ECONOMIC DIVERSIFICATION: HARNESSING THE IMPACT OF SMALL AND MEDIUM ENTERPRISES ON ECONOMIC GROWTH IN NIGERIA

By

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ABSTRACT: *The study examines the contribution of Small Medium Enterprises (SMEs) on the Economic diversification of Nigeria, using data between 1983 and 2023. The study employed Autoregressive Distributed Lag (ARDL) model, Co-integration to establish the short and long-run relationship between the role of Small Medium Enterprises on Economic Diversification of Nigeria. Stationarity test carried out using Augmented Dickey Fuller (ADF) revealed that all the variables were stationary at first difference 1(1), implying that the variables contains unit root and statistically significant at both 1% and 5% level of significance. The results of the study revealed that explanatory variables (inflation rate, small medium enterprises output, Deposit Money bank loan, and interest rate) were found to be positively sign and have significant relationship on the economic diversification of Nigeria both in short and long run. Deposit Money Bank loans and Small and Medium enterprises output significantly influence the role of small medium Scale enterprises on the diversification of the Nigeria economy with a P-value 0.0708<.0.05 and 0.0023<0.05 level of significance respectively. The study recommended that there is the need for government to make credit available towards financing of the Small Medium Enterprises (SMEs). Government should formulate and implement policies, such as reduction in tax rate/provision of incentives that would help to facilitate the growth of Small Medium Enterprises (SMEs) in Nigeria.*

Keywords: SMEs, Economic Diversification, Gross Domestic Product, ARDL. Nigeria.

1. Introduction

The goal of every nation is to have a strong, virile and sustainable economy, an economy that could enhances and sustain a nations standard of living and increase in Gross Domestic Product (GDP). And for a country to attain such economic growth and development, diversification of the country economy is not only optional but necessary. A diversified economy predicated that countries should not be relied on a small number of products for their economic livelihoods and development of nations (Zagros, 2016). The United Nations Framework Convention on Climate Change (UNFCCC, 2018) viewed diversification of economy, as a process in which a growing range of economic outputs are produced. It is the development of different market for exports and different income sources away from domestic economic activities (UNFCCC, 2018).

The discovery of oil in commercial quantity created a condition of over dependency on the oil revenue, thus making the country an import driven economy. Addressing the country over reliance on oil and gas revenue has been the policy debate by various administration in Nigeria since the return to civil rule (Baba., 2014). With the recent volatility in the oil market, it has become very imperative to policymakers and stakeholders that diversification of the economy is necessary. One of the mechanism that foster the economic diversification is the development of Small and Medium Scale Enterprises (SMEs). Evidently, Small and Medium Scale Enterprises have proven to be a major tool adopted by the developed nations to attain socio-economic development (Olaye et.at, 2018).

The development of Small Medium Enterprises (SMEs) have been found to be a key factor in facilitating a positive significance on the economy growth of a nation and the quality of life of the people (Storey,2004). SMEs has been widely acknowledged as an engine for innovation, economic growth and job opportunity, a driving forces for industrial growth, growth of individual production and the achievement of the basic objectives for nations economic prosperity. (Kwaku & Amoah, 2018). SMEs is a springboard for increase in per capital income and outputs, enhance regional economic balance through industrial dispersal and promoting effective resource utilization leading to sterilization of economic growth (Ogujiuba et.al, 2005; OECD, 2014). Small Medium Enterprises with it endurance competition and entrepreneurship activities, have external benefits on economy efficient, and productivity growth. In addition, proponents of SMEs are of the views that SMEs are more

productive than large firm but financial market and other institution improvement to SMEs can boost economic growth and development.

