THE ROLE OF SMALL AND MEDIUM SCALE ENTERPRISES IN UNEMPLOYMENT REDUCTION IN NIGERIA

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ABSTRACT

This study investigated small and medium-sized businesses' (SMEs) role in reducing unemployment in Nigeria. Secondary time series data was obtained for the study. Estimation methods used in the study's analysis includes descriptive statistics correlation analysis, ARDL co-integration, parsimonious error correction model and other post estimation tests. Discoveries from the study revealed that SMEs contribution to export pose positive insignificant impact on unemployment reduction in Nigeria in the long run and a negative insignificant impact on industrial growth in short run; Deposit Money bank (DMB) credit to SMEs pose positive significant impact on industrial growth in the long-run and a positive significant impact on industrial growth in the short run; SMEs contribution to gross domestic product pose positive significant impact on industrial growth in the long run and a negative insignificant impact on industrial growth in the short run. According to the study, the government should foster an environment that is favourable to SMEs, DMBs ought to give the SMEs loans with reasonable terms, and the government should also offer incentives to SMEs.

Keywords: Deposit money banks, Small and medium scale enterprises, unemployment, industrial growth

INTRODUCTION

Unemployment of both educated and uneducated individuals in Nigeria has become a major issue in recent times, with 60-65% of graduates of tertiary institutions facing long periods of unemployment and underemployment. Federal Ministry of Labor and Productivity Report (2008) explained that Nigeria has the highest level of youth unemployment, with 1.6 million graduates being produced every year, but 3.8 million youths who are determined to possess no formal education or have finished the primary or secondary education and dropped out from tertiary institutions also join the queue of unengaged laborers annually in the Nigerian labour market. This has reduced productive Nigerian youths to small scale businesses in their bid to attain daily bread, but the experience of low economic status and standard of living and poverty rate have been reduced with this move.

Small and medium scale businesses (SMEs) are important in tracking socioeconomic issues such as unemployment, poverty and unimpressive economic growth (Ogunjimi, 2021; Abubakar & Yahaya, 2013). Statistics as at 2010 revealed that the total number of persons engaged in the SMEs sector is over 32 million, which buttresses the significance of the sector and its capacity to captivate economic issues such as kidnapping, child trafficking, smuggling and robbery. However, despite the significance and penetration of SMEs, poverty rate as well as unemployment rate has been on the increase. This has led numerous government in Nigeria to occasion several polices aimed at encouraging SMEs in Nigeria and by implication reduce unemployment and poverty rate in the country. However, the failure of these policies have over time increased the doubts of citizens as to the readiness and sincerity of the government towards implementing the several policies aimed at developing the SME sector (Abubakar & Yahaya, 2013).

Before and after the worldwide pandemic, Nigeria as a nation experienced a high degree of unemployment, poverty, and economic distress (Zhang, Sindakis, Dhaulta & Asongu, 2023). SMEs have the potential to promote social and economic development, but they are hindered by macroeconomic issues, making it difficult to reduce unemployment and poverty. They also have other advantages such as improving economic activities, providing infrastructural facilities, and increasing standard of living.

Nigeria's labour market is rife with unemployment and underemployment, despite numerous programmes implemented by the government and other economic resources. The SMEs sector has failed to reduce unemployment and poverty, in spite of efforts to increase exports and improve the living standard of Nigerians. (Akinmulegun, 2014). The development and expansion of the economy have not been aided by SMEs, denying the country of the values it needs (Onugu, 2015). The Nigerian government has made efforts to boost SME performance through financial provisions and supportive policies, but these efforts have not provided a positive impact on Nigeria's ability to create employments. It is against this backdrops that this researched intends to inspect the small and medium scale enterprises' role in unemployment reduction in Nigeria over the period 2002-2020 by specifically examining the impact of their contributions to export and gross domestic product as well as the impact of commercial bank credit to small and medium scale enterprises on unemployment reduction.

2 LITERATURE REVIEW

SMEs in Nigeria is defined as any business with a labour force size of 11 to 100 or an overall value less than N50 million, minus the cost of the land but including working capital (Adigwe, 2012). The United Nations Industrial Development Organisation (UNIDO) established fifty definitions of small-scale businesses in 75 different nations based on factors such as installed capacity utilisation, production, employment, capital, type of country, or other criteria. According to USAID (2004), enterprises are smaller, unofficial firms that use local labour and other unpaid employees. Medium-sized businesses have between 21 and 50 employees, whereas small businesses, which operate in the formal sector, have between 5 and 20 employees. Since its independence, Nigeria has held a number of seminars, studies, and workshops to help SMEs get started and remain viable. With the introduction of the structural adjustment programme (SAP) in 1986, focus was switched away from large-scale industries and towards small and mediumsized

businesses, which have a significant potential for creating domestic links for efficient growth and long-term industrial development. The organised private sector (OPS) was subsequently given more responsibility and given greater learning to lead earlier industrialisation programmes.

