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SMALL AND MEDIUM SCALE ENTERPRISES AS A CORRELATE OF ECONOMIC GROWTH IN NIGERIA: 1981-2022

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ABSTRACT

The study investigated small and medium scale enterprises as a correlate of economic growth in Nigeria. To achieve the study objective, multiple regression model was formulated and Stationarity tests were conducted on all the series before the estimation to ensure the absence of stochastic processes. The study due to the strong evidence of long run relationship among the variables, conducted ARDL model to be able to determine the nature of the relationship between the variables. The evaluation of all the variables became stationary after first difference and the result of the Johansen co-integration test shows that the trace statistics indicate two (2) co-integrating equations

The study revealed that there is a long run relationship between small and medium scale enterprises and economic growth in Nigeria. The study revealed that inflation rate is positively correlated with economic growth through small and medium scale enterprises in Nigeria. Based on the findings and conclusion, the study recommended among others that; the government should adopt policy measures to maintain an affordable low commercial banking lending rate as this will accelerate high investment in Small, Medium and large-scale businesses and in the long-run contribute significantly to economic growth, government should set-up a Small and Medium Industrial Development Bank (SMIDB) to finance SME ventures in manufacturing sector and government should adopt both demand-driven as well as supply driven approaches to SMEs growth and development towards contributing to economic growth in the long-run.

Keywords: SMEs, ARDL, Economic Growth, Nigeria

INTRODUCTION

Small and medium enterprises (SMEs) have been recognized globally as drivers of economic growth and development. SMEs constitute the largest proportion of businesses around the world and are the instruments that spur world financial system and the pre- requisite to industrialization in the world economies. The developed economies are being driven by the SMEs in terms of their contributions to employment, economic and the growth of export. The creation and subsequent advancement of the Small and Medium Scale Enterprises (SMEs) have translated to the growth and development of many countries; like India, China, United Kingdom and United States of America. SMEs consist of over 98 per cent of the entire businesses and play a part in more than 65 per cent of employment opportunities in such Countries (Deen, 2003). SMEs have remarkable impact on the economies of some American, Asian and European nations that carefully embraced it. SMEs formed over 50 per cent of the non-farm private GDP as well as generated 75 per cent new jobs in the economy of United State of America.

The US economy has an estimated population of 300 million, which was sustained by about 6 million businesses by the end of 2008. Among these businesses, 27% employ less than 20 persons, 22% employ less than 50 persons while about 18% employ less than 100 persons (World Bank, 2001). Aside this, the percentage of registered SMEs in the world is 95 percent, SMEs constituted 99.8 per cent of all businesses which employs about 76 million people representing about 67.4 per cent of total employment in 2010 (Canetti, 2003). Consequently, it was very clear that SMEs have been mainly recognized as the vertebrae of the economy and at the same time play a significant role in the improvement of value for human resources, create employment opportunities, helping large scale industries, develop a philosophy of entrepreneurship, supports large scale industries as well as set-up new business opportunities (Boniface, 2006).

The SMEs account for 60 percent of employment, 91 percent of businesses, 52 percent to to GDP in South Africa while the SMEs contribute 48 percent of national GDP, 96 percent of businesses and 84 percent of employment in Nigeria. The growth and development of Small Scale Enterprises (SMEs) in Nigeria is an important element of the growth strategies for growth. Apart from the fact that SMEs contribute to improved living standards, they also attract local capital formation and sustained high productivity level (Okufolami, 2003).

The Nigeria Bureau of Statistics affirmed that the small and medium scale enterprises (SMEs) have contributed about 48% of the national GDP in the last five years. With a total number of about 17.4 million and in terms of enterprises, they account for about 50% of industrial jobs and nearly 90% of the manufacturing sector. Despite the significant growth that has been achieved in the SME sector, there is still much to be done. SMEs are often confronted with challenges such as multiplicity of taxes, lack of skilled manpower, high cost of doing business to mention a few.