The growth of SMEs in Africa and elsewhere, rely on dynamism, resourcefulness, and risk-taking of small and medium scale enterprises to trigger and sustain process of economic growth. In Cote'd'lvorie economy transformation jump-start with the development of SMEs. Over 98 percent of the domestic enterprises were SMEs and this accounted for 18 percent of Gross Domestic Product (GDP) and 20 percent of the of job opportunity as compare with other sectors of her economy (Hongbo, et.al, 2018). The growth SMEs in Morocco accounted for over 93%, of firms, with an estimation of 38% of output production. It has offered Morocco 33% investment generation, over 30 percent export and 46 percent employment opportunity respectively (Nuwagaba, 2016). Tanzania economy were noted for its transformation as a result of the country's GDP record in SMEs businesses. Over 60 percent of the Tanzania GDP were accounted for SMEs. This has further exploit the country potentials in creating employment, innovation and attract business opportunity (Nuwagaba, 2016). Over 99 percent of Ecuador private companies have less than 50 employees and accounted for 55 percent of employment generation. Ecuador and other developing countries had displayed the catalytic roles of Small medium enterprises in promoting economic growth and development (Hassan, Akin & Habakuk, 2017). The growth of SMEs in Nigeria is estimated to be 70 percent of all industrial establishments. They constitute an average of 25 percent to GDP and accounted for over 95 percent of overall business in Nigeria., it absorbs more than 60 percent of employed labour force. (Etebefia & Kinkumi, 2016). Today, over 80 percent of manufacturing jobs and employment opportunity was estimated to comes from the Small and medium enterprises (SME) sector in Nigeria.

Over the years, SMEs development are constraint in the developing economies like Nigeria. The growth of entrepreneurial development was marred by over-dependence on oil economy, lack of sufficient fund to promote SMEs due to low level of income earned, savings and high tax rate, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructural facilities. These problems limit the rate of growth of entrepreneurial activities in Nigeria. Despite all efforts to promote SMEs, and its contribution to the economy growth, its contribution to Gross Domestic Product (GDP) still remained limited (Iromaka, 2006, Arinaitowe, 2006)., high inflation rate, lack of industrial infrastructural base etc. The government however, initiated Fund raising programmes aimed at supporting the growth of

SMEs, this include, Commercial loans, Bank of Industry (BOI), Nigeria Agricultural Co-operative and Rural Development Bank (NACRAB), Small Medium Enterprise Development Agency of Nigeria (SMEDAN), to support the growth of Small and Medium Scale businesses (Eniola, 2014, Hassan, Aku and Habakuk, 2017). Policies and incentives were further enacted by the Nigeria government to promote the growth of small and medium enterprises, these include; Fiscal incentives and export incentives. The fiscal incentives include tax relief for SMEs during the first six years of operation, granting of pioneer status for a period of five years, with a possible extension of two years for enterprises located in economically disadvantages areas. Export incentives include the introduction of import duty drawback, export credit and insurance schemes (Adebusuyi, 2008). The Nigerian government also initiated a ban on certain industrial and agricultural products, imposed tariff rates on foreign goods to discourage importation of industrial goods that can be locally produced as a means of protecting the SMEs from dumping.

The purpose of this study is to come up with a set of potential determinants that motivated the adoption of SMEs into supporting the activities that influence the growth of Nigeria economy and development. However, these underscore the basis of the study, to examine the impact of small medium enterprises to economic diversification in Nigeria. Other specific objectives are to; examine the trend of small medium enterprise and GDP in Nigeria economic diversification; to determine the relationship between SMEs and economic growth in Nigeria; and to investigate the extent to which SMEs has impacted on economic growth in Nigeria. The study will add to the academic and literary discourse on the existing subject matter, government, stakeholders and individual will benefit from the empirical research in their efforts to formulate policies and plans that offers maximum benefits to the nation. The study covers a period of 40 years from 1983-2023.

2.0 Literature Review

2.1 Conceptual Review

Economic Diversification

Economic diversification can be defined as the shift towards a more varied structure of domestic production and trade with a view to increasing productivity, creating jobs and providing the base for sustained poverty-reducing growth. Economic diversification is a key element of economic development in which a country moves to a more diverse production and trade structure (Agosin et.al, 2013). A lack of economic diversification is often

associated with increased vulnerability to external shocks that can undermine prospects for longer-term economic growth. Economic diversification remains a challenge for most developing countries and is arguably greatest for countries with the lowest incomes as well as for those whose economies are small, landlocked and are dominated by primary commodity dependence. For such countries, economic diversification is inextricably linked with the structural transformation of their economies and the achievement of higher levels of productivity resulting from the movement of economic resources within and between economic sectors. Economic diversification helps to manage volatility and provide a more stable path for equitable growth and development. Diversification is more important in the wake of slowing global economic growth and these is very imperative to many developing countries to increase the number and quality of jobs (Agosin, Et.al, 2013).

