

IMPACT OF SMALL AND MEDIUM ENTERPRISE ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Small and medium size enterprise (SMEs) plays significant role in promoting economic growth in Nigeria. Despite their importance SMEs in Nigeria, are bedeviled by numerous challenges which include lack of access to finances, inadequate infrastructure and regulatory constrained. These challenges have resulted in low productivity, limited competitiveness and high rate of failure among SMEs resulting in its low contribution to economic growth in Nigeria. It is in light of this drawback that this study examines the impact of SMEs on economic growth in Nigeria. Time series data source from CBN statistical bulletins and National Bureau of statistics (NBS) covering a period of 1990-2024. The data were analyzed using ARDL. Findings of the study indicates that commercial bank loan to SMEs (CBLSME) and Small and Medium Enterprise Output (SMEO) has significant impact on economic growth (GDP) in Nigeria during the period under reviewed, while Total Credit to Private Sector (TCPS) is negative and statistically insignificant in promoting economic growth in Nigeria. Lending rate (LR) is positive and statistically insignificant in promoting economic growth in Nigeria. The long run result indicates that commercial bank loan to SMEs (CBLSME) and Small and medium Enterprise Output (SMEO) are statistically significant, having positive impacts on GDP, while Total credit to private sector (TCPS) is negative and statistically insignificant in promoting economic growth in Nigeria. Finding of the study also indicates that Lending rate (LR) negative and statistically insignificant in impacting economic growth in Nigeria. It is therefore recommended that: Government should make policy that will mandate Commercial banks to lend a certain percentage of their total credit to SMEs sub-sector so as to boost the SMEs capacity and increase outputs and increase economic growth since finding of the study indicates that Commercial bank loan to SMEs impact positively on economic growth in Nigeria during the period under review. In order to increase investment by SMEs and economic growth, commercial banks should reduce the lending rate to SMEs. Secondly, lending rate should be low in order to reduce cost of capital and associated default by SMEs due to high cost of servicing loans

because findings of the study indicates that Lending rate have insignificant impact on economic growth in Nigeria during the period under review.

Keywords: *SMEs and Economic growth, Economic Growth, ARDL, Impact of SMEs, and GDP*

1.1 INTRODUCTION

Small and medium enterprises (SMEs) have been widely recognized by scholar in both developed and developing countries as the engine of sustainable economic growth and development. This critical sub-sector does not only outnumber large corporations by a very wide margin, but also employ greater number of people. As a result, economic successes of many countries are traced to vibrant small and medium-sized businesses (Okoli & Ezedebego, 2025). According to the organization of Economic Co-operation and Development (2024) small and medium-sized enterprises constitute 99% of an estimated 19.3 million enterprises in the European Union (EU) and provide about 65 million jobs representing two-thirds of all employment. In the context of the developing world, SMEs in Africa constitute the larger proportion of businesses and employ a significant portion of the population, while Okoye, et al., (2024) also attributes the economic success of the Asian countries to the activities of SMEs. In Ghana, official statistics indicate that about 70% of enterprises are micro and small sized and that about 40% of Ghana's Gross National Income is contributed by the private sector which is dominated by SMEs (Ghana Statistical Service, 2012).

Regardless of the level of economic growth and development of a nation, countries of the world continue to embark on viable policies and programs that would create and pave way for the sustainable development of their economies through SMEs development. Many studies have shown that small and medium scale enterprises act as a catalyst for economic growth and development of a national economy (Olateju & Ibikunle 2023).

It is in recognition of this contribution of SMEs to economic growth that the Nigerian governments at various levels (local, state and federal) have in one way or the other facilitated the performance of Small and SMEs. While some have formulated policies aimed at facilitating and empowering the growth and

development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives in order to enhance the socio-economic development of the economy like alleviating poverty, employment generation, enhance human development, and improve social welfare of the people (Okoli, Nwokoye and Ezedebego, 2023).

