tailored for SMEs in Ilorin and across Nigeria.

Income Diversification: SMEs should be encouraged to diversify their income streams. By adopting innovative business models, exploring new markets, and leveraging technology, businesses can enhance their resilience and reduce dependence on a single source of income.

Partnerships and Alliances: Encouraging SMEs to form partnerships and alliances can create a supportive network during times of currency scarcity.

Knowledge-sharing platforms and resource pooling can help businesses collectively tackle challenges and develop collaborative strategies.

Policy Advocacy: Business associations and chambers of commerce should actively engage in policy advocacy. By participating in discussions with policymakers, these organizations can help shape stable economic policies that address the underlying issues of Naira scarcity, fostering a more supportive business environment for SMEs.

Currency Stability: The government and SME associations should collaborate with relevant authorities to implement policies aimed at minimizing currency fluctuations. A stable and predictable business environment will enable SMEs to plan and operate more effectively. Close cooperation with monetary and fiscal authorities is essential to promote currency market stability.

These recommendations aim to address the challenges SMEs face due to Naira scarcity and to create a conducive environment for their growth and sustainability. By adopting these strategies, stakeholders can enhance the resilience and success of SMEs amid currency challenges.

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APPENDIX
Kwara State Polytechnic
Institute of Finance and Management Studies
Department of Business Administration

Examining the Effects of Cash Flow Constraints on the Operational Efficiency of SMEs in Ilorin Metropolis

Dear Respondent,

This research instrument aims to gather information on the impact of naira scarcity on small and medium scale enterprises (SMEs) in Ilorin metropolis, Kwara State, Nigeria. Your candid responses to the questions will assist the researcher in making valuable observations, drawing conclusions, and providing recommendations for enhancing the performance of SMEs. Please be assured that all information you provide will be used solely for academic purpose

Yours faithfully,

SECTION A: Demographic Data of Respondent

Instruction: Please fill in the gaps or tick (√) as appropriate.

1. 1. Gender:
   a. Male ( )
   b. Female ( )

2. Age
   a. 18-30 years ( )
   b. 31-40 years ( )
   c. 41-50 years ( )
   d. 51 and above ( )

3. Educational background
   e. Primary School ( )
   f. SSCE ( )
   g. NCE/ ND ( )
   h. B. Sc ( )
   i. M. Sc ( )
   Others (s) please specify…………………………………………………

4.. Year of Business Experience:
   a. 0 - 5 years ( )
   b. 6 - 10 years ( )
   c. 11 years and above ( )

SECTION B: Effect of Naira Scarcity on Small and Medium Scale Enterprises

Instruction: Please tick (√) the option that best expresses your opinion on the following items based on your overall effect of Naira redesign on small and medium scale enterprises, using the following scale:

Strongly Agreed (SA) = 4

Agreed (A) = 3

Disagreed (D) = 2

Strongly Disagreed (SD) = 1

S/N	Items (Methods)				
I	**Naira Scarcity affected:**	**SA**	**A**	**D**	**SD**
1	operations of my business significantly.				
2	the increased operational costs for my business.				
3	my business access to affordable credit loan.				
4	the purchasing power of my customers.				
5	the growth prospects of my business.				
ii	**Profitability**	**SA**	**A**	**D**	**SD**
6	Naira scarcity has resulted in a decline in the profitability of my business.				
7	Naira scarcity affected the pricing strategy of my products/services.				
8	Naira scarcity reduced profit margins for my business.				
9	The ability to meet my business financial obligations was compromised due to Naira scarcity.				
10	Naira scarcity affected the competitiveness of my business in the market.				
iii	**Challenges**	**SA**	**A**	**D**	**SD**
11	Naira scarcity affected my business in obtained materials.				
12	Importation of my market was affected by the Naira scarcity.				
13	Meeting payroll obligations was difficult during Naira scarcity.				
14	It was difficult to repaid loans due to the Naira scarcity.				
15	Customer demand for products/services has decreased during Naira scarcity.				

iv	**Coping Strategies Adopted**	**SA**	**A**	**D**	**SD**
16	My business diversified its product/service during Naira scarcity.				
17	Implementation of cost-cutting measures was done during Naira scarcity.				
18	My business sought alternative sources of funding.				
19	My business explored new markets to mitigate the effects of Naira scarcity.				
20	Partnerships with other businesses was established as a coping mechanism during Naira scarcity.				

Thank you.