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EFFECT OF SMES FINANCING ON INCLUSIVE GROWTH IN NIGERIA: A ROADMAP THROUGH CHALLENGES AND OPPORTUNITIES

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Abstract
This study investigated the impact of financial inclusion on the economic growth of Nigeria. Related conceptual, theoretical and empirical literatures were reviewed. The scope of the study covered the period of 2007 to 2023. The study employed secondary data sourced from Central Bank of Nigeria (CBN), Nigerian Exchange Group (NGX). The study adopted ex-post facto research design and ordinary least square (OLS) estimation technique in the analysis and test of the hypotheses. The result reveals that loan granted to customers has significant positive effect on economic growth in Nigeria for the period of the study and that there exists insignificant negative effect of deposit with banks on economic growth in Nigeria. This study therefore concludes that financial inclusion has significant effect on economic growth in Nigeria for the period under review and recommended as follow: that banks should sustain their credit activities as it will both improve their financial performance as well as affect economic growth of Nigeria, that banks should initiate deposit incentives to entice their customers, that banks should pursue the goal of spreading their branches as it will enhance inclusion policy of the government and improve economic growth of Nigeria. Finally, campaign for mobile banking services in Nigeria should be strategized by banks as it is capable of boasting financial inclusion and economic growth of Nigeria.
Keywords: Inclusive growth, small and medium enterprises, economic development, Nigeria

1. Introduction

The experience of Nigeria in the past two decades have shown that mere expansion of output in the form of increase in Gross Domestic Product (GDP) is not a sufficient condition for reduction of poverty, unemployment and inequality. Nigeria, despite the opportunity offered by its significant oil revenue over the years has not put in place the factors necessary for creating an inclusive growth process. For instance, despite several government policies in the education sector, the picture remains one of low enrolment, insufficient quality and wide divergence in student performance based on socio-economic background. Participation in the labour force is quite low, with a large informal sector and much of the population working hard but unable to pull their families out of poverty. World Bank (2018) stated that only 3.9 percent of income

goes to labour, resulting in low wages and over 80 percent of population living on less than 2 dollars per day. The country suffers from poor infrastructure and lack of basic services, with corruption and diversion of public funds making it difficult for the government to deliver public goods.

Despite a relatively entrepreneurial environment, Nigeria is not yet able to achieve growth that is sustainable and broad based (Ndiomaluke et al., 2025). This situation calls for deliberate and immediate action if Nigeria should prosper in the present global economic malady, hence the need to deliver inclusive growth. To this end, it has been recognized that the growth centered approach to poverty reduction may be a necessary but not a sufficient condition for poverty reduction. The need to make growth inclusive (social and economic dimensions) should become centre of government reform agenda. Policies for inclusive growth are important components of most government strategies for sustainable growth. For instance, a country that has grown rapidly over a decade but has not seen sustainable reduction in poverty and unemployment rates may need to refocus specifically on the inclusiveness of its growth strategy that is on the equality of opportunity for individuals and firms, Increasing the output of crude oil produced may not lead to increase in employment opportunities, reduction in poverty and inequality because such growth strategy lacks inclusiveness. In order for growth to be inclusive, there needs to be the creation of economic opportunities and also equal access to them. Inclusive growth can thus also contribute to reduction in poverty and unemployment by creating productive economic opportunity for poor and vulnerable groups.

Inclusive growth focuses on both the pace and pattern of growth which is a necessary and crucial condition for poverty reduction. The high level of poverty, high rate of unemployment and great extent of income/wealth inequality occurring simultaneously in the developing economies of the world have compelled researchers and governments to focus attention on a new approach to bring about inclusive growth, Odetayo (2019). Consequently, the Nigerian economy therefore, needs to adopt a long-term perspective which is linked with sustained growth. Furthermore, for growth to be sustained in the long run, it should be broad-based across sectors where inclusiveness refers to equality of opportunities in terms of access to markets resources and unbiased regulatory environment for business and individuals.