The SMEs have created an avenue for self-employment which provides opportunity for training both workers and managers, entrepreneurial development, collaboration with large firms, advancing rural development and more importantly local sourcing of raw materials (Muritala, Awolaja and Bako (2012)). Small and medium enterprises aids competition, entrepreneurship and hence have overall benefits on economic productivity as driving force of industrial growth and development of nations as a result of their ability to ensure diversification and expansion of industrial productivity (Akingunola, 2011). SMEs relied on local raw materials and technology thereby ensuring meeting the goal of self-reliance. In `addition, government at Local, State and Federal levels have always shown interest in the performance of Small and Medium Scale Enterprises to maximize economic gains.

While some governments had embarked on deliberate policies aimed at improving the performance of the SMEs, others have placed priority in helping the grow through soft loans

and other fiscal incentive to attain the socio-economic development of the economy like generating employment, poverty alleviation, improve social welfare of the people and more importantly enhance human development. The SMEs growth and expansion generate employment far above the large firms since SMEs are more labour intensive. Hence, improving SMEs connotes poverty alleviation tools, by promoting SMEs to the point in which the progress made will help to reduce poverty level by year 2030 (Akingunola, 2011).

Small and medium scale enterprises are the major drivers of growth in countries like China, Thailand, India and Malaysia where SMEs have contributed over 70 percent of their exports and this is why these countries have been experiencing unprecedented growth (Duro (2013). In the case of Nigeria, SMEs are bedeviled with avalanche challenges affecting their growth such as inadequate funding, electricity and infrastructural deficit.

Banks with excess liquidity levels have shown reluctance in providing long term loans to SMEs as a result of their perceived vulnerability for indebtedness and the usual high risk (Sacerdoti (2005)). SMEs lacks the financial ability to match the market potentials to compete with the multinational organizations. Not only this, the amount one needs to engage in profitable marketing or business and to break even is not is not available to the local manufacturers.

As posited by the World Bank discussion paper in 2001, SMEs have encountered series of difficulties, challenges, tests, failures and eventual collapse due to inadequate infrastructures and inability to transform to large scale business entities which is the panacea for the growth and development of SMEs. Despite the large number of SMEs spread across the length and breadth of the Country, their regular activities and their efforts to contribute to economic growth and development has failed to yield any positive effect. This may be attributed to endless challenges of funding. Most SMEs be it modern or old fashioned are not area of interest for the deposit money banks since they will like to reduce their risk portfolio.

In Nigeria, the situation is even worse until when the Banker's Committee took a drastic action by getting involved with the "Small and Medium Scale Industries Equity Investment Scheme (SMIEIS) in the recent times. However, the scheme failed to record significant success and eventually failed like the previous policy interventions by government which were not well planned and poorly implemented. SMEs are supposed to be the strength of the Nigerian, but the business environment has been very unpleasant for small business to thrive. At present, most of the SMEs can hardly fund their operations and therefore unable to maximize the gains of economies of scale. Some manufacturers have gone bankrupt due to unhealthy business environment characterized by high production cost, inconsistencies of the regulators, poor infrastructure and multiple levies. In terms of the of the ability of the SMEs to build capacity, very many of them find it difficult to afford highly skilled manpower that can hold top management positions with less supervision. The SMEs were designed boost employment that will drive the growth of any nation. Despite these gains and mandates, there are many impediments encountered by SMEs which have affected their significant contribution to national development. These barriers included but not limited to inadequate funding, political instability, poor record keeping, inadequate managerial expertise and so on. SMEs exist with their potentials to drive the growth of any economy, but the gains have not been fully explored in Nigeria due to the obvious challenges and difficulties which hinder the growth and development of the sector in Nigeria. From the foregoing, the question for which answers are sought from this study is; to what extent have small and medium enterprises impacted on Nigeria economic growth performance? The broad objective of this study is to examine small and medium scale enterprises as a correlate of economic growth in Nigeria. Specifically, the study seeks to examine the impact of small and medium enterprises growth rate on economic growth in Nigeria.