However, it is worrisome that in spite of all these effort and intervention by government at different level to promote the contribution of SMEs to economic growth, the challenges of SMEs continue to prevail (Olawale, and Akpan, (2024). The sector is still characterized with a lot of challenges which include reluctance of banks to grant loans to SMEs due to unavailability of reliable information on borrowers, poor book keeping, poor accounting standard and low transparency of operations, lack of discipline in the use of credit facilities, the perception of the SME sector as risky, and difficulties in enforcing loan contracts, high rates of loan diversion, inability to carry out feasibility studies and absence of collateral security (Lyndon and Etale 2021).

This raises the following question: what is the impact of SMEs on economic growth in Nigeria? What is the causal relationship SMEs economic growth in Nigeria? This study thus aims at determining the impact of SMEs on economic growth in Nigeria and also to ascertain the causal relationship between SMEs and economic growth in Nigeria. Commercial bank loan, Total credit to private sector, Output of SMEs and Lending rate are explanatory variables with GDP as proxies for Economic Growth. The data for this research are sourced from CBN statistical bulletin and National Bureau of Statistics (NBS). This study is divided into five sections with the forgoing introduction serving as section one. Section two of the study presents a review of relevant literature, while section three deals with the methodology while Section four present the result and discussion of findings and finally section five presents conclusion and recommendations.

2.1 LITERATURE RIVERVIEW/ THEORETICAL FRAMEWORK

2.1.1 Conceptual Issues

The term Small and Medium Scale Enterprises (SMEs) has no generally established definition and even within a country, the definition of SMEs changes over time depending on the circumstances and specific objectives of the institutions defining it. According to the United States Agency for International Development (USAID) cited in Ibitomi et al., (2024), define SMEs as informal businesses that employ five or fewer workers including unpaid family labour, and small enterprises as those operating in the formal sector with 5 to 20 employees, and medium enterprises as those employing 20 to 50 employees. According to Akowe, (2025), Small and Medium Enterprises (SMEs) are businesses characterized by their relatively small size in terms of employee count, revenue, or total assets, operating across various sectors of the economy.

In Nigeria, the Federal Government Small Scale Business Development program (SBDP) referred to small scale enterprises as any manufacturing process or service industry with a capital investment not exceeding N150 000 in machinery and equipment and employing not more than 50 workers (Ogbuanu, Kabuoh, & Okwu, 2016). Small and medium scale enterprises (SMES) have been generally acknowledged as the bedrock of the industrial development of any country. Apart from the numerous goods and services produced by SMES, they provide a veritable means of large scale employment, as they are usually labour intensive. They also provide training grounds, for entrepreneurs even as they generally rely on the use of local raw materials. If well managed, SMES can gradually transform into the giant corporations of tomorrow.

These contributions thus explain why government and international agencies mobilize efforts towards the realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of the small and medium enterprises. The Central Bank of Nigeria (CBN), for the purpose of credit guideline to financial institutions classified small scale enterprises as those enterprises with an annual turnover between the range of N100,000 to N150,000, with less than 50 employees, with asset base (excluding real estate) of not less than 1 million (Okoye, 2022). Economic growth on the other hand is an increase in the production of goods and services over a specific period of time

after adjusting or removing the influence of inflation. Economic growth is measured by computing growth rate which indicates the rate at which the GDP is increasing quarterly or annually.

2.1.2 Concept of economic growth

Economic growth can be positive or negative. Positive economic growth produces more profit for business enterprises. This makes the prices of stock of such a company to increase. This makes companies to have more capital for investment and for employing more employees. As the creation of jobs increases, incomes rise. Consumers have more money to buy additional products and services. Purchases drive higher economic growth (Max, 2021). It has been found that the best way to measure economic growth is by computing the country's GDP. Ibitomi and Micah (2021) states that GDP provides the best way to measure economic growth GDP considers the country's entire economic output. It includes all goods and services that businesses in the country produce for sale, irrespective of whether the goods are sold within the economy or abroad. GDP has been defined as the market value of all final output produced within an economy over a period of time. The period can be quarterly or annually (Ibitomi & Micah, 2021). However, Kimberly states that most countries measure their GDP or economic growth quarterly. They stated further that in computation of GDP, intermediate products are excluded to avoid double counting.