Against, this background, Nigeria, in planning for growth that is broad-based, must ensure that adequate mechanisms are put in place to leverage on the benefits of Small and Medium Scale Enterprises (SMEs) and such mechanisms are necessary to enhance the performance of SMEs. This is due to the fact that the contribution of SMEs cannot be overemphasized because of their capacity to enhance the economy's

output and human welfare. SMEs are generally synonymous with indigenous businesses because they possess enormous capability to grow an indigenous enterprise culture more than any other strategy Also, SMEs provide the catalyst for industrial take off and economic growth. Therefore, in most developing economies, SMEs represent the sub-sector of special focus for any meaningful economic restructuring programmed that targets employment generation, poverty alleviation, food security, rapid industrialization and reversing rural-urban migration. Aiboshin (2017) stated that SMEs are critical components of economic development as they account for more than 50 percent of GDP of developing economies. According to him, SMEs are the main source of entrepreneurship, innovation and technological development; they provide the required human capital and raw material to large businesses. SMEs in both developing and developed countries play important roles in the process of industrialization and economic growth by significantly contributing to employment generation, income generation and catalyzing development in urban and rural area Owusu (2016); Hans (2016); Weiss (2019); Swamy (2016).

In recent years, many emerging and developing countries have started leveraging the advantages of SMEs to improve their economy. For instance, as surveyed by world bank group reports, stylized fact on the contribution of SMEs as a percentage of GDP in India, South Africa, Brazil and Turkey revealed 20 per cent, 57 per cent, 72 per cent and 60 per cent respectively, also in the same vein, SMEs as a per cent of employment for these countries were 40 per cent, 61 per cent, 60 per cent, 70 per cent, there is also significantly high SMEs participation as a per cent of firms (Algan, 2019).In Nigeria, however, 96 per cent of businesses are SMEs, with about 90 per cent screwed towards the manufacturing/industrial sector (UNEP, 2016), despite this fact, they contribute just 1 per cent to national income.

In Nigeria, it is a conventional truth that there is need to provide adequate foundations for improving business environment in quantum leaps, simultaneously setting the ground for broad based growth, hence policy makers need to resolve constraints that constitute bottlenecks to free markets and growth of SMEs.Furthermore, one of the major reasons that stand in the way of SMEs is the lack of credit access (UNDP, 2016). There are a lot of dimensions to this issue but the lack of depth of development agencies/banking sector and absence of other outlets of finance such as venture capital firms to support start-ups and small-medium scale business, the high cost of credit which also a major proxy of access to credit combined with short intervals of loanable funds, lack of depth of micro finance institutions that are supposed to foster financial inclusion, all these inefficiencies occur alongside asymmetric information that exist in the lending market between SMEs and micro finances (World Bank, 2018b).

Against this backdrop, SMEs financing if done the right way should be capable of reducing inequality, poverty and empowering the population through productive employment, hence a broad-based growth fundamental or worldview is required. Thus, in the planning for economic growth, Nigeria can ensure that adequate mechanisms are put in place to leverage on the benefits of entrepreneurial capitalism in the mask of SMEs, such mechanism are required to guarantee inclusive growth.Also, most of the literature on SMEs focuses on the impact of SMEs on output growth (Moghalu, 2018, Muritala, 2019, Awoloja, 2019). Some focus on the role of financial institutions on the growth of SMEs (Bako, 2019, Nwankwo, 2018). Others focus on the challenges, prospect and problems of SMEs in Nigeria (Ojeka, 2019, Migap 2019, Migap 2019, Michael 2016). Furthermore, very few studies attempted to find the relationship between SMEs and inclusive growth in Nigeria and these studies have not been able to provide consistent evidences. For instance, beginning with the seminar studies of McKinnon (2017) and Anderson (2018), some economists (Birdsall, 2017, Obasan &Arikwuyo, 2018 among others) have found positive relationship between SMEs and inclusive growth. Others like Swamy (2016), Hans, (2016), Gregori & Lee (2018), Maduka& Weiss, (2019) found negative relationship. Interestingly, some studies found mixed results (Murtala et al., 2019). These studies on SMEs and inclusive growth nexus are not only based on old evidences but a new interrelationship also reveals the same trend (Gregori & Lee, 2018). The relationship between SMEs and inclusive growth has since remained topical in the literature and till today, experts have not been able to reach consensus on this nexus. It is in the light of the foregoing that this study seeks to find the relationship between adequately financing SMEs to bring about reducing unemployment, poverty and inequality viz-a-víz inclusive growth in Nigeria.There, the broad objective of this study is to examine the effect of SMEs financing on inclusive growth in Nigeria, based on this, the following research question is stated to address underlying factor as follows:1992-2021. The specific questions are to what extent have SMEs financing impacted on the growth of SMEs, employment generation, and poverty reduction in Nigeria? hence, the following hypothesis is formulated to guide the study as follows:

H01: SMEs financing does not have significant impact on SMEs growth

H02: SMEs financing does not have significant impact on employment creation in Nigeria.