REVIEW OF EMPIRICAL WORKS

Several works have been carried out on the mutual relationship or nexus between small and medium enterprises and economic growth from within and outside Nigeria. For instance, Muritala, et al (2012) evaluated Small and Medium Enterprises as a correlate of Economic Growth in Nigeria. A survey method was conducted to elicit information from 200 SME/Entrepreneurial Managers from across five local government in Nigeria namely; Ijebu North, Sagamu, Yewa South, Ogun Waterside and Odeda Local government in Ogun State, Nigeria. The study collected data via structured questionnaire and descriptive statistics was the method of analysis. The study showed that SMEs impact significant contribution to economic growth in Nigeria.

Zacheus and Adepoju (2014) studied the impact of SMEs on Economic Development in Ekiti State spanning 2006 and 2013. One hundred and fifty (150) respondents among artisans, factory workers and traders were selected via multi stage sampling technique covering the sixteen (16) local government areas in Ekiti State. The study showed that there is a positive and significant relationship between SMEs and poverty reduction, employment generation, improvement in standard of living and poverty reduction in Ekiti State.

In another study carried out by Ilegbinosa and Jumbo (2015) where the nexus between Small and Medium Scale Enterprises and Economic Growth in Nigeria was tested. The study employed the Ordinary Least Square (OLS), Co-integration and Error Correction model. The findings revealed that SMEs had a positive relationship with economic growth while inflation rate and interest rate exhibited positive and negative impacts respectively on economic growth.

Oyeniran, David, and Ajayi (2015) also investigated the roles of SMEs sector in the Nigerian economic growth. The study made use of the ARDL technique of analysis. Findings showed that increased capital investment in SMEs sector exact direct and significant impact on economic growth in Nigeria.

Bello, Jibir, and Ahmed (2018) in a study titled; importance of SMEs in growth and development of Nigeria, revealed SMEs as fundamental to the growth of the industrial sectors of the developing economies. The results further affirmed a direct and significant relationship between SMEs and output growth in Nigeria.

In congruence to the work of Oyeniran, et al (2015), Nooreen, Azeema and Nargis (2019) carried out a study on the potential role of SME's output in GDP growth in Pakistan using the ARDL bound testing approach. Findings from the study revealed a direct significant nexus between output of SMEs and the growth of GDP in Pakistan.

In 2020, Okere, Njoku, and Nwosu, (2020) conducted a research on why banks are reluctant in granting credit facilities to the Small and Medium Enterprises (SMEs) in Nigeria. The study employed the theoretical approach. The study affirmed that the willingness of banks to provide funds to SMEs have been hindered by many factors. The study revealed that operators of SMEs provides access roads to remediate infrastructural deficit and even compelled to provide their own factory electricity.

Oluyemi and Ayodele (2021) examined small-medium enterprises formation and Nigerian economic growth using the ECM approach. Findings revealed that an increasing number of SME formation has culminated to economic growth in Nigeria. Study further showed that the number of SME did not contribute significantly to economic growth more than the already existing businesses.

Olaniyi and Adewale (2022) carried out a study on the impact of small and medium scale enterprises on economic development of Nigeria. The study relied on the Fully Modified Ordinary Least Square (FMOLS) as tool of estimation. The study established a long run relationship between SMEs and economic development and there is a uni-directional relationship from GDP to commercial bank loans to SMEs in Nigeria.

Finally, Mokuolu and Oluwaleye (2023) examined the role of small and medium scale enterprises in unemployment reduction in Nigeria using the ARDL co-integration as the technique of estimation. The study showed that the contribution of SMEs to export had insignificantly but positively impact unemployment reduction in the long run but had negative impact in the short run in Nigeria.