Economic diversification according to Eluogu (2016), means the creating of new avenues for economic growth. It involves the using of right strategy to boost revenue generated from other sectors of the economy. It also involves the facilitation of growth of other sectors of the economy and through reversing the effects of the economic crises and returning the economy to a growth path. Eluogu (2016) posited that the process will not bring a fall of the oil and gas sector but would accommodates the maximization of revenue gathered from the sector. Diversifying the Nigerian economy to address near total reliance on oil and gas proceeds is a policy that has been well touted by successive governments of Nigeria.

Small Medium Enterprise

The concept of SMEs was introduced into the growth landscape as early as late 1940s, primarily aimed at improving trade and industrialization in the developing nations (OECD, 2004). There is no collective definition of SMEs, giving the multitude of different economic, social and geographical differences with the international context of SMEs Blunch, 2011; Beck and Demirgue-Kunt, 2007). Small and Medium enterpreises are classified based on its share of capital injected, on the number of employees contracted and according to its relation to social status of the owner (Braw, Gumbo, 2015, and Robson, 2016). Small medium enterprises (SME) is a concept that tends to explain the size of a business in an economy. There are three major factors used by countries in the classification and definition of enterprises. These includes; the Capital investment on plant and machinery, two; Number of workers employed and three, the volumes of production (Abubakar & Yahaya, 2013). SMEs can also be classified to include nature of industry, manpower requirement, level of

development and financial base (Carpenter, 2003). Small Medium Enterprises according to Chen (2016) refer to as independent and non-subsidiary businesses with less than a defined number of employees engaged to the organization. Chen (2016) posit that, the number of employees classified under SMEs varies amongst national statistical system of different countries, with 250 employees which are acceptable as the upper limit in most countries of the world. Above all, the difference amongst industries could be ascribe to different capital requirements of each business under the SMEs profile. The development of small medium enterprises, all over the world have been found to be capable of making positive impacts on the economy of a nation and the wellbeing of the citizenry (Storey, 2005).

The growth of SMEs began in the third National Development Plan (1975-1980), the plan referred to small medium enterprises as a manufacturing or service organization whose employee is not more than 10. The concept of small medium enterprises is a relative one and it depends mainly on both geographical location and the nature of economic activities performed (Umar, 2007). The concept of SMEs, according to CBN is an asset base between N5 Million and N500 Million and a staff strength between eleven (11) and three hundred (300) employees.

Kayanula & Quartey, (1999), classified SMEs as, micro enterprise, an informal businesses employing five or fewer workers including unpaid family labour, small enterprises as those operating in the formal sector with five to twenty employees, and medium enterprises as those employing 21 to 50 employees. SMEs according to Etuk, Etuk & Baghebo, 2015) refers to as any enterprise employing less than 250 employees, they further break down SMEs into micro (less than 10 employees, small (from 10 to 49 employees) and medium (between 50 to 249 employees). CBN Credit Guidelines for Financial Institutions (2002) characterized small-scale enterprise as those whose yearly turnover does not exceed N200, 000, 000 or capital use does not exceed N200,000,000. They further placed the level of employment by small scale enterprises of less than 50 and medium scale enterprise of less than 100 labour force. According to Das and Das, (2014), SMEs are organization that have two to two hundred and fifty employees, with an annual turn-over between US$50, 000 and US$2 Million, with an assets worth of US$50, 000 and US$2 Million.

The National Council on Industry modified small medium business as an enterprise with total capital not more than N1.5 million with labour size of not more than ten (10) employees.

This includes cottage and micro industries which are mostly single family operated businesses. Alabar (2002) refer to Small medium enterprises as any establishment employing less than ten people and whose investment in machinery and equipment does not exceed N600, 000.00, such business must have fixed assets above N1 million but not exceeding N10 million excluding land.

Tambauna (2014) argues that most research on SMEs on economic growth have produced mixed reaction owing to different conceptualization of SMEs, as well as poor economic indicators to measure development. Also, the poor methodological inelegant used by other researchers with unclear parameters to measure economic growth and development have resulted in falsified claims on the actual role of SMEs in economic growth and development. It is from this forgoing or rather mixed evidence that this research sought to assimilate data from different backgrounds to establish the real contribution of SMEs in economic growth and development.

Theoretical Framework

The Classical Trade Theory: According to this theory, countries are better able to gain and sustain development if they devote their resources to the generation of goods and services in which they have comparative advantage (Smith, 1976; Ricardo, 1817). The theory thus explains the scenario where a country generates goods and services in which she has an advantage not only for consumption locally but also exports surplus and imports those goods and services in which she has an economic advantage. Economic advantage and disadvantages usually arise from country differences in factors such as resource endowments, labour, capital, technology or entrepreneurship.