2.2.3 Theoretical Literature

The study adopted the innovation theory. The innovation theory is associated with the name of Joseph Schumpeter (1883-1950). According to him, innovations in the structure of the economy are the source of economic progress. Schumpeter's approach involves the development of his model into two stages. The first part deals with the impact of innovations and the second stage follows through reaction to the original impact of innovation. The first approximation starts with economic system in equilibrium and producing efficiently with its cost equal to his receipts. There are no saving and investment and profit and interest rate are zero.

According to Schumpeter, this equilibrium is characterized by "circular flow" which continues to repeat itself in the same manner year after year. The model starts with breaking up of the circular flow by an innovation in form of a new product by entrepreneur for profit earning. By innovation, Schumpeter means such changes in the production of goods as cannot be affected by infinitesimal steps or variation on the margin. Innovation may consist of:

- i. The introduction of a new product
- ii. The introduction of a new method of production
- iii. The opening up of a new product
- iv. The conquering of a new source of raw materials or semi-manufacturing goods, and
- v. The carrying out of the new organization of any industry.

According to Schumpeter, innovation is not invention. Schumpeter assigned the role of an innovator not to the capitalist but to an entrepreneur. The entrepreneur is not a man of ordinary ability but one who introduces something entirely new. He does not provide funds but direct their use. According to Schumpeter, for an entrepreneur to perform its economic functions, first he needs the existence of technical entrepreneurial characteristics in the form of technical knowledge in order to produce new product or manage a business properly.

Secondly, he should have the power of disposal over all other factors of production in the form of bank credit. The innovating entrepreneur being financed by the expansion of bank credit indulges in investment which is risky. The innovator starts bidding away resources from industries. Money income increases, price begins to increase thereby stimulating further investment. The new innovation starts producing goods and there is an increase of flow of goods in the economy. Schumpeter noted that the economy experiences a new equilibrium and the new equilibrium will be at a higher level of income than the initial equilibrium because of the innovation. On the other hand, one of the original innovation become successful and profitable, other entrepreneurs follow it "swam-like cluster". And innovation in one field induces innovation in another field. Consequently, money income and price rises, and help to create a cumulative expansion throughout the economy.

2.2.4 Empirical Review

Okoli, Ojike, & Adeleke, (2023) examines Small and Medium scale Enterprises (SMEs) and economic growth in Nigeria with the aid of secondary data sourced from World Bank Development Indicators (WDI), CBN annual statistical bulletin and bulletin of the national bureau of statistics (NBS) covering a period of 1990-2024. The method of analysis employed was the ordinary least square method of multivariate regression utilized in analyzing the log-linearized Model of real gross domestic product (RGDP) as dependent variable and Agriculture, Manufacturing, educational institution, Renewable energy SMEs as independent variables. The estimated model shows that that all four variables had a significant positive impact on RDGP thereby highlighting the importance of these four components to promoting economic growth.

Ibitomi, Amos, Olanipekun, Ezekiel, & Aderotimi, (2024) examined SMEs financing and economic growth in Nigeria from 1999 to 2021. The Vector Error Correction Mechanism (VECM) indicated commercial bank loans have a weak negative effect on economic growth. Total credit to the private sector has a positive effect on economic growth, while lending rates have a significant negative effect on economic growth. It was concluded that SMEs financing has significant positive effects on economic growth in Nigeria.