From the reviewed previous studies carried out both within and outside Nigeria on the relationship between SMEs and economic growth, it was evident that many of the studies have made use of time series data below 2022. An extension of the data period is believed to be able to generate reliable and robust outcomes. Previous studies have failed to reach consensus in their findings and conclusions on the nexus between SMEs and economic growth in Nigeria. Also, the study has made use of more robust technique and sophisticated methodology while attempting to contribute to knowledge in the examination of SMEs' impacts on economic growth in Nigeria.

MATERIALS AND METHODS

The Model Specification

The growth models have been presented by Barro (1991); Mankiw, Romer, and Weil (1992) whereas; many researchers have presented different theoretical frameworks in order to analyze factors that stimulate economic growth. This development in growth theories and literatures have taken step forward when many other variables have been considered into growth model with traditional factors such as capital, labor and technology. In the extended version of growth model, SMEs have been included as important elements of growth. In this regards, following the work of Nooreen, Azeema&Nargis (2019) where Gross Domestic Product growth rate had been expressed as a function of output of small scale industry as a proxy of SMEs output, foreign direct investment, unemployment rate, government expenditure,

call money rate as a proxy of interest rate, gross capital formation and credit to private sectors by banks. The modified form of the model is therefore specified thus;

GDP = *f*(SMEsO, INTR, INFR) ---------- (1)

The Econometric form of model is required to provide consistent estimated without any biasness.

Explicitly, the model is re-written as below;

$GDP_t = \beta o + \beta 1 SMEsO_t + \beta 2 INTR_t + \beta 3 INFR_t + \mu t$ ---------- (2)

While adding μt as error term, Equation 1 has been transformed into econometric form of the model which has been estimated

Where;

GDP = Gross Domestic Product

SMEsO, = small and medium scale enterprise output

INTR = Interest rate

INFR = Inflation rate

μt = Error term

A Priori Expectation

Mathematically, the existing theoretical expectations are presented below;

$\frac{\partial \text{GDP}}{\partial \text{SMEsO}_t} >= 0$, $\frac{\partial \text{GDP}}{\partial INTR_t} <= 0$, $\frac{\partial \text{GDP}}{\partial \text{INFR}_t} >= 0$,

Method (Procedure) of Evaluation

The methods of estimation employed for this study are based on Autoregressive Distributed Lag (ARDL) approach to cointegration and Granger causality test. The study analyzes time series properties of the research variables using the Augmented Dickey Fuller (ADF). The advantage of the ARDL method is that, it can be applied to the model whether the

independent variables are stationary at I(0) or I(1). The dependent variable must stationary in I(1). For the purpose of diagnosing the employed variables for fitness and suitability for purposes intended, E-view 10.0 econometric application package (software) was used to gauge the data for stationarility or otherwise, employing the Augmented Dickey-Fuller tests procedures. Whether long run relationship exists or otherwise, among the choice variables is checked using co-integration analysis. The statistical tools used in the study include; the unit root test using the Augmented Dickey Fuller (ADF) and co-integration test.

Co-integration test

Regression of one non-stationary variable on another is very likely to yield impressive-seemingly results which are wholly spurious (Mukherjee,White, &Wuyts, 1998). In general, if two time series variables are both non-stationary in levels but stationary in first-differences, they are integrated of order 1, I(1), then there could be a linear relationship between them which is stationary, I(1) and as such all the series of interest should be integrated of the same order, preferably I(1). The two time series variables that satisfy this requirement are considered to be co-integrated. Variables are co-integrated with one another if the residuals from the levels regression are stationary. To test for both the short run and long run causality among research variables in this study, error correction model (ECM) techniques was employed.