H03: SMEs financing does not have any significant impact on poverty reduction in Nigeria

This study will contribute towards the achievement of sustainable growth and would enlighten all and sundry on the latest happenings and the viability of the SMEs sub-sector. The findings of this study will be beneficiary to scholars and policy makers as it is design to fill the literature gap that existed from empirical review on the SMEs

financing and inclusive growth. In addition, in term of methodology this study is an improvement to previous studies as it utilizes the simultaneous equation model utilizing the recursive least square method. The study seeks to obtain new evidence of the impact of SMEs financing on inclusive growth nexus with inclusive growth being the new indicator for capturing growth in the Nigerian context.

The remainder of the paper section 2 that deals specifically with the review of related literature on financing and inclusive growth as well as underpinning framework. The reviews covering the conceptual issues, underpinning theory, and empirical review by identifying gap in the literatures. Section 3is the methods adopted for the study, and research philosophy and justification for the use of the methods of analysis as well as the source and types of data employed. Section 4 depicts the results of the data analysis, and Section 5 is the conclusion and recommendation of the study

2. Literature review

Conceptually, Central Bank of Nigeria (CBN, 2015) defines a MSEs as entity with total assets of less than 150 million, annual turnover of less than 150 million and less than 100 employees. A small-Scale enterprise (SSE) on the other is one with less than 50 employees, less than 1 million assets value and less than Ni million annual turnover. On the other hand, the Nigerian Association of Small-Scale Industries (NASSI, 2014), defines SSE as one with a total asset value of less than 40 million, annual turnover of less than 40 million and number of employees ranges between 3-35. The National Association of Small and Medium Enterprises (NASME,2005), defines MSEs as one with total value asset of less than 150 million, less than 500 million annual turnover and less than 100 employees. A Small-scale enterprise as one with operating cost of less than 50 million, less than 50 employees and less than 100 million annual turnover rate medium enterprises (ME) as an organization with less than 1 million asset value, less than 10 million turnover and less than 10 employees.

2.1 Conceptual Literature

2.1.1Concept of Financial

Inclusion

Inclusion: Financial inclusion in a lay man's language is providing savings, credits, payments and risk management products to people most especially, vulnerable and disadvantaged groups of people with a variety ofneeds at low costs (Anyanwu et al,2018). Financial inclusion is a new concept and became more popular in 2010, but its commonly accepted definition has not been totally agreed upon due to multidimensional and different approaches of financial inclusion in different countries

(Okoyeet al., 2017;Tita&Aziakpono, 2017; Mutandwa &Roux, 2018; Neaime& Gaysset,2018). Financial inclusion is defined as the process that includes the delivery of financial services (loans, deposits, insurance) in a timely manner to all segments of society at appropriate costs. According to Nguyen &Van (2021) financial inclusion as a situationin which companies and individuals can Access to and use of financial services. Therefore, it does notonly reflect financial development, but also financial knowledge, andtherefore, financial inclusion can provide the basis for the development of the financial system (Chuc et al, 2022; Emara & El Said, 2021).

2.1.2 Concept of finance

According to Parish (2016), finance may be defined as the position of money at the time it is wanted. In the words of Egbetunde (2018), the term finance can be defined as the management of the flows of money through an organization, whether it be a corporation, school, bank or government agency. According to Howard & Upton (2017), finance may be defined as that administrative area or set of administrative functions in an organization which relates with the arrangement of both as well as money so that the organization may have the means to carry out the objectives as satisfactorily as possible. In the words of Onumah& Amadi (2018), financing consists in the raising, providing. managing of all the money, capital or funds of any kind to be used in connection with the business. As put forth by Onumah& Amadi (2018), in his book 'Modern Corporation Finance' finance is defined as 'an organism' composed of a myriad of separate enterprise, each working for its own ends but simultaneously making a contribution to the system as a whole, some force is necessary to bring about direction and co-ordination. Something must direct the flow of economic activity and facilitate its smooth operation. Finance is the agent that produces this result.