The word "unemployment" describes a state of not having a job or employment. It is a significant concern for the Nigerian economy since the majority of urban, semi-skilled, and unskilled labourers find refuge in the unorganised sector (Lawal, Usman, & Muhammad, 2023). Due to government initiatives to address the issue through programs to reduce poverty, unemployment rates significantly decreased in 2003, falling to 2.3%.

According to Olubukola (2013), the country's unemployment rate has risen quickly, raising serious concerns since employable individuals and school graduates are having trouble finding work or are being let go from their jobs for a variety of reasons. According to Akin (2013), there are several obstacles to long-term youth employment, such as a lack of accountability and transparency in governance, social, political, and cultural concerns, high costs of governance, a lack of resources to promote work possibilities, and weak economic, social, and political conditions, jobless economic growth, etc.,

In 2022, the unemployment rate in Nigeria is expected to reach 33%. This percentage was anticipated to be 32.5 percent last year. Chronological data show that unemployment in Nigeria has been rising consistently over the past few years. In contrast to the year before, 2020, the unemployment rate stayed almost the same in 2021, at 9.79 percent. Nevertheless, the unemployment rate in Nigeria peaked in 2021 at 9.79 percent, and as of the second quarter of 2020, it was 27.1%, meaning there were around 21,764,614 million Nigerians' job seekers.

The total rate of underemployment and unemployment in Nigeria was around 28.6% and 55.7% for the second quarter of 2020. This information may be found in a report on the state of the labour market that the National Bureau of Statistics has produced. The percentage of unemployed people in Nigeria climbed by 4% points between the third quarter of 2018 and the second quarter of 2020, reaching 23.1% in Q3 2018.

2.2 Theoretical Review

This study's theoretical underpinnings include Supply Leading Hypothesis, Financial Repression Hypothesis and Endogenous Growth Theory.

Supply Leading Hypothesis was used in establishing the association between finance and economic growth by Schumpeter in 1911. According to Schumpeter's supply-leading notion, financial sector expansion spurs growth in the real sector via savings accumulation, project appraisal, risk management, management control, and financial institutions. This may encourage technology advancements and boost the real estate market. The supply-leading theory submit that economic expansion does not provide a positive feedback loop to finance. Mckinnon (1973) and Shaw (1973) argue that a well-developed financial sector minimizes transaction and monitoring costs and asymmetric information, thus improving financial intermediation. The supply-leading hypothesis presumes that the economy responds to growth in the real sector facilitated by financial development.

The Financial Repression Proposition states that the economy should be regulated through the use of high reserve requirements, as well as regulated interest rates, quantitative limitations on credit distribution. However, initial censure arose against the theory as McKinnon (1973) and Shaw (1973) argued that financial suppression interacts with price inflation and restricts the supply of bank lending. Large reserve demands limit bank lending as fixed credit programs skew credit distribution. This results in investment suffering not just in terms of amount but also in terms of quality, since lenders do not allocate available money in accordance with the marginal productivity of investment, resulting in stagnation rather than progress.

The Endogenous Growth idea put out by Romer (1986) and Lucas (1988) assumes that the determinants of growth are endogenous in nature. Froyen (2009) argues that an increase in capital investment spurs economic growth, while technological improvement is an endogenous factor. Arrow (1962) and Rebelo (1991) assumed that the endogenous nature of the growth process is revealed in the connection between investment and technology diffusion. This model assumes that output increases with an increase in capital, labour and technology, with the assumption that these factors can exhibit either increasing or constant returns to scale.

2.3 Empirical Review

Edoko, Agbasi and Ezeanolue (2018) examines the effect of SMEs on Nigeria economic growth using an ordinary least square (OLS) economic regression model. It was found that SMEs, government expenditure to SMEs, employment generations, commercial bank credits, and lending rates to SMEs positively impact economic growth in Nigeria. Although all the explanatory factors have a major impact on economic growth, corruption has a detrimental effect on it.

Al-Tamini and Mohammad (2019) examined the SMEs' role in lessening Jordan joblessness crunch. The qualitative and quantitative method was used in the study to gather primary data and estimate the impact of SMEs on reducing unemployment in Jordan. The findings suggest that SMEs are crucial to the development of the economy, providing the majority of new jobs opportunities and producing much of the creativity that leads to economic progress.