Etale, (2021), evaluated impact of small and medium enterprises development on economic growth in Nigeria. The study used aggregate asset base and aggregate capitalization of SMEs as the independent variables, while gross domestic product (proxy for economic growth) was adopted as the dependent variable. Secondary time series data were collected from the central bank of Nigeria statistical bulletin 2018. The findings show that the aggregate asset base and aggregate capitalization of SMEs have little or no significant effect on the GDP. it was also discovered that there exists a long-run relationship among the variables even though the overall regression model was not statistically significant at 5%. it was recommended amongst others that more efforts should be put in place by government to gather enough information on SMEs through the responsible. the

federal and /state ministries of industry in collaboration with SMEDAN should work out strategies for reporting the operations of SMEs in Nigeria, highlighting the asset base and aggregate capitalization of the sector and put in places policies to resuscitate the sector

Abeeb, & Mathew (2022), studied the formation, maintenance and expansion of small and medium scale enterprises in order to achieve economic development. Using time series data set from 1991 to 2020, this study utilized the Fully Modified Ordinary Least Squares (FMOLS) to analyze the impact of small and medium enterprises (SMEs) on the development of the Nigerian economy. The study found a long-run relationship between small and medium scale enterprise and economic development in Nigeria. Our findings also indicate a unidirectional relationship from gross domestic product to commercial bank loans to SMEs.

Adebisi and Omojola (2020) analyzed data from the Central Bank of Nigeria to determine the impact of SMEs on economic growth in Nigeria. They found that SMEs contribute significantly to economic growth through job creation, revenue generation, and wealth distribution. They also noted that the impact of SMEs on economic growth is influenced by factors such as access to finance, availability of infrastructure, and government policies. Overall, they concluded that SMEs play a crucial role in the economy and have the potential to drive growth if given the necessary support.

Odu and Zofo (2020) conducted a study to assess the impact of SMEs to economic growth in Nigeria, using data from the Central Bank of Nigeria and the National Bureau of Statistics. They found that SMEs contribute significantly to GDP, employment, and exports. They also found that the contribution of SMEs to economic growth is hampered by factors such as access to finance, corruption, and infrastructure. They recommended that the government should provide more support for SMEs, such as through the provision of credit facilities, infrastructure development, and business development services.

Bukar and Umar (2021) studied enhancing small and medium scale business opportunities in Nigeria in a COVID 19 ravaged era by using secondary data from

the Central Bank of Nigeria and the National Bureau of Statistics, they found that SMEs account for a significant portion of GDP and employment, and that they have a positive impact on poverty reduction. They also noted that access to finance, infrastructure, and markets are key challenges facing SMEs in Nigeria.

Okong and Egbobor's (2023) research focused on the impact of SMEs on economic development in Nigeria, with a specific focus on small-scale businesses. They used data from the National Bureau of Statistics to analyze the impact of SMEs on economic growth, employment, poverty reduction, and trade. They found that SMEs play a significant role in the Nigerian economy, but that there are several constraints that limit their potential. These include inadequate infrastructure, limited access to finance, and a lack of appropriate government policies. They recommended that the government should address these issues in order to maximize the benefit of SMEs for the Nigerian economy.

Godwin, and Ezekiel, (2019) carried out a study on small and medium scale enterprises and economic growth in Nigerian. The study assesses the SMEs contribution to the growth of Nigerian economy. The study period covered 2006-2017. The study used different statistical tools ranging from descriptive statistics, correlation analysis, Unit Root Test and Multiple Regressions. The study found that SMEs contribute insignificantly to the Nigerian economy in terms of SME productive output, SMEs sales turnover and an increase in gross domestic product growth rate. The study recommended that SMEs in Nigeria should operate their business by trying to increase their productive output as well as ensuring the increase in sales turnover to see if in the future their efforts will add to an increase in the gross domestic product in Nigeria.

3.1 METHODOLOGY

Type and Source of Data

The success of every econometric analysis ultimately depends on the availability of the appropriate data. The data for this study were extracted from the CBN Statistical Bulletin 2022. Other sources of secondary data used in this study

include seminar papers and journals. The data collected covered a period of 42 years spanning from 1980 to 2024.

Model Specification

This study employs the neoclassical growth model in examining the role of SMEs in economic growth. The standard version of this model seeks to explain the growth rate of aggregate output based on factors such as labor, capital, and technological progress (or the Solow residual). The model is written as follows:

$$Y_t = A_t f [K_t, L_t] \quad (1)$$

Where, in period t , Y_t represents output, K_t is capital input, and L_t is labor input. A_t denotes the technology level in the economy or its stock of knowledge and total factor productivity.

