MICRO, SMALL AND MEDIUM ENTERPRISES FINANCING AND POVERTY REDUCTION IN NIGERIA: EMPIRICAL EVIDENCE (1987-2016)

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ABSTRACT

Poverty in Nigeria has become a menace in spite of several government economic policies and programmes implemented for decades. This study was undertaken to analyses the impact of SMEs financing on poverty reduction in Nigeria during a period of 1987-2016. The study utilized secondary sources of data obtained from central Bank of Nigeria statistical bulletin and World Bank indicators. Fully Modified OLS co-integrating regression (FMOLS) was applied to access the impact of MSMEs financing on poverty reduction. The result revealed that there is positive relationship between MSMEs financing, inflation and unemployment, on poverty reduction strategy. On the basis of the finding, the study concludes that MSMEs financing has a capacity to reduce poverty in Nigeria. The study therefore, recommends that attention should be given to MSMEs financing by the government and other financial institutions to enable the sector reduce poverty. The study also recommends that the economy should be diversifying in order to create more jobs.
Key words: MSMEs, Financing, Poverty, Reduction, Nigeria.

INTRODUCTION

One of the major concerns of leaders and development practitioners in developing mixed-economies in recent years has been not only the promotion of economic growth but also the provision of a formidable institutional framework for establishing and sustaining viable Micro, Small and Medium Enterprises (MSMEs) as a strategy for sustainable poverty reduction among people. Nigerian economy just like any economy in the sub-region is replete with large number of small businesses that are operating in both rural and urban areas. An important feature of MSME Sector is its ability to create jobs (Abdullahi and Zakari, 2013).

Vibrant MSMEs are considered crucial in solving multivariate socio-economic problems in developing economies including unemployment, low growth and poverty. Since productive employment is the key to achieving sustainable reduction in poverty and the fact that MSMEs have potential of creating mass employment, it is imperative that a large employment creation potential any government efforts to reduce poverty could achieve more success if they are given the required attention they deserve. The total number of persons employed by the Micro, Small and Medium enterprises (MSME) sector in Nigeria as at December 2010 stood at 32,414,884 (NBS, 2012).

Micro, Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. This situation has been of great concern to the government, citizenry, operators, practitioners and the organized private sector groups.

Evidently, small and medium scale enterprises are mostly characterized by inadequate capital base and low managerial and technical skills mainly caused by their poverty situation and inaccessibility to adequate investment capital. In addition, most of them are informal because they lack the wherewithal and requisite tools of integrating with formal structure.

In addition, the incessant epileptic power supply across the country and inadequate infrastructure such as roads, storage facilities, telecommunication, access to market etc pose great challenges to these nascent enterprises. Closely related to the problem of inadequate power supply and social infrastructure is the problem of some policies designed by government which are inimical to the growth of small businesses. Based on these considerations, this study attempts to investigate the relationship between MSMEs financing and Poverty reduction in Nigeria.

LITERATURE REVIEW

World Bank (1990) defined poverty as the inability of individual or section of a society to attain a specified minimum standard of living. Encyclopedia Americana (1998) provides two perspectives of what constitute poverty i.e. “Moneylessness” (an insufficiency of cash and chronic inadequacy of resources to satisfy basic human needs and “Powerlessness” (those lacking opportunities and choices open to them and whose lives seems to be governed by forces outside their control). Poverty also affects economic performance at the national level through several socio-economic underdevelopments either as a result of poor endowment of critical resources, low productivity or a stagnant national economic performance.

According to Mensah (2004) MSMEs are dominated by one person, with the owner/manager taking all major decisions. The entrepreneur may possess limited formal education, access to and use of new technology, market information, and access to credit from the banking sector is severely limited; they have weak management skills, thus inhibiting the development of a strategic plan for sustainable growth; they experience extreme working capital volatility; and lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities. According to CBN small enterprises are those with total asset base (excluding real estate) of less than N1 million and employing less than 50 full time workers. While medium enterprises are those with total asset base (excluding real estate) of less than N50 million and employing less than 100 full time workers (Nigeria Business Info, 2002).