Adebayo, Clement and Clement (2020) examined how small and medium-sized enterprises have helped Nigeria's economy grow. Secondary data sources from the World Bank Group, Index Mundi, and the Bulletin of Statistics from the Central Bank of Nigeria were utilised. Findings of this study revealed that small and SMEs, account for 72% of the variation in employment growth, are clearly correlated with the creation of jobs. Small and medium-sized enterprises have a positive influence on the decline in poverty, and they account for around 60% of the variation in the pace of decline.

Using yearly time-series data from World Development Indicators, Ogunjimi (2021) assessed how well SMEs were doing in addressing unemployment in Nigeria. The employment that is created in the SMEs subsector has a large beneficial influence on unemployment, but not enough to completely resolve the unemployment problem, according to the results.

Ilori and Ayedun (2022) explores how entrepreneurship training and the self-employment skills needed by graduates might lower the unemployment rate in Nigeria. The study used a snowball/chain referral approach to conduct a survey of self-employed Nigerian graduates from certain higher education institutions.

According to the research, there is a strong link between self-employment abilities and entrepreneurship education. The efficacy of entrepreneurship education, entrepreneurial skills, and its delivery at our institutions may all be improved, on average, reduce the unemployment rate for graduates.

Lawal, Usman and Mohammed (2023) looks at how the informal sector helped Katsina state's three senatorial zones reduce unemployment. The research employed primary data that was gathered via structured questionnaires that were distributed in Katsina, Daura, and Malumfashi. To examine the data gathered for the research, descriptive and basic percentage methods were used. The outcomes indicated a substantial positive association between the informal economy and unemployment.

3 METHODOLOGY

This study made use of time series data taken from the Central Bank of Nigeria's statistics report. The choice of the research era is distinctive in that it included the pandemic-tainted time period. The study modified the model of Edoko, Agbasi, and Ezeanolue (2018), which looked at how small and mediumsized businesses affect job creation in Nigeria. The authors' model was modified due to its uniqueness to the research era, a time when many citizens lost their white collar jobs and had to rely on their own initiative for survival. Although the Autoregressive Distributed Lag model (ARDL) developed by Pesaran Shin (1997) and Pesaran, Shin, and Smith (2001) was used in this work, parsimonious error correction model was used to keep track of the short run effect.

The model's variables' short-run and long-run relationships will be simultaneously estimated. The model is described below:

Functional Form

$IG = (SMECE, CSME, SMEGDP) -$ 3.1 Linear Form

$IG = \alpha 0 + \alpha 1 SMECE + \alpha 2 SCME + \alpha 3 SMEGDP + U - - - - - - - - - - - - - - - -$ 3.2 Where:

IG = Industrial Growth
SMECE = Small and Medium Scale Enterprises Contribution to Export
CSME = Commercial Bank Credit to SMEs
SMEGDP = SMEs Contribution to Gross Domestic Product U= Stochastic Error Term α0, α1, α2, α3= parameter estimates corresponding to constants term.

4. Result and Discussion

Table 1. Descriptive Statistics

	IG	SMECE	CSME	SMEGDP
Mean	63247.42	176.2016	12410.41	5279.412
Median	62980.40	153.5500	10660.07	4527.450
Maximum	121253.2	397.3600	27345.48	9653.980
Minimum	11332.25	66.86000	930.4900	1127.230

Std. Dev.	36766.95	94.83016	9201.333	3294.393
Skewness	0.016950	0.742222	0.157491	0.106279
Kurtosis	1.552678	2.512739	1.620077	1.291810
Jarque-Bera	1.659247	1.932455	1.586025	2.345783
Probability	0.436214	0.380516	0.452480	0.309471
Sum	1201701.	3347.830	235797.7	100308.8
Sum Sq. Dev.	2.4323410	161869.7	1.526709	1.953408
Observations	19	19	19	19

Source: *Authors Computation, (2022)*

Table 1 provides descriptive statistics of observation-based variables that were gathered. The average industrial growth for the period under study is 63247.42 million naira, with minimum and maximum values of 11332.25 million naira and 121253.2 million naira respectively. Skewness statistics reported in table 4.1 are 0.016950, 0.742222, 0.157491 and 0.106279 for industrial growth, small and medium scale enterprises contribution to export, commercial bank credit to SMEs and SMEs contribution to gross domestic product respectively.