The Endogenous Theory: Endogenous theory was propounded in the late 1980s and early s1990s by Paul Romar and Robert Lucas. The basis of this theory is that investment in human capital, innovation and knowledge are significant contributors to the economic growth of any nation. This theory further upholds that the long run growth rate of an economy depends on the policy measures of the government, for example, subsidies for skills acquisition, education, research and development as well as increase in incentives for innovation. These theory is considered relevant to the study because small and medium enterprises originated from the entrepreneurial skills acquisition, innovation and knowledge of the operators. In view of their contributions to economic growth, government should ensure that favourable

policy measures that will guarantee the success of human capital development, such as skills acquisition, innovation and access to finance for the business are instituted.

Empirical Review

Oboh (2002) investigated the effect of economic diversification on Small Medium Enterprises development in Nigeria from the period 1980 to 2012, using the ordinary least square, co-integration and error correction model. The study revealed that Small Medium Enterprises development has been retarded by a number of factors ranging from poor finance, poor economic conditions, unstable lack of infrastructural facilities, lack of transparency and corruption.

Akingunola (2011) examined the different funding choices of SMEs and their impact on economic growth. The association between SMEs finances investment level and economic growth was determined by using the Spearman's Rho Correlation test in analyzing the secondary data. The result indicated that there is a significant positive association between SMEs financing and economic growth in Nigeria at a 10% level of significance.

Awolaja and Bako (2012) analyzed the impact of SMEs on economic growth and development. Employing survey method to gather data from 200 respondents. The results revealed that the most common constraints hindering small and medium scale business growth in Nigeria are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for product and services. Thus, the hindrances limit SMEs ability to contribute to economic growth and development.

Abdulrahman (2013) examined the impact of financing small and medium scale enterprises on economic growth in Nigeria using a quarterly time series data from 1992 to 2000. The study employed ordinary least square regression technique. Findings showed that loan to small medium enterprises have no positive impact on economic growth while interest rate has a negative impact on economic growth. .

Satope, and Akanbi (2014) empirically investigated the impact of small medium enterprises on Nigeria economic growth from 1970 to 2012, using the ordinary least square, co-integration and error correction model. The findings show that SMEs access to capital had a favourable link with economic diversification, while interest rates and inflation rates had a negative and positive impact on growth respectively.

Opafunso and Adepoju (2014), Studied the impact of SMEs enterprses on economic growth in Nigeria. Using primary data sourced from 150 respondents from 16 local government areas in Ekiti State. Chi-square was used to analyse the data collected. The findings of the study revealed that there is a positive and significant relationship between SMEs and poverty reduction, employment generation and improvement in the standard of living of people in Ekiti State.

Hassan and Shaukat (2015) investigated the effect of Small Medium Enterprises development on the growth and development of the Nigerian economy from 1981-2012. Using ordinary least square, Co-integration, Error correction mechanism and granger causality text. The study revealed that adequate finance and favourable government policies could impact the contribution of SMEs towards the growth and diversification of the Nigerian economy.

Esu and Ubong (2015) examined the analysis of economic diversification and economic growth in Nigeria between the period 1980-2011. Using the error correction mechanism (ECM) and variables such as trade openness, total oil and non-oil trade, non-oil Foreign Direct Investment (FDI), exchange rate and inflation rate. Their findings show that through conscious efforts at diversifying the economy, encouraging large-scale industrialization of the non-oil (real) sector of the economy can be achieved. The study recommended that Nigeria could from her untapped trade potentials for sustained gains in both Short and long run.

Raj and Shaukat (2015) examined Small Medium Enterprises contributions on diversification and stability in emerging economies in Qatar. Questionnaire was used to collect data from Seventy-Five (75) SME owners, simple percentage was used to analyzed the collected data. The findings revealed that adequate financing and policies geared towards the development of SMEs could impact on the contribution of SMEs to the economy.

Myslimi and Kacani (2016) examined the impact of small and medium scale enterprises on economic growth in Albania during the period of 1995-2015. Applying ordinary least square regression techniques, the study found that SMEs have no significant impact on real GDP (proxy for economic growth). Rather the study found a significant impact of micro and large enterprises on economic growth in Albania.