Ayyagari (2007) asserted that the promotion of the SME sector is a core element to foster employment, economic growth, and poverty alleviation. Beck, Demirguc-Kunt, & Levine (2005) found a large SME contribution to employment, and Liedholm and Mead (1999) as well as World Bank (2004) stated that this contribution has been increasing particularly in developing countries. Furthermore, Stein, Goland and Schiff (2010) highlighted that SMEs in developing countries represent approximately 45 percent of employment and approximately 33 percent of GDP.

Aremu and Adeyemi (2011) studied SMEs as a survival strategy for employment generation in Nigeria using content analysis. The study found that the SMEs are the main driving force behind job creation, poverty reduction, wealth creation, income distribution and income disparities.

Edom and Inah (2015) explored SMEs financing and poverty reduction in Nigeria using regression analysis. The model specified poverty rate as dependent variable while SMEs financing, inflation rate, exchange rate and unemployment rate as independent variables. The empirical result of OLS shows that there is significant relationship between SMEs financing and poverty reduction in Nigeria.

SMEs in Nigeria are characterized by high labour intensity, ease of entry and exit, small start-up and operating capital, low labour skill requirements and they trigger entrepreneurial and indigenous technological development (Mukras, 2003). These employment creation capacities of SMEs have also created two strands of argument among scholars in this area. The first strand of argument is Owualah(1999) who is of the view that small firms are more labour intensive in comparison to large ones. Thus, in the light of this perception these scholars are of the view that policies to promote the growth of SMEs should be an important package in any measures to alleviate poverty especially in a developing mixed economy.

In attempt to evaluate the challenges and prospects of small and medium enterprises in Nigeria, Osotimehin, Charles, Babatunde, & Olajide (2012) used non-parametric simple percentages and Z-test statistical technique for sample of 100 SMEs randomly selected from 10 local governments of Lagos state south Western Nigeria to examine the challenges and prospects of micro and small scale enterprises. The findings showed that lack of finance and management skills affects the efficient performance of SMEs in Nigeria. Therefore, the authors recommend that both government and non-governmental organization should always organize seminars and educate them on how to plan, organize, direct as well as control their business. Similarly, Oluchukwu (2012) used simple percentage and chi-square for the sample of 150 questionnaires, out of which 120 were retrieved and analyzed to investigate the impact of small and medium enterprises in employment generation for Lagos state Nigeria. Findings from the study revealed that SMEs promotes sustainable development in Lagos state. Thus, the study recommend that government should encourage the youth to develop entrepreneurial skills so as to be self employed.

According to the proponents of big firms (Kayanula, and Quartey, 2000) large firms are better at creating more and better jobs as their large size promotes efficiency and economies of scale. The belief here is that policies that are only aimed at promoting SMEs without given more attention to large firms may be misguided (Sanda, Dogondaji & Abdullahi, 2006). The scholars who support given special treatment to SMEs came up with counter arguments as to why policies should target the establishment of SMEs. In comparison to large firms, they argue that SMEs are more widely scattered covering many rural and semi-urban areas alike. This enables them to contribute meaningfully in those areas in many ways including employment creation, promoting local resource utilization and transformation of indigenous technology amongst others.

Kadiri (2012) used binomial logistic regression for the sample of 650 SMEs consisting of 180 agro-allied and 470 non-agro allied SMEs in Nigeria to examine the contribution of SMEs in employment generation. The author revealed that SMEs were unable to generate much employment because of their in ability to secure adequate finances. Also, the study revealed that most of the SMEs sampled relied on informal sources of finance to start their business.

The theoretical framework for the study is based on the new classical theory of employment and output which suggest that the aggregate output of a country at any given time depends on the capital and labour employed (Dwivedi, 2009). According to the classical theory, the magnitude of national income and employment depend on the aggregate production function and the supply and demand for labour. The small and medium scale enterprises as a labour intensive with little capital requirement, generate more employment and output which significantly reduce poverty and accelerated economic growth.

RESEARCH METHODOLOGY

Data Requirement and Sources

A time series data was obtained secondarily from World Bank Indicators and Central Bank of Nigeria statistical Bulletin for a period of 30 years (1987-2016). The choice of the 30 years is to adhere to central limit theorem that time sample size must not be less than thirty for normality purpose.