The modified version of the model adopted for this study takes the form:

$$GDP = f (CBLSME, TCPS, SMEO, LR) \quad (2)$$

Where:

GDP= Gross Domestic Product

CBLSME= commercial Bank Loan to small and medium scale enterprises

TCPS = Total Credit to Private Sector (represents other means of financing SMEs)

SMEO = small and medium enterprise output

LR = Lending rate.

The stochastic form of the model is as follows

$$GDP = B_0 + B_1CBLSME + B_2TCPS + B_3SMEO + B_4LR + \mu \quad (3)$$

The estimation technique for this study is Autoregressive distributed lag will be used to establish both the long-run and short run relationship among the variables. To ascertain the stationarity of the variables employed, the researchers will employ Philip-Peron Unit Root tests.

The short run and long run ARDL model for the study is defined as follow:

$$GDP_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \ln CBL S M E_{t-1} + \alpha_2 \sum_{i=1}^n \ln T C P S_{t-1} + \alpha_3 \sum_{i=1}^n \ln S M E O_{t-1} + \alpha_4 \sum_{i=1}^n \ln L R_{t-1} + \lambda E C T_{t-1} + \beta_1 \sum_{i=1}^n \ln c b l s m e_{t-1} + \beta_2 \sum_{i=1}^n \ln t c p s_{t-1} + \beta_3 \sum_{i=1}^n s m e o + \beta_4 \sum_{i=1}^n \ln l r_{t-1} + \quad (4)$$

The granger causality model is thus specified below:

$$\ln R G D P = B_0 + B_1 \ln C R + B_2 \ln L I + B_3 \ln F O + B_4 \ln F I + \mu \quad (5)$$

The short run and long run ARDL model for the study is defined as follow:

The granger causality model is thus specified below:

$$G D P_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \ln G D P_{t-1} + \alpha_2 \sum_{i=2}^n \ln C B L S M E_{t-2} + \alpha_3 \sum_{i=3}^n \ln T C P S_{t-3} + \alpha_4 \sum_{i=4}^n \ln S M E O_{t-4} + \sum_{i=5}^n \ln L R_{t-5} \quad (6)$$

$$C B L S M E_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \ln C B L S M E_{t-1} + \alpha_2 \sum_{i=2}^n \ln T C P S_{t-2} + \alpha_3 \sum_{i=3}^n \ln S M E O_{t-3} + \alpha_4 \sum_{i=4}^n \ln L R + \sum_{i=5}^n \ln G D P_{t-5} \quad (7)$$

$$T C P S_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \ln T C P S_{t-1} + \alpha_2 \sum_{i=2}^n \ln S M E O_{t-2} + \alpha_3 \sum_{i=3}^n \ln L R_{t-3} + \alpha_4 \sum_{i=4}^n \ln G D P_{t-4} + \sum_{i=5}^n \ln C B L S M E_{t-5} + \quad (8)$$

$$S M E O_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \ln S M E O_{t-1} + \alpha_2 \sum_{i=2}^n \ln L R_{t-2} + \alpha_3 \sum_{i=3}^n \ln G D P_{t-3} + \alpha_4 \sum_{i=4}^n \ln C B L S M E_{t-4} + \sum_{i=5}^n \ln T C P S_{t-5} + \quad (9)$$

$$L R_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \ln L R_{t-1} + \alpha_2 \sum_{i=2}^n \ln G D P_{t-2} + \alpha_3 \sum_{i=3}^n \ln C B L S M E_{t-3} + \alpha_4 \sum_{i=4}^n \ln T C P S_{t-4} + \sum_{i=5}^n \ln S M E O_{t-5} + \quad (10)$$