2.2 Theoretical Literature

2.2.1 Mercantilist Theory of Inclusive Growth

Inclusive growth theories originate from representatives of Mercantilism (15 -17 centuries). The term 'Mercantilism was introduced into scientific circulation by the French economist Antoine de Montchrestien (Kabuoh&Okwu, (2017). Mercantilism considered the accumulation of wealth as the main source of economic growth and the main purpose of economic activities of traders and the state (Okafor, 2018).While representatives of the early Mercantilism preferred precious metals and coins as absolute liquid materials, later Mercatilists considered the economic power of the nation in terms of total amount of the goods produced and were in favor of a trade surplus. This trend is partly due to the development of Small and Medium Scale Enterprises (SMEs) and domestic markets (Okoye et al., 2017)

According to the views of the Mercantilists Lei et al (2021), the opportunities to profit from the production of goods and access to credit contribute to the multiplication of wealth. The presence of a sufficient amount of metallic money, particularly of gold and silver coins, provided the necessary access to credit facilities and relatively low interest rates on loans in the country. For this reason, early Mercantilists insisted on restricting the export of gold from the country. Thus, the presence of gold and silver coins in circulation was elevated to a necessary fundamental principle of the inclusive growth, while active SMEs activity was seen as a prerequisite for such growth. This approach can be considered as historical pattern based on the simple fact that all the capital at that time was presented as trade capital while there was not any significant amount of industrial capital yet.

Based on the above position, the mercantilists welcome the export of goods, as it is a source of metal money inflow into the country and at the same time advocated for the restriction of imports of goods into the country. This policy was designed to ensure a trade surplus, a sufficient amount of metal money that sustained the growth of SMEs, the economy thereby resulting to the creation of employment (Oladeebo, 2018).

The Endogenous Growth Theory holds that economic growth is primarily the result of endogenous and not external forces. The theory holds that investment in human capital, innovation and knowledge are significant contributors to small and medium scale enterprise growth. The theory also focuses on positive externalities and spillover effects of a knowledge-based economy which will lead to inclusive growth that will bring about economic development. The endogenous growth theory primarily holds that the long-run growth rate of an economy depends on policy measures. For example, subsidies for research and development of education increase the growth rate in some endogenous growth models by increasing the incentive for innovation.

2.3 Empirical Review

McCaig and Stengos (2017) introduced more instrumental variables with a view to establishing a more robust empirical relationship between financing SMEs and SMEs growth. The study uses a cross-country analysis of 71 countries for the period 1990-2015. A linear regression model which defines SMEs growth as a function of financing SMEs and a set of conditioning variables was estimated using the generalized method of moments. While the instrumental variable introduced included: religious composition, years of independence, latitude, settler morality and ethnic fractionalization, three conditioning variables were also used. These include; simple sets (initial GDP and level of education), the policy set (simple set, government size, inflation, black market premium and ethnic diversity) and the full set (simple set, policy set, number of revolution/coup number of assassinations per 1000 inhabitants,

and trade openness). This study also supports the argument that a positive relationship exists between financing SMEs and SMEs growth. However, it emphasized that this will be true if financial intermediation is measures by liquid liabilities and private credit as a ratio of GDP, while it will be weaker if it is measured using the commercial central bank ratio.

Romeo Avila (2017) also confirmed the positive impact of financing SMEs on growth. He investigated the relationship between finance and growth, with emphasis on the effect of financial deregulation and banking law harmonization on economic growth in the European Union. They study establishes that financial intermediation impacts positively on inclusive growth through three channels.The study of Egbetunde (2018) is quite informative and unique. It is a micro-based study and uses the inter temporal approach to explain the theoretical rationale of the impact of financing SMEs on inclusive growth, I assume a transition form period 1 (financial sutarky) to the period 2, which is the period when financial intermediation is attained. Although this study is theoretical in nature, the general equilibrium analysis was used and it concludes that the growth effect of costly financial development is ambiguous when regime switch is associated with the adoption of more capital-intensive technology.