Model Specification

In analyzing the relationship between MSMEs financing and poverty reduction in Nigeria, the following model is specified.

$$\mathbf{POVRT_t = \beta_0 + \beta_1\, MSMEF_t + \beta_2\, INFRT_t + \beta_3 UNERT_t + U_t} \text{ ---------}\mathbf{(1)}$$

Where;

POVRT = Poverty Rate

MSMEF = Micro, Small and Medium

financing

INFRT = Inflation Rate
UNERT = Unemployment Rate
Ut = Error term
β_0 = Constant Parameter
β_1, β_2 and β_3 = co efficient parameters

The model shows that poverty rate is a function of MSMEs financing, inflation rate and unemployment rate.

DATA ANALYSIS AND PRESENTATION OF RESULTS

The study utilized both descriptive and inferential statistics in analyzing the relationship between MSMEs financing and poverty reduction in Nigeria.

Descriptive Analysis

Table 1: Descriptive Summary of Variables

Varia	Obs	Mea	Min	Max	Std	Skew	Kurt	Jargue-	[illegible]
POVT	30	55.533	53.00	63.000	3.4890	1.5485	3.9633	13.035	0.01
MSMEF	30	10.1086	9.279	11.095	0.627	0.505	1.894	2.703	0.42
INFR	30	20.533	5.400	72.000	19.082	1.485	3.740	11.734	0.02
UNET	30	9.9066	6.700	13.000	1.503	-0.527	3.213	1.718	0.24

Source: Authors' Computation (2017) using E-views version 9.0.

This analysis consists of time series data set for 30 years from 1987-2016. The descriptive statistic displayed in table shows that average poverty rate round 55.54 percent during the period with minimum and maximum rate of 53.2000 and 63.5000 respectively. MSMEs financing shows the means of 10.11086 with minimum and maximum figure of 9.2779 and 11.4095. The mean value of inflation rate is 20.5333 with minimum of 5.4000 and maximum of 72.8000. The unemployment rate stood on average at 9.9% with minimum and maximum rate of 6.7000 and 13.300 respectively.

The results show that the entire variables are positively skewed except unemployment rate. The Jargue –Bera is a test for normality of the distribution. If the probability value of the Jargue-Bera test is significant, then the distribution is normally. Joint hypotheses of skeweness and kurtosis are tested by Jargue-Bera test. The JB test suggests that MSMEF and UNERT are not normally distributed.

Inferential Analysis

Having presented descriptive results on poverty rate, MSMEs financing, inflation rate and unemployment rate, next is inferential results

Unit Root Test

Both Augmented Dickey Fuller and Phillips Perron were ran as preliminary tests. First we have to check for the time series properties of the data so as to avoid spurious result that could emanate from non-stationary of the data. Virtually all macroeconomic time series variables a researcher uses are non-stationary or have unit root.

Table 2: Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) Unit Root Test

Variables	**ADF t-Stat 5% Critical Value**	**PP t-Stat 5% Critical Value**	**Order of integration**	
			AD	**P**
POVRT	-3.599697 - 3.603202 (0.050	-5.808699 3.58062 (0.000	**I(1)**	**I(1)**
INFRT	-5.130620 - 3.644963 (0.002	-3.413426 3.57424 (0.069	**I(1)**	**I(0)**
LOGMSMEF	-7.33303 (0.0000)	-7.33303 3.58062 (0.000	**I(1)**	**I(1)**
UNERT	-5.808699 (0.0003)	-5.808699 3.58062 (0.000	**I(1)**	**I(1)**

Source: Authors' Computation (2017) using E-views version 9.0

The result of the test shows that all the variables are stationary at first difference I(1) except inflation rate that was stationary at level value using Phillips perron Unit root test. Since all the series have the same order of integration particular ADF unit root test, a long run relationship is suspected amongst the variables. Therefore, co integration test became necessary.