4.1 RESULTS AND DISCUSSION OF FINDINGS

4.2.1 Pre-Diagnostic Analysis

Table 4.1: Descriptive statistics

	GDP	CBL S M E	T C P S	S M E O	L R
Mean	196.1848	2.512250	0.447500	100.7608	47.07050
Median	101.0000	1.610000	4.325000	106.4650	33.95000
Maximum	546.6800	8.840000	18.18000	358.8100	633.5900
Minimum	27.75000	0.190000	65.86000	0.620000	9.140000
Std. Dev.	169.4005	2.565050	14.43531	100.7272	95.91298
Skewness	0.689709	1.168582	2.685489	0.888724	5.925627
Kurtosis	1.889585	3.155759	12.61239	2.994807	36.77905
Jarque-Bera	5.226357	9.144332	202.0757	5.265578	2135.794

Probability	0.073301	0.010336	0.000000	0.071878	0.000000
Sum	7847.390	100.4900	17.90000	4030.430	1882.820
Sum Sq. Dev.	1119164.	256.5997	8126.753	395692.5	358772.7
Observations	42	42	42	42	42

Source: authors computation using Eview 10

This Table examined the nature of the data distribution. From the results, the value of the highest mean is 196.1848 for gross domestic product (GDP) and the lowest mean value is 0.447500 for total credit to private sector (TCPS). The standard deviation is all of positive values which ranged from 2.565059 (SMEO) to 169.4005 (GDP). It is indicated that GDP and small and medium enterprise output (SMEO) have normal skewness of zero, while TCPS has a negative skewness value below the normal skewness value. The estimated values of kurtosis showed that CBLSME has normal kurtosis of 3 whereas TCPS and LR are having values greater than 3 indicating they are leptokurtic, while GDP and SMEO have lesser than 3 showing they are platokurtic. The Jarque-Bera measures the normality of the variables and it is revealed from the p-value of the Jarque-Bera that GDP and SMEO are normally distributed among the variables employed.

Unit root Test

The results of the Augmented Dickey fuller (ADF) unit root test are presented in table 2 below

Table. 2

VARIABLES	Stationarity at level		Stationarity at 1 st difference		I(d)
	Stat	5% C.V	Stat	5% C.V	
GDP	0.8710	-2.941145	-3.935607	-2.941145	I(1)
CBLSME	-1.543320	-2.938987	-7.326239	-2.941145	I(1)
TCPS	-7.326239	-2.941145			I(0)
SMEO	2.168911	-2.938987	-4.120453	-2.941145	I(1)
LR	-6.234028	-2.938987			I(0)

Source: author's computation using Eview 10

Tables 2 showed ADF unit root test. From these results, total credit to private sector (TCPS) and Lending rate attained their stationarity at levels $I(0)$, while all other variables like gross domestic growth (GDP), commercial bank loan to small and medium enterprise (CBLSME), and small and medium enterprise output (SMEO) attained their stationarity at first difference. Based on the results, ARDL technique would be suitable to examine long-run relationship.

ARDL Bound test

To test the long run relationship between agricultural sectors and economic growth in Nigeria, the bound test for cointegration technique proposed by Pearson, Shin & Smith (2001) was applied. Since there is a mixture of $I(0)$ and $I(1)$ variables as repressors, that is, the order of integration in the unit root result the Johanson cointegration is not applicable. This study applied the appropriate cointegration method which is the bounds test. Given the hypothesis:

$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ (no long run relationship). Against the alternative hypothesis.

$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq 0$ (a long run cointegration exists)

T-STAT	VALUE	K
F-STAT	7.754431	4
CRITICAL VALUE BOUNDS		
LEVEL OF SIGNIFICANCE	I(0) BOUND	I(1) BOUND
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: Authors computation using Eview 10

Table 3 exhibited that f-statistics is 7.754431 while the critical bound values at upper bound are 3.52, 4.01, 4.49, and 5.06 at 10%, 5%, 2.5% and 1% levels of significance. It is obvious that the f-statistic value (7.754431) is exceeds all the values in upper bound. As a result, the alternative hypothesis (H_1) would be accepted, i.e., there is long-run relationship in the analysis.