Taiwo and Falohun (2016) examine the role of Small Medium Enterprises on Nigerian economic growth. Questionnaire was used to collect data from sixty-eight (68) SME owners, simple percentage was used to analyzed the collected data. The study conclude that the

Nigerian government should pay more attention to SME development as it could impact the Nigerian economy positively.

Ovwiroro (2017) examined the challenges and improvement strategies in the diversification of the Nigerian economy through Small Medium Enterprises (SME) development. The population of study was 183 registered SMEs in Warri, Delta state. Simple random sampling was used to select 91 SMEs owners. Questionnaire analysis was employed for data collection; t-test statistics was used to analyze the data collected. The study revealed that various challenges affect the growth of Nigerian economy through SME development which includes; low capital, poor access to loan, over taxation, inadequate infrastructure and poor transportation. The author recommended that government and financial institutions should continue to support SMEs in Nigeria through the provision of soft loans and improved infrastructural facilities to drive economic diversification.

Hassan, Aku and Habbakuk (2017) examines small medium enterprises as a tool for economic diversification in Nigeria, using content analysis, they evaluated some of the activities of SMEs in many economies of the world like Great Britain and Japan. They found that SMEs contributed to human as well as structural improvement in the economies of nations. In order to replicate similar development strides achieved by these other nations in Nigeria, they recommended among others that the finance made to support and promote private sector enterprises or SMEs should be properly monitored and evaluated to discourage fund mismanagement.

Bello, Jibir and Ahmed (2018), examined the impact of small medium enterprises on economic growth of Nigeria, using time series data spanning between 1986 and 2016. The study employed ordinary least square regression techniques in analyzing the data collected. The result of the study reveals a positive and significant relationship between small and medium scale enterprises (proxied by total output of SMEs and Bank credit to SMEs) and output growth (represented by real GDP). The result indicated that small and medium scale enterprises make positive contribution towards the development of Nigerian economy.

Obi et al. (2019) examined the contribution of small and medium enterprises to economic development in Nigeria. The study used data from 600 respondents in 60 small scale enterprises located in different parts of the country. The data was analyzed using tables, percentages and Chi-Square (X^2). The findings revealed that there is a significant relationship

between the operation of small and medium scale enterprises and economic growth in developing economy like Nigeria.

3. Methodology

The study adopted Ex-post Facto research design. It was used because of the nature of the study. Ex-post facto is a category of research design in which the investigation starts after the fact has occurred without interference from the researchers. It is a kind of study which tries to predict the causes on the basis of action that have already occurred.

Method of Data collection and Analysis

Interest rate, Non-oil export, deposit money bank loan, gross domestic product, and inflation are data on output of small and medium scale enterprises sourced from the Central Bank of Nigeria (CBN) statistical Bulletin. The data were subjected to stationarity test by using Augmented Dickey Fuller Unit Root test and the Cointegration test to ascertain the long run relationship amongst the variables. The causality test was also carried out in order to determine the effect of the current changes in diversification indices on the future growth of the Nigerian economy.

Model Specification

Ovwiroro (2017) posited that the growth of output of small and medium enterprises depends on loan to SMEs. These loans to Small Medium Enterprises in the long run lead to increase effect of small scale-businesses on economic growth through enhancing economic activities. This assertion was further modified into a simultaneous equation model where Small and Medium Enterprises output is seen as a function of Bank loans and in addition to intervening variables such as Interest rate, Non-oil export, Inflation rate, Deposit bank loans, and economic growth proxied as Gross Domestic Product (GDP) which is enhanced through the contributions of SMEs.

The functional equation is written as;

$$GDP = \digamma(SMES, DMBL, INFR, INFRT, IRTS) \quad - - - - - (1)$$

The theoretical model is as specified in equation (2)

$$GDP = \beta_0 + \beta_1 + \beta_2 SMES + \beta_3 DMBL + \beta_4 INFR + \beta_5 IRTS + \mu t \quad - - - (2)$$

Where:

GDP = Gross Domestic Product (Economic Growth)

SMES = Small Medium Enterprise Output

DMBL = Deposit Money Bank Loan

INFR = Inflation Rate

IRTS = Interest Rate

$\beta_1 - \beta_2$ = Slope coefficients which show the rate of change in the value of GDP, when there is a unit change in the value of independent variables.

β_0 = Intercept coefficient which shows the rate at which GDP will change independent of Small medium enterprises output (SMEs), Deposit Bank money loan (DMBL), Inflation rate (INFR), Interest rate (IRTS).