Odhiambo (2018) seeks to examine the dynamic causal relationship between financial depth and SMEs growth in Kenya. The study focuses on the period 1990-2015 and included savings as an intermitting variable. To achieve this task, this study adopted two econometric techniques, the dynamic invariant granger causality test and the error correction model. This study concludes that one way direction causality, from inclusive growth to finance exits in Korya. In other words, finance plays a minor role in the attainment of inclusive growth in Kenya Wolde Rafael (2019) is of a contrary opinion. Using a different econometric technique, the Quad Variant Vector Autoregressive (VAR) frame-work and data from 1966 to 2016, it concludes that two-way directional causality exists in Kenya.

Bangake and Eggoh (2018) also support the views of an existing two-way directional causality between financing SMEs and inclusive growth among developing countries. This study focuses on seventy-one countries which included eighteen developing countries for the period 1960 to 2014. The study carried out its empirical analysis using both the panel co-integration tests and the panel co- integration estimation (ie, Dynamic OLS and panel VECM approach). Its establishes that both financing SMEs and inclusive growth have influence on one another but suggests that a long-run policy approach may prove beneficial among the developing countries.Onaolapo (2018)studied the impact of small-medium enterprise on economic growth and

development in Nigeria. The authors collected structured questionnaires from five selected local government and analyzed using descriptive statistics and correlation analysis to identify the perception of the role of SMEs in Nigeria. The study concluded that failure of SMEs is due to majorly poor management, corruption and lack of financial support.

In a cross-country analysis by Igwe et al (2018) investigated the factors affecting the investment, climate, entrepreneurship and small medium enterprises productivity in Nigeria. The paper considered relationship between entrepreneurship and business environment using data drawn from World Bank enterprise survey. It was found in the study that high rate of population growth requires investment to boost economic activities and address the problem unemployment, low income earning opportunities and poverty.Odedokun (2018), in his study emphasized that even though SMEs financing promotes SMEs growth, the growth promoting effects are more pronounced in the low-income countries.Using a cross-country data analysis of 71 less developed (LCDs) for the period 1980-2016, the study expanded the neo-classical one-sector aggregate production function with financial development as an input. Two model were derived with inclusive growth as the dependent variable, while the regressors include, labour force growth, investment GDP ratio, real export growth and financial dept. the model were estimate using the ordinary least square technique as well as the generalize least square technique. They found a positive relationship which impact of SMEs financing is at par with export growth and capital formation. However, its impact on inclusive growth is superior to labour force growth.

Amadi (2018) studied the impact of small and medium scale enterprises in the generation of employment in Lagos State Two different statistical methods were employed by the researcher for data analysis. The results show that SMEs and sustainable development of the Nigeria economy are related, just as promotion of SMEs and improvement in employment generation are related. They therefore, concluded that for a nation irrespective of its economic ideology to achieve meaningful and sustainable development, adequate attention must be given to wide spread of economic activities through entrepreneurship and small and medium scale enterprise generation.

In the same vein, Imoisi& Ephraim (2019) examined small medium enterprises and economic growth in Nigeria, over a period of 42 years, using ordinary least square, co-integration and error correction model to estimate data collected. Their result concludes a positive relationship exists between economic growth and SMEs financing.

Jungo et al (2022) assessed the effect of financial inclusion and competitiveness on banks' financial stability, considering the moderating role of financial regulation. The

study employed a time period of 2005–2018 and collected data from 46 SSA countries and 31 LACs adopting descriptive statistics. The result suggested that inclusion enhances bank stability in SSA and LAC countries, and financial regulation contributes to increasing financial stability in LAC countries, while we find no statistically significant in the effect of financial regulation on financial stability in SSA countries. Moreover, competitiveness negatively impacts financial stability, and financial regulation moderates the negative effect of competitiveness on financial stability in SSA and LAC countries.

Odumusor et al. (2024) Financial Inclusion and its effect on economic growth in Nigeria. This study has two specific objectives: To determine the effect of loans on small businesses and to find the extent to which deposits and loans from commercial banks' rural branches influenced Nigeria's economic growth. Employed ex-post factor research design, and the scope of 2000 – 2020 while ordinary least square technique (OLS) was adopted in the analysis. The result of the findings shows that the funding of small businesses by commercial banks has significant effect on the growth of Nigerian gross domestic product (GDP) for the period of the study. The result further reveals that loans and deposits from rural branches of commercial banks also has significant and positive effect on the gross domestic product (GDP) of Nigeria for the period under our investigation. Their study concludes that loans to small scale firms/businesses and deposits and loans of commercial banks has substantial effects on economic growth and development of Nigeria.