Kurtosis statistics are reported at 1.552678, 2.512739, 1.620077 and 1.291810 for industrial growth, SMEs contribution to export, commercial bank credit to SMEs, and small and SMEs contribution to gross domestic product respectively. Jarque-bera statistics are reported at 1.6592 for industrial growth, 1.9324 for small and medium scale enterprises contribution to export, 1.5860 for commercial bank credit to SMEs, and 2.3457 for SMEs contribution to GDP. All variables are normally distributed.

Table 2. Correlation Matrix

	IG	SMECE	CSME	SMEGDP
IG	1.000000			
SMECE	0.901420	1.000000		
CSME	0.984656	0.885807	1.000000	
SMEGDP	0.985516	0.863370	0.969700	1.000000

Source: *Authors' Computation, (2022)*

Correlation estimation results showed that industrial growth has a positive correlation with other independent variables such as export, commercial bank credit, and gross domestic product. Correlation estimates are positioned at 0.901420 for IG and SMECE, 0.984656 for IG and CSME, 0.985516 for IG and SMEGDP, 0.885807 for SMECE and CSME, 0.863370 for SMECE and SMEGDP, and 0.969700 for CSME and SMEGDP respectively.

Table 3. Summary of Unit Root Test Result

	At Level			At First Difference			
Variables	**ADF Statistics**	**1% critical value**	**5% critical value**	**ADF statistics**	**% critical value**	**5% critical value**	**Order of integration**
IG	0.646239	-3.857386	-3.040391	-3.982552	-3.959148	-3.081002	I(I)
SMECE	1.027219	-3.920350	-3.065585	-6.003208	-3.886751	-3.052169	I(1)
CSME	-0.293694	-3.857386	-3.040391	-3.901878	-3.886751	-3.052169	I(1)
SMEGDP	-4.366334	-3.920350	-3.065585	-2.555324	-3.920350	-3.065585	I(0)

Source: *Authors' Computation, (2022)*

Table 3's unit root test results showed crucial values at 1% and 5% significant levels with Augmented Dickey-Fuller Fuller (ADF) test data. The outcome shows that all variables are not stationary at level, but the majority of them become stationary after the first difference, suggesting that the difference is stationary and integrated of order one I(1). All the variables included in the study were shown to only hold onto novel shocks for a brief length of time before letting go. The findings demonstrated that the presence of a unit root prevents an equilibrium connection between the variables in the short run, but that a long-run equilibrium relationship is likely if the variables co-integrate. The results of a Johansen co-integration test that was used to determine if the set of variables co-integrate are shown in the next section.

Table 4. Results of the Johansen Co-integration Test

Series: IG SMECE CSME SMEGDP

Hypothesized No of CE(s)	**Trace Statistics**	**5 Percent Critical Value**	**Probability**	**Eigen Value**
None *	82.88047	47.85613	0.0000	0.909622
At most 1 *	42.01661	29.79707	0.0012	0.767014
At most 2 *	17.25141	15.49471	0.0269	0.624914
At most 3	0.581221	3.841466	0.4458	0.033612

** indicates that the hypothesis was rejected at a 1% level of significance. One co-integrating equation is shown by the trace test at the 0.05 level.*

Source: *Authors computation, (2022)*

The results of the co-integration test are summarised in table 4 above. According to trace statistics, there is substantial support for three co-integration equations at the 5% level of significance, rejecting the null hypothesis that there is no co-integration. This shows that while there is not an equilibrium link between proxies for small and medium-sized businesses in the short run, there is

one in the future. The co-integration regression result shown in Table 5 below indicates a long-term association that has been noticed.

Table 5. Co-integration Regression Result

Series:

Variables	Coefficient	Std. Error	T-statistics	Probability
C	5891.111	2498.642	2.357725	0.0324
SMECE	48.57839	22.93960	2.117666	0.0513
CSME	1.534012	0.488296	3.141559	0.0067
SMEGDP	5.636805	1.254309	4.493953	0.0004

IG SMECE CSME SMEGDP
R^2=0.9887, *Adjusted* R^2=0.98864, Durbin-Watson Stat=0.7697
Source: *Authors' Computation, (2022)*

According to the estimation results shown in table 5, small and medium scale enterprises contribution to export pose positive insignificant impact on industrial growth, with reported coefficient estimate of 48.57839(p=0.0513>0.05), commercial bank credit to SMEs pose significant long-run positive influence on industrial growth, with 1.534012(p=0.0067<0.05) reported estimate. Results revealed that on the long-run SMEs contribution to gross domestic product pose significant positive impact on industrial growth, with 5.636805(p=0.0004<0.05) reported coefficient estimate. The reported R-square statistic was 0.9886, indicating that, when other factors are held constant, the contributions of SMEs to export, commercial bank credit to SMEs, and the contribution of SMEs to the gross domestic product can collectively account for about 99% of the systematic variation in industrial growth.