U = Error term, which shows other external factors that might affect the magnitude of GDP that is not stated in the model.

For uniformed scale of measurement and consistent interpretation of results, all variables were transformed to natural logarithm, which allow us to interprets the coefficients as elasticities.

The ARDL form of the above equation were specified as follows:

$$GDP = \beta_0 + \beta_1 SMES + \beta_2 DMBL + \beta_3 INFR + \beta_4 IRTS + \mu \quad - \quad - \quad - \quad (3)$$

$$GDP_{t-1} = \beta_0 + \beta_1 logSMES + \beta_2 logSMES_{t-k} + \beta_3 logDMBL + \beta_4 logDMBL_{t-k} + \beta_5 logINFR + \beta_6 logINFR_{t-k} + \beta_7 logIRTS + \beta_8 logIRTS_{t-k} + \mu_{t-k} \quad - \quad - \quad - \quad - \quad (4)$$

GDP t-1 = One year lagged value of Gross Domestic Product, t-k is the length of lag necessary to make the ARDL. β_0 = is the intercept of the parameter of the model, β_1- β_4 = Coefficient of the independent variables.

Since there is the possibility of a lag effect of the stock of Small Medium Enterprises on GDP, it is possible to run the GDP on the lagged values of the explanatory variables to see the dynamics in both the short-run and the long-run impact of Small medium enterprises on diversification of the Nigerian economy.

Data Presentation and Analysis

Table 4.1: Summary Descriptive Statistics Analysis Results

	RGDP	IRTS	DMDL	SMEO	INFR
Mean	3.564987	2.124506	2.477346	2.193376	2.132261
Median	4.043536	2.42946	2.505540	2.300454	2.059668
Maximum	6.126985	2.549590	2.554468	2.853454	2.564666
Minimum	2.306270	1.253348	1.365488	1.046104	0.973588
Std. Dev.	0.865494	0.628678	0.433622	0.336807	0.376650
Skewness	-0.421453	-0.654421	-1.235774	-1.404656	-1.04521
Kurtosis	1.764547	1.465675	4.4055866	5.632543	4.68456
Jarque-Bera	2.84661	3.086769	8.83896	12.72418	7.915919
Probability	0.024551	0.012493	0.000878	0.002955	0.031409
Sum	138.4574	80.81684	80.62866	78.89461	75.20271
Observations	45	45	45	45	45

Source: Author's Computation using E-view 10 plus

This table provides a comprehensible image of economic diversification (GDP) and Small Medium Enterprises indicators by employing the descriptive statistics. The mean value Gross Domestic Product (GDP) is 3.564987 for the Small medium enterprises is 2.193376. The variables show positive value for skewness and this implies that the variables are skewed to the right. These indicate that the values are normally distributed. Kurtosis is a measure of peakedness of the variables has the following 1.764547 for GDP and it has 5.632543 for the small medium enterprises. Jarque-Bera which is also measure of normal distribution given the corresponding P-value, we accept the null hypothesis of normal distribution for all the variables. The null hypothesis here is that the series is normally distributed so as to be consistent with Skewness test. The Skewness values for DMBL and SMEO were -1.235774 and -1.404656 which are less than 5% level of significance. This means that the series was normally skewed. Jarque-Bera measures the difference between Kurtosis and Skewness; the highest and lowest values give 5.632543 and -0654421 for SMEO and IRTS in their

respective order. In terms of probability, a value less than 5% represents abnormal distribution data and if otherwise, the result is said to be normal and abnormal value is idea. The value of 45 observations represents the period 1983 to 2023 of time series data sampled from secondary data.

Table 4 2: Test for Stationarity Using Augmented Dickey-Fuller (ADF) Unit

Variables	ADF Test Statistics	At First Difference	At 2nd Difference	1% Critical Value	5% Critical Value	Order of Stationarity
LNGDP	3.9704	-3.0134	-8.1029	-2.8542	-3.7661	1(1)
LNIRTS	-2.5540	-4.5610	-4.9714	-2.8542	-3.7661	1(1)
LNDMBL	-1.7891	-8.1454	12.5684	-2.8542	-3.7661	1(1)
LNSMES	2.01203	-3.6413	-10.0164	-2.8542	-3.7661	1(1)
LNINFR	-4.1674	-5.4112	-7.6346	-2.8542	-3.7661	1(1)

Source: Author's Computation, Using E-View 9.0, 2023.