In order to ascertain the long run relationship between the series both Engel-Granger and Phillips Ouliaris single equation co-integration were ran. The results obtained for the test are presented below:

Table 3: Engel-Granger single equation co-integration test

Dependent	**Tau – statistic**	**Prob.***	**Z-statistic**	**Prob.***
POVRT	-4.702805	0.0770	-25.49568	0.0713
INFRT	-4.310023	0.1559	39.70390	1.0000
LOGMSMEF	-2.094843	0.9380	-6.038514	0.9829
UNERT	-1.612525	0.9852	-7.369699	0.9614

Source: Authors' computation (2017) using E-views version 9.0

Table 4: Phillips-Ouliaris single equation co-integration test

Dependent	**Tau – statistic**	**Prob.***	**Z-statistic**	**Prob.***
POVRT	-4.821321	0.0629	-27.07683	0.0445
INFRT	-7.288806	0.0005	-29.31717	0.0210
LOGMSMEF	-2.168018	0.9250	-6.442715	0.9776
UNERT	-1.882313	0.9658	-9.180924	0.9096

Source: Authors' computation (2017) using E-views version 9.0

If any of the probability value of the tau-statistic and z-statistics is significant, then there is co-integration or long run relationship among the variables. The results of Engel Granger shows one co-integrating equation while Phillip Ouliaris shows two co-integrating equation, thus, co-integration exist. Long run relationship among the series can now determine.

Co integration Regression: Fully Modified Least Squared (FMOLS)

Table 5: Co integration Regression Result (Dependent Variable (POVRT)

Variable	Co efficient	Standard Error	Prob value
LOGMSMEF	-0.842944	0.445674	0.0702
INFRT	0.118911	0.017569	0.0000
UNERT	-0.086069	0.177102	0.6312
CONSTANT	64.52504	4.849983	0.0000
R- Squared	0.67667	means dependent var	55.5433
Adjusted R-	0.62494	S.D dependent var.	3.486890
S.E of Regression	2.13544	Sum squared resid	114.0028
Long run variance	2.15904 0		

Source: Authors' computation (2017) using E-views version 9.0

The result presented above was obtained from the co integration regression analysis using FMOLS. The result shows the negative correlation between the MSMEs financing and poverty reduction in Nigeria. This mean that a unit increases in MSMEs financing will reduce poverty by 84%. A unit change in inflation rate will affect poverty reduction by 11%. The relationship between inflation rate and poverty reduction is not only positive but statistically significant at 1%. Finally, there is negative relationship between unemployment rate and poverty reduction. The constant parameter is positive and statistically significant; this shows that when all the explanatory variables are held constant poverty reduction will increase by 64%.

The R-squared value shows the degree of joint influence of the regressors on the regressant. $R^2 = 0.67$ indicated that 67% variation in poverty reduction are jointly explained by the variation of the independent variables. Only 33% variation is explained by other variables not captured in the model.

FINDINGS

The econometric test on unit root shows that the entire variables are not stationary at level value except inflation rate using Phillips-Perron test. However all the variable became stationary at first different. Since all the time series data are integrated of the same order I(1) co-integration became necessary in order to ascertain the long run relationship amongst the series. The results of the co integrating regression using fully modified OLS, co integrating regression shows that MSMEs financing and unemployment rate are negatively related to poverty reduction while inflation rate is positively related to poverty reduction. The mean value of poverty rate is 55.5433, MSMEs financing 10.11086, inflation rate 20.5333 and unemployment rate recorded 9.9066. The descriptive analysis displayed varying results.

CONCLUSION

On the basis of the finding revealed from this study, the following conclusions are drawn; there is evidence of negative correlation between MSMEs financing and poverty reduction in Nigeria thus, an increase in MSMEs financing will reduce poverty in Nigeria. Therefore MSMEs sector must and should be given utmost priority by the government and relevant financial institutions to enable the sector create wealth, jobs and poverty reduction.

RECOMMENDATIONS

Consequent upon the major conclusion of this study the following recommendations have been identified:

a. In order to sustained the long run relationship between MSMEs financing and poverty reduction in Nigeria, adequate attention should be given to MSMEs by the government and other financial institutions to enable the sector reduce poverty.
b. Diversification of the economy will create more jobs and reduce poverty.

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