Tebepah et al. (2024). This study investigated the impact of financial inclusion on the economic growth of Nigeria. Related conceptual, theoretical and empirical literatures were reviewed. The scope of the study covered the period of 2007 to 2023. The study employed secondary data sourced from Central Bank of Nigeria (CBN), Nigerian Exchange Group (NGX). The study adopted ex-post facto research design and ordinary least square (OLS) estimation technique in the analysis and test of the hypotheses. The result reveals that loan granted to customers has significant positive effect on economic growth in Nigeria for the period of the study and that there exists insignificant negative effect of deposit with banks on economic growth in Nigeria. Therefore, concludes that financial inclusion has significant effect on economic growth in Nigeria.

Several studies have examined the roles of SMEs from different jurisdiction using different techniques. Most of the literature focuses on the challenges, prospects and problems of SMEs in Nigeria. Some focus on the impact of SMEs on output growth. Some also on the role of financial institutions on SMEs growth. Very few studies attempted to find the relationship between SMEs financing and inclusive growth. However, these few studies have not been able to provide consistent evidences. Therefore, this study extends research on the impact of financing SMEs to bring about

inclusive growth viz-a-viz creation of employment and reduction of poverty level in Nigeria. In addition, most reviewed studies did not examine the transmission mechanism of how loans to SMEs affect SMEs output which will also have antecedent effect on inclusive growth. In other words, SMEs loans pass through to inclusive growth via SME output and this is adequately analyzed using the recursive (triangular) model, and none of the extant studies have taken longitudinal study from 1992 to 202, which forms the gaps this study desires to fill.

3. Methodology

This study utilized ex post facto research design due to the ability of this design to forecast time series variables and secondary sources of data was employed. Time series data on the variables were sourced and collected from the central bank of Nigeria (CBN) Statistical Bulletin, Nigeria Exchange Group (NGX) and National Bureau of Statistics (NBS) for the period 2007 - 2023. The study followed a systematic time-series economic approach for testing whether the nature of time series data will be stationary or non-stationary to biased result before using any econometric technique. This study utilized gross domestic product (GDP) as the dependent variable. The independent variables include loans granted customers (LGC) and Deposit with Banks (DWB), for the period under our review.

3.1 Model specification and measurement

A multiple regression model of this study shows:

$EMPG_t = \beta_0 + \beta_1 AIDG_t + \beta_2 BKCR_t + \beta_3 PCIN_t + \beta_4 SMEC_t + \beta_5 SMEQ_t + \mu_t$

Where;

EMPG = Employment growth; (Dependent variable) to be proxied by gross domestic product GDP, which is generally an index of economic growth and development; AIDG = the loan granted to customers as dimension for financial inclusion; BKCR = Deposits with banks is a dimension for financial inclusion; PCIN = per capital income is average income earned; SMEC = small and medium enterprise credit means financial assistancerendered to SME; SMEQ refers to small and medium enterprise quantity output; t = Time period under study; β0 = Constant; and β1 to β2 = Parameter or coefficient of explanatory variables, and μ is the error terms respectively.

4. Results and Discussion

The data to be used for empirical analysis of the impact of SME financing on inclusive growth in Nigeria is presented in this segment. The data is sourced from CBN Statistical Bulletin 2021 and presented with descriptive statistics, unit root test, unrestricted cointegration rank test, least squares result, and test of hypothesis as depicted as follows:

Table 1: Descriptive Statistics

The Summary statistics as derived through E-Views 11.0 shows the Mean, Median, Maximum, Minimum, Standard Deviation, Skewedness, Kurtoise, Jacque-Bera and Probability of each of the
variables.

Table 1: Descriptive Statistics

Source: Output from E-Views Software, Version 11.0.