The table show the results of unit roots test. All the variables are integrated of order 1(1), implying that the variables contain unit root and statistically significant at first difference both at 1 percent and 5 percent significant level. At the 5 per cent level of significance, the ADF test statistics are significantly greater than the critical value, this indicated that the null hypothesis of a unit root (non-stationary) is rejected, while the level of time series is characterized as integrated of order one because the variables are cointegrated as the linear combination of the individual integrated series is 1(1) is stationary.

Cointegration test

Table 4.3. Result of the Unrestricted Co-Integration Rate Test (Trace)

Null Hypothesis	**n-r**	**Hypothesized No of CEs**	**Eigen value**	**Trace Statistics**	**0.05 critical value**	**Prob****
r =0	5	None *	0.950507	168.1039	98.78106	0.0000
r < 1	4	At most 1 *	0.865381	86.50750	68.94820	0.0010
r < 2	3	At most 2	0.642939	46.27781	49.83421	0.1140
r < 3	2	At most 3	0.247258	18.60207	30.68707	0.4361
r < 4	1	At most 4	0.155706	8.719504	15.614680	0.3780
r < 5	0	At most 5	0.087578	2.941046	3.844164	0.0900

Source: Author's computation; Using E-View 9.0

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level.

**MacKinnon-Haug-Michelis (1999) p-values.

The Table 3.2, revealed that there is Co-integration among the variables, because the Trace statistics of 168.10 is greater than the critical value of 98.78 and the Trace statistics of 86.51 is greater than the critical Value of 68.95 at 5% level of significance. We reject the null hypotheses of none* of the hypothesized number of Co-integrating equation and accept the alternative. Similarly, Trace statistics test indicates 2 co-integrating equations at 5% level of significance. For the remaining number of hypothesized co-integrating equation (at most 2, 3, 4 and 5), we do not reject the null hypothesis as their Trace statistics values are less than the critical values at 5 % level of significance.

2.6 Regression Results Analysis

Table 4.4: ARDL Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LRGDP(-1)	0.577463	0.160479	2.546577	0.02103
LIRTS	0.458804	0.496384	2.438066	0.0036
LDMBL	0.504907	0.013847	2.415043	0.0708
LSMEO	0.597688	0.025743	1.658228	0.0023
LINFT	-3.461186	0.023993	0.133318	0.0447
LNONP	1.275664	0.572311	5.694250	0.0352
C	0.875644	0.475739	4.645473	0.00000

R-squared	0.989905	Mean dependent var	7.556112
Adjusted R-squared	0.986904	S.D. dependent var	0.339462
S.E. of regression	0.144502	Akaike info criterion	-0.672251
Sum squared resid	0.001906	Schwarz criterion	-5.678245
Log likelihood	138.3219	Hannan-Quinn criter.	-0.875043
F-statistic	5041.614	Durbin-Watson stat	1.856170
Prob(F-statistic)	0.000012		

Source: Author's Own Computation, using E-View 9.0, 2023.

Sample: (adjusted): 1980-2023

Dependent variable: LRGDP

The ARDL analysis was carried out to examine the impact of small medium enterprises on economic diversification. The result shows that the coefficient of determination (R^2) which

explains the goodness of fit of the model was statistically high at 0.989905, which implies that about 99% of the total variation in the log of real GDP is explained by the regressors of the model, while the remaining 1% is explain for by the variable outside the model, which is the error term (μ). The value of F-statistics was also high at 5041.614 which explain the overall significant of all the variables incorporated in the model, while the estimated Durbin-Watson (D-W) statistics of 1.856170, which is greater than the coefficient of determination, thus indicated the absence of autocorrelation.

The above result shows that the estimation of the constant is 0.875644. This implies that when all the explanatory variables are zero, the estimate coefficient of GDP (LNGDP) is 0.577463. This is positively signed at about 6% with a probability value of 0.021. This agreed with the apriori expectations as stated in the model specification. This further indicate that a unit increase in GDP will bring about a 0.577463 increase in total export earnings. Since the T-statistics is 2.546577, it is statistically significant at 0.05 level. The Coefficient of Interest rate (IRTS) is 0.458804. This indicated a direct relationship between GDP and interest rate. As such, a unit increase in Interest rate will bring about a 0.458804 increases in GDP. This relationship is consistent with apriori expectation. Since the P-value (0.003) is less than 5% level of significance, hence, the null hypothesis is rejected. This implies that Interest rate (IRTS) has a strong influence in determining the economic growth in Nigeria.

