
DIVERSIFYING THE NIGERIAN ECONOMY: ROLE OF SMALL AND MEDIUM SCALE ENTERPRISES

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ABSTRACT: *This research work focused on economic diversification of the Nigerian economy through Small and Medium Scale Enterprises (SMEs). The major objective is to ascertain the impact of Small and Medium Scale Enterprises on the growth of the Nigerian economy over the period 1981 to 2017 using economic growth variables. The research work departs from the comparative advantage theory to technology gap theory that emphasizes that technological change brings about productivity improvement which spills over to small and medium firms. This enhances the growth of SMEs and results in increased production of raw materials and other non-oil products which are in abundance in Nigeria. To drive home this objective, we formulated a simultaneous equation model using secondary data on GDP (as a measure of economic growth), Total Oil and Non-oil Trade, Bank loans to SMEs, Output of SMEs and Interest and Inflation rates (as control variables). The data were analyzed using Two-Stage Least Squares (2SLS) technique having confirmed that the two equations of the model were over-identified. The results obtained confirmed the relevance of Small and Medium Scale Enterprises in the drive to diversify the Nigerian economy from oil-based to non-oil based. This research work provides empirical evidence on the topical issue of diversifying the Nigerian economy using relevant data to prove the extent to which SMEs have helped in growing the economy. It recommended ways of further improving the SMEs towards ensuring sustained growth of the Nigerian economy especially in this period of dwindling oil prices and climate abnormalities which pose serious hazard to our oil-based economy.*

KEYWORDS: Small and Medium Scale Enterprises (SMEs), Economic Diversification, Total Oil, Non-Oil Trade, Two-Stage Least Squares (2SLS)

JEL Classification: C01, C32, C54

INTRODUCTION

The Nigerian economy is overwhelmingly dependent on oil. Oil accounted for more than 60 per cent of government revenue in 2016 and more than 80 percent of export earnings of Nigeria (CBN, 2017; www.sweetcrudereports.com). At independence in 1960, the Nigerian government embarked upon massive infrastructural development in the areas of roads, communication networks, hydro-electric dams' secondary industries etc. which were expanded at levels far beyond what was inherited from colonial rule (Effoduh, 2015). These projects were financed from the meager resources of the government often with foreign assistance from such countries as Britain and the United States (UNDP, 2013). The Nigerian economy at the time was predominantly agrarian with each region of the country specializing in one agric product or the other; for example the groundnut pyramids in the North, the palm

oil and Cassava farms in the West and Eastern regions, the Cocoa plantations in the West in addition to other numerous agricultural products (such as yam, rice, beans, rubber, cotton, timber etc.) produced in very large quantities all over the country (Nwachukwu, 2006). Government and financial institutions at the time provided the farmers with fertilizers, pesticides and other agricultural inputs at heavily subsidized prices. The Nigerian Agricultural and Co-operative Bank with headquarters in Kaduna state provided soft loans (both directly and indirectly) to farmers with food crops, coastal water fishery, poultry, piggery, and dairy given the most priority (Irina, 2007). However, the loans granted were not to SMEs directly but to local farmers and businesses who were not referred to as SMEs until 1992 (CBN, 2015).

The oil boom periods of 1970s and 1980s accounted for the rapid increase in federal government revenue accounting for 87 percent of export receipts and 77 percent of federal government revenue in 1988 (Effoduh, 2015). This development diverted the attention of all stakeholders and investors in Nigeria towards oil and oil related investments thereby neglecting the non-oil sector. Consequently, non-oil trade plummeted to N9billion in 1983 as against the previous year's value of N13 billion and N10 billion recorded in 1981 and 1982 respectively. It further fell to N5.6billion in 1986.

From the oil boom era to date, the Nigerian economy has been anchored on revenue derived from oil. For example, the economic recession which the country witnessed in 2016-2017 was caused by the sharp fall in oil prices in the world market.

Having seen the development of the Nigerian economy moving from agric-based to oil-based, we can affirm that Small and medium Enterprises (SMEs) activities play very important roles in the development of many economies in the world. Findings have shown that more developed countries tend to have large number of small firms (Maksimov & Damergue, 2002). The small and medium enterprises have provided many economic activities that have attracted international and global trade.