ARDL Estimation

Table 4

VARIABLE		SHORT-RUN		
	COEF	STANDARD ERROR	t-STAT	P-VALUE
GDP				
D(CBLSME)	9.623467	3.235235	2.974581	0.0061
D(TCPS)	-0.060888	0.400038	-0.152204	0.8802
D(SMEO)	0.210795	0.080107	2.631425	0.0139
D(LR)	0.070445	0.045498	1.548286	0.1332
CointEq(-1)	-0.723612	0.022989	-7.987058	0.0000

Source: author's computation using Eview 10

Table 4 showed ARDL short-run estimation. With regards to the short-run, the results indicated that commercial bank loan to SMEs (CBLSME) and small and medium enterprise output (SMEO) are positive (9.623467 and 0.210795) and statistically significant in impacting economic growth proxy by GDP in Nigeria with the p-value 0.0061 and 0.0139 which implies that a 1% increase in commercial bank loan to SMEs and SMEs output will lead to an increase in economic growth in Nigeria. The result also shows that Total credit to private sector (TCPS) is negative -0.060888 and statistically insignificant in promoting economic growth in Nigeria. Lending rate (LR) is also negative and statistically in promoting economic growth in Nigeria.

Table 5

VARIABLE		LONG-RUN		
	COEF	STANDARD ERROR	t-STAT	P-VALUE
GDP				
CBLSME	52.41218	11.89328	4.406875	0.0001
TCPS	-0.331612	2.204064	-0.150455	0.8815
SMEO	1.148052	0.374435	3.066093	0.0049
LR	-3.182927	2.645055	1.203355	0.0193
R-squared = 0.989271		Probability (F-stat) = 0.000000		

Source: Authors computation using Eview 10

Table 5 shows the ARDL long run result. The results indicates that, commercial bank loan to SMEs (CBLSME) and SMEO are positive 52.41218, 1.148052 and statistically significant in promoting economic growth in Nigeria during the period under review with the p-value 0.0001, 0.0049 which implies that an increase in commercial bank loan to SMEs and increase in SMEs output can lead to an increase

in economic growth in Nigeria, while Total credit to private sector (TCPS) is negative (-0.331612) and statistically insignificant in promoting economic growth in Nigeria during the period under review with p-value (0.8815). This implies that an increase in leading to private sector may lead to a decrease in economics growth in Nigeria. This is a negation to the apriory expectation. This negation may be due to corruption and administration bottleneck. The lon run result also indicates that Lending rate (LR) is negative (-3.182927) and statistically significant in impacting economic growth in Nigeria during the period under review. This shows an inverse relation between lending rate and economic growth. The implication of this inverse relationship is that higher lending rate make borrowing expensive , potentially limiting SMEs access to capital which in turn could slow economic growth. The error correction term showed a long-run causality between the GDP and MFL, MFD, MFI, INFR. Then, the cointegration equation (-0.723612) indicated that as the independent variables are reducing, the dependent variable tends to decrease and that the previous year error will be corrected at the current year with an adjustment speed of 72%.

Granger Causality Test

Table 5

Null Hypothesis:	Obs	F-Statistic	Prob.	Decision
CBLSME does not Granger Cause GDP	37	6.51765	0.0153	unidirectional
GDP does not Granger Cause CBLSME		0.51022	0.4799	
TCPS does not Granger Cause GDP	37	0.04164	0.0395	unidirectional
GDP does not Granger Cause TCPS		0.45844	0.5029	
SMEO does not Granger Cause GDP	37	0.01981	0.8889	No causality
GDP does not Granger Cause SMEO		0.00618	0.9378	
LR does not Granger Cause GDP	37	0.12053	0.0306	Bidirectional
GDP does not Granger Cause LR		2.30557	0.0382	

Source: **Authors computation, using Eview 10**

The granger causality test in table 5 shows that there is unidirectional relationship between MFL and GDP in Nigeria since the probability values are; CBLSME= 0.0153 and GDP = 0.4799 . The direction of causality is from CBLSME to GDP. Also, a

unidirectional relationship exist TCPS and GDP, their probability value: TCPS= 0.04164 and GDP=0.5029.the direction of causality is from TCPS to GDP. There was no causal relationship between SMEO and GDP since their probability values are greater than 0.05 percent. LR and GDP indicated a bidirectional relationship. This is because their probability values are less than the level of significance. The overall results showed that Microfinance banks granger cause economic growth in Nigeria within the period under study.