The estimated coefficient of Deposit Money Bank loan (DMBL) is 0.504907. This positively signed with a probability value of 0.0708, The probability value is consistent the assumption of apriori expectation. This indicates that there is a direct relationship between GDP and DMBL. As such a unit increase in DMBL will bring about a 0.504907 increase in total GDP. Since the T-statistics is 2.415043, it is statistically significant at 0.05 level. The Coefficient of Small Medium Enterprises output (SMEO) is 0.547688. This indicates a direct relationship between GDP and SMES. As a result, a unit change in SMEO will bring about a 0.547688 changes in GDP. This relationship is consistent with a priori expectation and its statistically significant at 0.05 level. This significant was due to the T-statistic (1.658228) at 0.05 level.

The Coefficient of Inflation (INFL) is -3.461186. This indicates a negative relationship between GDP and Inflation rate. Therefore, a unit change in Inflation rate will have a negative impact on the economic growth. This relationship is consistent with apriori expectation and not statistically significant, because the t-statistics (0.133518) at 0.05% level. The Coefficient of Non-oil export (LNEXP) is 1.275664. This indicates a direct relationship between GDP and Non-oil export. Therefore, a unit increase in non-oil export will bring

about a 1.275664 increase in total GDP. This relationship is consistent with a priori expectation and it is statistically significant for GDP (economic growth) since the T-statistics (5.694250) at 0.05% level of significance.

Policy Implication

The focus on SMEs development was evolved from the 5th National Development Plan (1988-1992). The government and the private sector assumed a synergistic role, the government acts as a facilitator, the SMEs took the role of an economic driver. Various support structures was initiated to create a dynamics business environment, such as, Commercial loans, Bank of Industry (BOI), Nigeria Agricultural Co-operative and Rural Development Bank (NACRAB), Small Medium Enterprise Development Agency of Nigeria (SMEDAN) and other national economic agencies to provide sundry support schemes for SMEs. Also provided was; Fiscal incentives and export, tariff regimes and financial support and Technical assistance programmes, to provide protection to SMEs. The fiscal incentives include tax relief for SMEs for first six years of operation, granting of pioneer status for a period of five years, with a possible extension of two years for enterprises located in economically disadvantages areas. Export incentives include the introduction of import duty drawback, export credit and insurance schemes (Adebusuyi, 2008).

These reforms policies encompass all the necessary ingredients to create a business friendly environment. The SMEs sector need to constantly expand bilateral linkages in developing factor endowments while improving their transparency. National development priority should gradually adjust themselves to regional initiatives and produce the necessary liberalization policies for the realization of a booming SMEs environment.

Conclusion

The study empirically examined the impact of SMEs for economic diversification in Nigeria in the period 1980-2023. Autoregressive Distributed Lag (ARDL) model analysis was employed to verified the significant of diversification via Small Medium enterprises in Nigeria. Following the data analysis using E-view econometrics techniques, the findings revealed that there is a significant relationship between small medium enterprises and economic diversification in Nigerians. This corroborates the work of Ovwiroro (2017) who examined the challenges and improvement strategies in the diversification of the Nigerian economy through SME development. The study also revealed that there is a long run relationship between Small Medium enterprises and economic diversification in Nigeria. The

study concluded that the Nigerian government should pay more attention to SME development as it could impact the Nigerian economy positively. The work of Oboh (2002) on the effect of economic diversification on SME development also agrees with the result obtained from the test of hypothesis. The study revealed that economic diversification could impact SME growth in Nigeria.

Recommendations

Based on the findings of the study, the following recommendations are made,

The Nigerian government should ensure that Banks and non-Banking financial institutions should come out with well-designed products and services that will adequately meets the financial needs of the SMEs sector. Government should provide incentives and ready market for the products of the sector. The Government should support the growth of SMEs through waiving of taxes and granting of subsidies to the SMEs business. The Nigerian government should enact and implement policies that would help control inflation rate in the country as it affects the performance of SMEs. Finally, government should intensify efforts to boost SMEs as key area her comparative advantage. Diversifying the economy through the SMEs would help Nigeria reduce her dependence on oil and pave the way for broad-based economic growth and development.

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