RESULTS AND DISCUSSION

Unit Root Tests

Before using the data, to prevent spurious regression analysis, augmented Dicky *Fuller* regression was used. Using Eviews6 software, time series were examined. If the absolute value of the test statistic is larger than absolute value of critical quantity, null hypothesis is rejected. The use of ARDL models does not impose pre-testing of variables for unit root problems. However, unit root tests was conducted in this study to find out if there are mixtures in the order of integration of the variables. The order of integration of the time series was investigated

by applying the Augmented Dickey and Fuller (1979) test with maximum lag of five (5) as suggested by the AIC criteria.

Table-4.1. Unit Root Test Results

Variable	ADF Test Statistic	95% Critical ADF Value	Order of Integration	Remark
D(GDP)	5.408**	3.533	*I* (1)	Stationary
SMESO	4.821**	3.574	*I* (0)	Stationary
D(INFL)	6.315**	3.537	*I* (1)	Stationary
D(INTR)	7.643**	3.533	*I* (1)	Stationary

Source: Authors' Computation, 2024

Note: ** = 5 percent significance.

Table 4.1 presents the unit root test results, the test reveals that all the variables are stationary at first difference except ratio of SMESO to GDP which was stationary at level. Hence, they are integrated of order *I* (1) and *I*(0). Once all the series are non-stationary in the level, one can estimate an econometric model only if they are co-integrated. Thus co-integration tests can be applied for all variables.

Johansen Cointegration Results

The main theoretical argument of co-integration analysis is that even if individual variable is non-stationary, the group of variables may drift together. In support of this, Engle and Granger (1987) pointed out that a linear combination of two or more non-stationary series may be stationary. If such a stationary linear combination exists, the non-stationary time series are said to be *co-integrated*. The stationary linear combination is called the *co-integrating equation* and may be interpreted as a long-run equilibrium relationship among the variables. There is the need to test for co-integration relationships using Johansen approach. This approach is preferred to the Engle and Granger two step procedure because the later conceals information on the coefficients of the explanatory variables in the co-integrating vector, hence makes it inappropriate for this study.

4.2. Co-Integration Test

Sample (adjusted): 1983 2020				
Included observations: 38 after adjustments				
Trend assumption: No deterministic trend				
Series: GDP INFL INTR SMESO				
Lags interval (in first differences): 1 to 1				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.454441	49.60393	40.17493	0.0043
At most 1 *	0.384407	26.57804	24.27596	0.0252
At most 2	0.155907	8.141602	12.32090	0.2259
At most 3	0.043774	1.700900	4.129906	0.2258
Trace test indicates 2 cointegratingeqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				

Source: Author's Computation, 2024

The result of the Johansen co-integration test shows that the trace statistics indicate two (2) co-integrating equations. This indicate that there is a long run relationship among the variables, hence the variables have high tendency to converge to long-run equilibrium level. Since the ADF test value for the residual is greater than the critical value, it is said to be stationary. Thus, the time series are co-integrated, implying that a long-run stable relationship exists among the variables used in the study. This means that any short run deviation in their relationships would return to equilibrium in the long-run.

Table 4.3: ARDL Bounds Test Result

BOUND TEST RESULT ARDL (1, 0, 4, 0, 2, 3)				
Significance	**Lower Class Bound.**	**Upper-Class Bound**	**F-statistics**	**Decision**
10%	2.37	3.2	11.84709	Long-run
5%	2.79	3.67	11.84709	Long-run
2.5%	3.15	4.08	11.84709	Long-run
1%	3.65	4.66	11.84709	Long-run

Source: Author's Computation, 2024

Based on the outcome of the unit root test, this study estimated the ARDL to test for the existence of a long-run relationship among the series. Table 4.3 showed the ARDL result

using Output of small scale industry as a proxy of SME's output (SMEO) as the dependent variable, it is depicted that long-run relationship exists since the F-statistics is greater than the upper-class boundary at levels 10, 5, 2.5 and 1 significance level.