Error Correction Model (ECM)

Table 6 Parsimonious ECM Result Series:

Variables	**Coefficient**	**Std. Error**	**t-statistics**	**Probability**
D(IG(-2))	0.019310	0.235925	0.081846	0.0399
D(IG(-3))	1.483824	0.440958	3.365002	0.0436
D(SMECE)	23.01683	9.868941	2.332250	0.0019
D(SMECE(-1))	21.77124	7.422502	2.933141	0.0608
D(CSME)	0.496301	0.408516	-1.214887	0.0113
D(CSME(-1))	-0.871665	0.473508	-1.840868	0.0629

D(CSME(-2))	-0.970359	0.370349	-2.620125	0.0790
D(SMEGDP)	-0.906745	1.871434	-0.484519	0.0612
D(SMEGDP(-1))	4.213889	2.344318	1.797490	0.1701
D(SMEGDP(-2))	-4.520269	2.717671	-1.663288	0.0948
ECT	0.563071	0.162145	3.472649	0.0403
C	80.38864	1699.756	0.047294	0.0653

IG SMECE CSME SMEGDP

R-square=0.9590, *Adjusted R-square*=0.8088, Durbin-Watson=1.4032

According to the results of the parsimonious error correction model estimation shown in Table 6, on the short-run, SMEs' export contributions have a positive significant impact on industrial growth, with a coefficient estimate of 23.01683 (p=0.00190.05) and commercial bank credit to SMEs having a coefficient estimate of 0.496301 (p=0.01130.05). A stated coefficient estimate of -0.906745 (p=0.0812>0.05) of the effect of SMEs' contributions to GDP on financial deepening was also demonstrated by the results. With a probability value of 0.0653 and a coefficient of 0.80, the one period delayed error correction term provided in Table 6 indicates that about 80% of the short-run inconsistencies are yearly considerably adjusted and integrated into the long-run dynamic. R-square statistics of 0.8088 reported in table 6 revealed that SMEs' contribution to export, commercial bank credit to SMEs, and small and SMESs' contribution to gross domestic product can explain approximately 81% of the systematic variation in industrial growth.

Table 4.7 Post Estimation Result

Linearity Test		
Statistics	***Values***	***Probability***
T-statistic	3.212200	0.0063
F-statistic	10.31823	0.0063
Likelihood Ratio	10.49121	0.0012
Normality Test		
Statistics		***Probability***
Jarque-Bera Stat		0.7505
Serial Correlation LM Test		
Statistics	***Values***	***Probability***
F-statistic	2.5402	0.1172
Heteroscedasticity Test		
Statistics	***Values***	***Probability***
F-statistic	1.2613	0.3231

Source: *Authors' Computation, (2022)*

0.5739

The results of the Ramsey test are shown in Table 4.7. The likelihood ratio was 10.4912 (p=0.00120.05), the t-statistics were 3.2120 (p=0.00630.05), and the f-statistics were 10.3182 (p=0.00630.05), indicating that there is not enough information to rule out the null hypothesis that the model is correctly specified. The computed models' error term has a Jarque-Bera statistic value of 0.5739 (p= 0.75050.05). The outcome demonstrated that, given the probability value, there is not enough support to reject the null that the error term of the estimated model is normally distributed, so verifying that the error term is normally distributed.

The results of the Breusch-Godfrey serial correlation LM test are shown in table 7, with the probability and f-statistics values being 2.5402 and 0.1172, respectively. The statistics revealed that there is insufficient evidence to disprove the null hypothesis that there is no serial connection between the consecutive error term values of the estimated models. Consequently, serial autocorrelation is not an issue in the estimated models. There is no issue with heteroscedasticity in the error term of the calculated models, according to the f-statistics and probability values of 1.2613 and 0.3231.

Conclusion and Recommendations

The study found that SMEs' contribution to export, commercial bank credit, gross domestic product have a positive impact on industrial growth in Nigeria in the long-run and a negative insignificant impact on industrial growth in the short-run. These findings suggest that SMEs have a positive relationship with unemployment reduction in Nigeria. These suggestions become essential in light of the study's conclusions: the government should create an enabling business environment for small and medium-scale businesses to improve productivity and export. Commercial banks should provide loans with fair conditions, which will enhance the performance of the businesses and attenuate unemployment in Nigeria. Additionally, government should offer incentives to encourage performance of the sector and its contribution to economic output.

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