From the descriptive statistics depicted in table 1, all the variables have equal number of observations which is Thirty-one (31) observations each. It was observed from the above normality test with reference to the Jarque-Bera estimates and probability value that all the variables were normally distributed except SCS as indicated by its probability value of 0.00000 which is lower than the probability value of 0.05, this is follow by the unit root test:

Variable	ADF Statistics	Prob.	Stationary status
SMEQ	-7.0259	0.0000	I(0)
EMP	-8.5843	0.0000	I(1)
SCS	-5.8491	0.0000	I(2)
PCI	-5.1655	0.0000	I(1)
AGS	-7.0152	0.0000	I(1)
BC	-4.0439	0.0134	I(0)

	EMPG	AIDG	BKCR	PCIN	SMEC	SMEQ
Mean	76.14586	7786.258	7.565172	34043.52	2935.372	10911.03
Median	75.70000	5024.540	4.800000	25267.54	738.2000	7416.290
Maximum	79.80000	15952.22	18.80000	69023.93	29660.30	26925.31
Minimum	73.20000	2891.670	1.410000	15263.93	22.20000	3968.980
Std; Dev	2.008855	4465.132	5.681799	17236.97	6325.067	7390.997
Skewness	0.315420	0.496574	0.692242	0.751148	3.110697	0.953133
Kurtosis	1.924948	1.701969	1.819380	2.140163	12.55525	2.443548
Jarque-Bera	1.877382	3.227732	4.000379	3.620421	157.0937	4.765048
probability	0.391140	0.199116	0.135310	0.163620	0.000000	0.092317
Sum	2208.230	225801.5	219.3900	987262.1	851125.80	316419.9
Sum sq. Dev	112.9939	5.58108	903.9195	8.32209	1.12109	1.53309
Observation	31	31	31	31	31	31

Table 2: Unit Root Test

Source: Output from E-Views Software, Version 11.0.

The Augmented Dickey-Fuller test will be used to test for unit root. All the variables were regressed on trend and intercept to determine if they have trend, it was discovered that the five variables have trend and intercept, hence the unit root test

involve trend and intercept. The result is presented in Table 2. The 5 independent variables, and the DV variables (EMP, AGS, BC, PCL, and SMEQ) underwent unit root test using the Augmented Dickey-Fuller (ADF) test. SMEQ, and BC were stationary at level while EMPG, PCIN and AGS were stationary at first difference. SMEC was stationary at second difference. Following this is the Co-integration test.

Table 3: Unrestricted Cointegration Rank Test (Trace) Result

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.993437	627.3880	139.2753	0.0001
At most 1*	0.979779	401.2009	107.3466	0.0001
At most 2*	0.891063	225.6554	79.34145	0.0000
At most 3*	0.821140	125.8912	55.24578	0.0000
At most 4*	0.439856	48.43931	35.01090	0.0011
At most 5*	0.278764	22.35902	18.397771	0.0132
At most 6*	0.156402	7.653545	3.841466	0.0057

Source: Output from E-Views Software, Version 11.0.

Table 3 show cointegration result using Johansen cointegration test. From the result there are six cointegrating equation indicating that all the variables are cointegrated at 5% level of significance. This shows that the long run relationship existing among the variables of study.The long run relationship exists at 5% level of significance according to the Trace test statistics and the Eigenvalue. This implies there exists six (6) co-integrating relationship among the variables. Therefore, there is long run relationship among the variables.

4.1 Two-Stage Least Squares

From Table 4 all the explanatory variables have positive impact of small and medium scale enterprises. From the result a unit increase in SMEC will lead to 6.593874 increases in SMEQ The result is statistically significant as indicated by the probability of 0.0000 which is lower than 0.05 (5 percent level of significance). A unit increase in AGS will lead to 6.218385 increases in SMEQ. The result is statistically significant as indicated by the probability of 0.0043 which is lower than 0.05 (5 percent level of significance).A unit increase in BC will lead to 0.107391 increases in SMEQ. The result is statistically insignificant as indicated by the probability of 0.2091 which is higher than 0.05 (5 percent level of significance).

Table 4: Least Squares Result

	Coefficient	Std.Error	t-Statistics	Prob
C(1)	16.37488	15.48078	1.057756	0.2921
C(2)	6.593874	1.310965	5.867742	0.0000
C(3)	6.218385	2.143457	3.057929	0.0059
C(4)	0.107391	0.085091	1.262070	0.2091
C(5)	0.311631	0.15380	3.295703	0.0029
R. Square	0.866412			
Adj R-Square	0.714181			
F-Statistics	30.46422			
Prob(F-Statistics)	0.0000			

Source: Output from E-Views Software, Version 11.0.