Among the problems that necessitated this research work include: the unprogressive economic policies pursued by successive Nigerian military regimes in the final decades of the last century which devastated the traditional agrarian economy and crippled growth of the non-oil sectors; Unsustainable import reliance policies, the projected decline in oil reserves by the end of 2030 (OPEC, 2015), high interest rate on loans granted to SMEs etc. The resulting fragility has been clearly evident during the global economic downturn which has impacted key areas of the Nigerian economy from banking and foreign exchange reserves to the capital market and the mortgage sector.

This work, therefore, has the major objective of ascertaining the impact of SMEs financing on economic diversification in Nigeria. The specific objectives of the study include: determining the impact of oil and non-oil trade on Nigeria's economic growth, how Deposit Money bank loans to SMEs and SMEs output have affected Nigeria's economic growth and the extent to which interest rate on these loans, and inflation rate, have affected the overall growth of the Nigerian economy.

LITERATURE/THEORETICAL UNDERPINNING

Conceptual Framework: Economic diversification according to the United Nations Framework Convention on Climate Change (UNFCCC, 2018) is generally taken as the process in which a growing range of economic outputs are produced. It is the development of different markets for exports and different income sources away from domestic economic activities (i.e. income from overseas investment).

Economic diversification can mean different things depending on the context. Zagros (2016) used a subtler word “economic complexity” and defined it as the idea that countries should not be dependent upon a small number of products for their economic livelihoods. He posited that a country that has an economy based predominantly on oil production is neither particularly complex nor economically diverse; on the other hand, a country that has a strong manufacturing base, a vibrant services sector, a burgeoning natural resource sector and a booming agricultural sector is quite complex and diverse.

Eluogu (2016) sees economic diversification in the present Nigerian economic context as simply means of creating new avenues for economic growth. It involves using the right strategy to boost revenue generated from other sectors of the economy. That is, facilitating growth of other sectors of the economy and through this, reversing the effects of the economic crises and returning the economy to a growth path (Eluogu, 2016). However, Eluogu stressed that this process will not necessitate a neglect of the oil and gas sector but accommodates the maximization of revenues derivable from the sector

Economic diversification in its standard usage either in terms of the diversity of economic activities or markets is a significant issue for many developing countries, as their economies are generally characterized by lack of diversification. Most developing countries like Nigeria rely heavily on the production of primary commodities that are predominantly vulnerable to climate variability and change.

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 (Baba, 2013). With the recent crash in oil prices and consequent hardship engendered by this over-reliance on oil, it has become more compelling to Nigerian policy makers and all stakeholders that diversifying the economy is not optional but mandatory. One sure way of ensuring diversification of the economy is through the development and financing of Small and Medium Scale Enterprises.

Small and Medium Enterprise (SME) is a concept that tends to broadly explain the size of a business in an economy. The meaning depends on purpose; there are three major factors used by countries in classification and definition of enterprises. These include;

1. Capital investment on plant and machinery,
2. Number of workers employed and
3. Volume of production (Abubakar and Yahaya 2013).

This concept of small size firm is a relative one and it depends mainly on both geographical location and the nature of economic activities performed (Umar 2007). The concept was

further expatiated by the central Bank of Nigeria (CBN 2010) as asset based and number of staffs employed. The criteria according to CBN (2010) include:

- An asset base between ~~₦~~5 million and ~~₦~~500 million and
- Staff strength between 11 and 300 employees

In the CBN report, the small and medium Industries equity investment scheme (SMIEIS) in Nigeria saw SMEs as enterprises with a total capital employed not less than ~~₦~~1.5 million but not exceeding ~~₦~~200 million including working capital but excluding cost of land, and a staff strength of not less than 10 and not more than 300 (Abubakar and Yahya 2013).

In a related view, SMEs as defined by the Small Business Administration (SBA) Agency in USA as cited by Ayozie et'al (2013) is a business that is independently owned and operated and meets employment or scales standards developed by the agency. The scales standards are explicitly described as follows: -

- Manufacturing: Number of employees range up to 1500, depending on the industry.
- Retailing: small, if annual sales are not over 2million to 7.5 million Dollars.
- Wholesaling: small, if annual sales are not over 9.5 to 22 million Dollars
- Services: annual sales not exceeding 2 million to 8 million Dollars.