Table 4.4: Auto-Regressive Distributed Lag (ARDL) Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
INFL	19.73129	49.42145	0.399245	0.6922
INTR	-173.1212	170.9315	-1.012810	0.3183
SMESO	2.290941	0.538071	4.257696	0.0002
C	2652.332	3127.587	0.848044	0.4023
R-squared	0.990467	Mean dependent var		31973.80
Adjusted R-squared	0.989345	S.D. dependent var		44990.47
F-statistic	883.0992	Durbin-Watson stat		1.850078
Prob(F-statistic)	0.000000			
*Note: p-values and any subsequent tests do not account for model selection.				

Source: Author's Computation, 2024

From the ARDL regression result above, the coefficient of determination (R^2) is given as 0.990467, which showed that the explanatory power of the variables is very high and strong. This implies that 99% of the variations in the growth of the SMEsO, INTR, INFR, COR, BCB and LER are being accounted for or explained by the variations in economic growth in Nigeria. While other determinants of economic growth not captured in the model explain 1% of the variation in economic growth in Nigeria.

The adjusted R^2 supports the claim of the R^2 with a value of 0.989345 indicating that 98% of the total variation in the dependent variable (economic growth is explained by the independent variables (the regressors)). Thus, this supports the statement that the explanatory power of the variables is very strong and reliable.

The F-statistic: The F-test is applied to check the overall significance of the model. The F-statistic is instrumental in verifying the overall significance of an estimated model. The F-statistic of our estimated model is 883.0992 and the probability of the F-statistic is 0.000000.

Since the probability of the F-statistic is less than 0.05, we conclude that the explanatory variables have significant impacts on economic growth in Nigeria.

The long run coefficient of output of small scale industry (SME0) is positive and significant in enhancing gross domestic product growth in Nigeria. The coefficient of SMEO (2.290941), indicates that output of small scale industry will increase by 22.9% for every 1% increase in the gross domestic product in Nigeria. The P-value of 0.0002 is less than 5% level of significance which implies that there is the significant contribution of output of small scale industry on the Gross Domestic Product in Nigeria.

The parameters estimate associate with the independent variable inflation rate is positive (i.e. 19.73129). This implies that there is a direct relationship between growth rate in real GDP (i.e. small and medium scale enterprise output) and inflation rate by extension; the higher the rate of inflation, the higher the growth rate of real GDP and vice versa (ceteris paribus). This relationship satisfies the apriori expectation. However, based on P.value test, the parameter estimate is statistically insignificance since (P value = 0.6922) is greater than 5%. Also at 5% level of significance, the 'T' test showed that the parameter estimate is statistically insignificant (i.e. $t = 0.399245 < t^*_{0.05} = 2.11$).

The long run estimation coefficient of interest rate carries negative sign (-173.1212) implying that interest rate is having negative effect on small and medium scale enterprises thereby affecting economic growth in Nigeria. The negative relation between interest rate and GDP growth supports Keynesian view, which shows that higher interest rate discourages investments that further decline economic growth. This means that as the amount of commercial bank loans made available to SMEs decreases, there will also be a decrease in economic growth in Nigeria.

Table 4.5 ARDL Short-run Relationship Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CointEq(-1)*	-0.347786	0.042743	-8.136605	0.0000
R-squared	0.523040	Mean dependent var		3484.085
Adjusted R-squared	0.523040	S.D. dependent var		6360.691
S.E. of regression	4392.838	Akaike info criterion		19.63865
Sum squared resid	7.33E+08	Schwarz criterion		19.68130
Log likelihood	-381.9536	Hannan-Quinn criter.		19.65395
Durbin-Watson stat	1.850078			
* p-value incompatible with t-Bounds distribution.				

Source: Author's Computation, 2024

Table 4.5, showed the result of the short-run relationship between small and medium scale enterprises and economic growth in Nigeria. To investigate the existence of a short relationship among the variables of interest, restricted error correction model regressions was estimated. The most important thing in ECM (CointEq(-1)*) model is the sign and significance status of the error term. It measures the speed by which the short term deviations in the model can converge back to, or diverge from its long run equilibrium. In this case, it is negative and highly significant implying that any short term distortions in the model could be corrected; and the short term deviations could converge towards the long run equilibrium at the annual speed rate of -0.347786.