From Table 4. all the explanatory variables have positive impact of small and medium scale enterprises. From the result a unit increase in AGS will lead to 6.218 increases in EMPG. The result is statistically significant as indicated by the probability of 0.004 which is lower than 0.05 (5 percent level of significance). A unit increase in BC will lead to 0.107 increases in EMPG. The result is statistically insignificant as indicated by the probability of 0.209 which is higher than 0.05 (5 percent level of significance). Finally, a unit increase in PCI will lead to 0.312 increases in SMEQ. The result is statistically significant as indicated by the probability of 0.0043 which is lower than 0.05 (5) percent level of significance).Also, a unit increase in SMEC will lead to 6.594 increases in EMPG. The result is statistically significant as indicated by the probability of 0.0000 which is lower than 0.05 (5 percent level of significance). Furthermore, an increase of SMEQ lead to an increase in EMPG. The R^2 shows that about 86% of variations in the dependent variable (EMPG) were explained by changes in the explanatory variables of the estimated model. The high value of the f statistics (i.e., F^c= 30.464) and its probability value is 0.0000 which is less than 0.05 (5%) indicates that the parameters of the estimated model are jointly simultaneously statistically significant at 5% level of significance. This implies that the estimated model is good for forecasting, predicting policy formulated and analysis purposes.The test of hypotheses is based on the result of the 2SLS model. The hypotheses are tested as follows:

Table 1: Hypothesis Testing

Null Hypothesis	Formulated Hypothesis	Outcome
H1	Aids and grant (AGS) financing does not have significant effect on SMEs employment growth.	Supported (Imoisi & Ephraim, 2019).
H2	Bank credit (BACR) financing does not have significant impact on employment creation in Nigeria.	Not supported (Oladele et al., 2018).
H3	Per capital incomedoes not have any significant impact on SMEs employment growth in Nigeria	Not supported (Jibril, 2019).
H4:	SME growthdoes not have any significant impact on SMEs employment growth in Nigeria	Not supported
H5:	Small and medium enterprise quantity output does not have any significant impact on SMEs employment growth in Nigeria	Supported

Source: Generated by Author, (2025).

5. Conclusions and Recommendation

5.1 Conclusion

The examination of financial inclusion and its influence on sustainable economic growth in Nigeria, with a particular focus on Small and Medium-Sized Enterprises (SMEs), highlights the pivotal role that access to financial services plays in driving broader economic development. SMEs constitute the cornerstone of the Nigerian economy, serving as primary engines of job creation, poverty reduction, and gross domestic product (GDP) expansion. Greater financial inclusion directly tackles one of the most persistent barriers faced by these enterprises—limited access to capitalwhile simultaneously unlocking their growth potential. Through supportive regulatory

frameworks and targeted initiatives such as the National Financial Inclusion Strategy (NFIS), improved access to a full range of financial services enables SMEs to surmount financing constraints, expand operations, and channel resources into productive and innovative activities. In line with the findings of this study concludes that, aid and grant and small and medium enterprise quantity output has no significant effect on SME employment growth, while a credit, per capital income, and SME growth are positive and significant against economic growth.

5.2 Recommendation

To enhance financial inclusion and support the growth of SMEs in Nigeria, the study recommends that delivering focused financial literacy training programs to owners of small and medium-sized enterprises (SMEs) can substantially enhance their proficiency in financial management, improve their competence in identifying and mitigating risks, and enable them to make more informed, evidence-based strategic decisions.Policymakers and financial institutions should prioritize reducing lending interest rates and relaxing stringent collateral requirements to improve credit accessibility for small and medium-sized enterprises (SMEs). Such measures would significantly lower the cost of capital and remove key barriers to finance, thereby accelerating SME expansion, enhancing their contribution to employment and innovation, and supporting broader economic growth and development. Simplifying and accelerating budgetary approval procedures, coupled with consistent and predictable policy implementation, would substantially reduce regulatory uncertainty and compliance costs for small and medium-sized enterprises (SMEs). These reforms would foster a more stable, transparent, and supportive business environment, thereby enhancing SMEs' operational efficiency and long-term viability. Broadening access to digital financial services—particularly mobile banking, digital payment platforms, and other fintech solutions—can significantly improve operational efficiency, strengthen financial management practices, and reduce transaction costs for small and medium-sized enterprises (SMEs). These enhancements not only facilitate smoother day-to-day operations but also bolster SMEs' overall growth potential and competitive positioning in both domestic and international markets.

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