The Breusch-Pagan-Godfrey test for Heteroskedasticity

H_0 : Constant variance H_1 : Variance not constant

Table 6. Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.178107	Prob. F(5,19)	0.9675
Obs*R-squared	1.119292	Prob. Chi-Square(5)	0.9524

Source : authors computation

Results in Table 6, indicate the absence of Heteroskedasticity since the probabilities of both F-statistic and R-squared are greater than 0.05. Thus, the errors are homoscedastic that is, devoid of Heteroskedasticity.

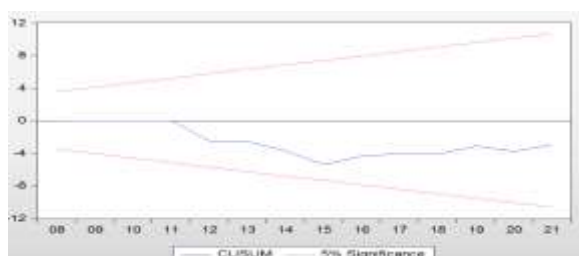
Cusum Test for Stability

H_0 : The model is punctually stable H_1 : The model is punctually unstable

The rule is that, the curve of the Cusum in blue print does not exceed the confidence intervals in the red corridors.

Stability Diagnostic

The CUSUM test and CUSUM square test are were performed with the results



displayed in the figure below:

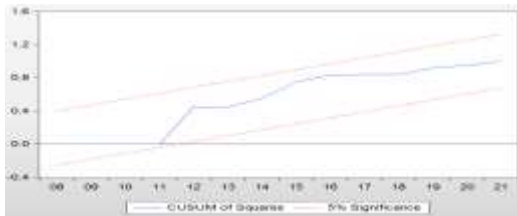


Figure 1 and figure 2 plots the results for CUSUM and CUSUMSQ tests. The results indicate the absence of any instability of the coefficients because the plots of the CUSUM and CUSUMSQ statistics fall inside the critical bands of the 5 per cent confidence intervals of parameter stability. Therefore, there exists stability in the coefficients over the sample period.

From Figure 1 and Figure 2, it was concluded that the model is stable at 5% level of significance. Therefore, the model is said to be stable.

5.1 CONCLUSION AND RECOMMENDATIONS

The study examines the impact of SMEs on economic growth in Nigeria. Finding of the study indicates that indicated that commercial bank loan to SMEs (CBL SME) and small and medium enterprise output (SMEO) exhibited positive significant relationship with economic growth (GDP) in Nigeria, while Total credit to private sector (TCPS) is negative and statistically in promoting Nigerian economic growth. Lending rate (LR) is negative and statistically insignificant in promoting economic growth in Nigeria. The negative sign indicates that an increase in ending rate will lead to a decrease in economic growth in Nigeria.

It is therefore recommended that

- i. Government should make policy that will mandate Commercial banks to lend a certain percentage of their total credit to SMEs sub-sector so as to boost the SMEs capacity since finding of the study indicates that Commercial bank loan to SMEs impact positively on economic growth in Nigeria during the period under review

- ii. In order to increase the contribution of SMEs to economic growth, government should make and implement policies that will reduce interest on loans to the private sectors and the SMEs since findings of the study indicates that Lending rate have insignificant impact on economic growth in Nigeria during the period under review.
- iii. Finding of the study also indicates that an inverse relationship exist between lending rate and economic growth in Nigeria and therefore there is need for government to reduce lending to encourage SMEs to borrow money and invest in order to increase their output and consequently increase economic growth.

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