The equilibrium adjustment level reported that about 34% of disequilibrium will be adjusted periodically. It revealed that the model will revert to its equilibrium path whenever shocks occurs. The coefficient of error term is 34% indicating that Nigeria small and medium scale enterprises corrects its disequilibrium at a speed of 34% yearly. The error correction term is significant at 0.05% level since the P-value is less than 0.05% it thus means that our short run is providing validity that Nigeria economic growth have long run relationship with the small and medium scale enterprises. We can accept this model because the value of R^2 is smaller (0.52) than the value of Durbin-Watson statistic (1.85) which means that the model is not a spurious model hence can be accepted.

Discussion of Findings

This study examines the short and long-run nexus between small and medium scale enterprises and economic growth in Nigeria between 1981 and 2022.

The long run estimates confirm a positive and significant effect of output of SME sector on growth of GDP in the long time period. The positive link of SMEs to GDP is attributed to a number of conventional justifications as the economic fundamentals of various economies vary with the contribution of SMEs. Therefore, SMEs sector play its significant part to determine the growth of the GDP. Starting with the SMEs contribution in employment, it is the positive relationship between SMEs output and GDP is in line with the findings Oyeniran et al. (2015) and Bello et al. (2018). However; in developing economies such as Nigerian, the contribution of SMEs have not recognized its potential level.

The parameters estimate associate with the independent variable inflation rate is positive. This implies that there is a direct relationship between growth rate in real GDP and inflation rate. The higher the rate of inflation, the higher the growth rate of real GDP and vice versa. This relationship satisfies theoretical expectation. However, this study negates the work of Ilegbinosa and Jumbo (2015) that maintained that inflation rate showed a negative influence on economic growth through the contribution of small and medium scale enterprises.

The long run estimation coefficient of interest rate carries negative sign implying that interest rate is having negative effect on small and medium scale enterprises thereby affecting economic growth in Nigeria. The negative relation between interest rate and GDP growth supports Keynesian view, which shows that higher interest rate discourages investments that further decline economic growth. This outcome also negates the work of Ilegbinosa and Jumbo (2015)that showed that interest rate have a positive influence on economic growth through the contribution of small and medium scale enterprises.

Finally, the findings from the study showed that the F-statistics value indicates that the independent variables jointly explained the dependent variable at a 5% significance level.

CONCLUSION AND POLICY RECOMMENDATIONS

The study examined small and medium scale enterprises as a correlate of economic growth in Nigeria between 1981 and 2022. The study revealed that there is a long run relationship between small and medium scale enterprises and economic growth in Nigeria. Inflation rate have been found to exhibit a positive correlation with economic growth via the SMEs sector in Nigeria. Also, interest rate carried negative relationship with economic growth via the SMEs in Nigeria. All the independent variables were found to be simultaneously significant. The study has showed that SMEs promote self-reliance for economic growth as well as help in the linkages with bigger industries for economic growth performance in Nigeria.

Based on the findings and conclusion, the study recommended as follows;

- Government should organize national enterprise forum which would focus on the contributions of SMEs in national development objectives;
- Government should endeavour to control inflation rate through monetary policy measure in order to encourage demand side of the economy,
- Federal Ministries of Industry in collaboration with the National Association of SMEs should work out strategies for an annual report of SMEs operating in Nigeria,
- Government should adopt policy measures to maintain affordable low commercial banking lending rate as this will accelerate high investment in small, medium and large-scale businesses and in the long-run contribute significantly to economic growth,
- Government should set-up a Small and Medium Industrial Development Bank (SMIDB) to finance SME ventures in the manufacturing sector, and
- Government should adopt both demand-driven as well as supply driven approaches to SMEs growth and development towards contributing to economic growth in the long-run.

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