Contributions of Small and Medium Scale Enterprises (SMEs) to Economic Growth

SMEs have been seen as necessary components of national growth in both developed and developing countries. The history of economic growth cannot be complete without the involvement of SMEs. Ogujiuba et al (2004) established that in addition to increase in per capita income and output, SMEs help in the creation of employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization leading to sterilization of economic growth. This agrees with Olla (1989) who observed that Great Britain and Japan trace their history of industrial and economic expansion to their broad base small scale business establishments. World Bank (2016) reported that the greater a country's ease of doing business is the greater the number of Jobs created in the formal sector. This is because the benefits of being formal usually outweigh the cost of sustaining SMEs especially tax. SMEs constitute a large percentage of the total employment growth of many countries (UNDP, 2013). It produces a significant share of their increase in Gross Domestic Product (GDP) and the contributions of larger firms tend to be stable (ADB, 2004). This assertion is true as OECD (2004) reported that SMEs and micro enterprises account for over 95% of firms, 60-70% of employment, 55% of GPD and generate the greater level of new employments.

In the case of developing economies, the situation is not very different. For example, Hassan, Aku and Habakuk (2017) cited the case of Morocco where 93% of firms are SMEs and account for 38% of production, 33 percent investment, 30 percent export and 46 percent employment. In the same vein, in Bangladesh, enterprises of less than 100 employees account for 49 per cent of all firms and 58 per cent employment. Similarly, in Ecuador, 99 per cent of

all private companies have less than 50 employees and account for 55 per cent of employment.

The seed of industrialization can be traced to SMEs. This is because a good number of them have extensive knowledge of resources and how goods and services are produced and distributed in the economy. SMEs also are major suppliers of inputs to the large firms, serve as customers to the large firms, provide different kinds of products ranging from food, clothing, health care and entertainment, amongst others (Etuk et'al 2014). They further assert that; the enterprises help in economic development through industrial disposal and transformation of primary and intermediate products as well as supply of the material needs of the larger enterprises. In effect, SMEs are important sources of local supply and service delivery to larger firms.

SMEs activities received closer attention from the Nigerian government in an effort to diversify the economy. The over-dependence of Nigeria on oil necessitated the Federal government in the mid-1980s to direct the banks to set up branches in the rural areas of the country to enable the rural dwellers to have access to financial services (Soludo 2008, cited in Eniola 2014). Hassan, Aku and Habakuk (2017) asserted that this policy provided opportunity for people especially entrepreneurs in the rural areas to have access to bank loans.

Nigeria has attracted much growth and development especially in the agricultural sector where small-scale self-employed people partake in agro-allied processing activities. According to the OECD (2004), SMEs account for more than 90% of all firms outside the agricultural sector, a significant level of employment and generate major domestic and export earnings.

Furthermore, SMEs assist in fostering rural infrastructural development, improvement of living standard of the rural dwellers, utilization of local resources, output expansion, transformation of indigenous technology, production of intermediary goods, and increase in revenue generation to government (Nnanna, 2001).

Wang Et al (2011) contended that petroleum oil is considered to contribute high to status of Nigeria but SMEs provides gainful employment for about 70% of the Nigerian population. Available statistics suggests that agricultural sector accounts for close to 35% to 40% of the nation's GDP. Most actors in the agricultural sector are small-scale self-employed individuals engaged in activities ranging from farming, handcraft, fishing, agro forestry and livestock rearing. These SMEs activities therefore, aid government in areas of economic diversification.

THEORETICAL LITERATURE REVIEW

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 (1776); Ricardo (1817) also cited in Morgan and Katsikeas (1997) and Dogon-daji and Muktar (2012). 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 disadvantage. Economic advantage and disadvantage usually arise from country differences in factors such as resource endowments, labour, capital, technology or entrepreneurship.

Technology Gap Theory: This theory, also known as the innovation theory, is an outshoot from the theory of creative destruction by Schumpeter. The theory believes that the only factor that can prevent decline in industrial productivity in new products or markets is technological progress. However, the rate of technological progress in one country depends not only on innovation in that particular country but also on technology spillover from other countries (Uzoh & Duru, 2014)

Constraint model theory in financing: This theory opines that the ability of banks to grant credit or loan is constrained by the amount of financial resources at their disposal and this is based on the capital requirement. Therefore, banks are constrained by the monetary policy in place at any point in time especially the reserve requirements (Okoli, Duru & Agobua, 2015).

Lending theory of financing: The theory opines that banks or lenders tend to avoid risky ventures. However, the level of risk associated with the riskiest small business tends to be applied to all small and medium scale enterprises. Also, the problem of information asymmetries helps to compound issues here against small and medium scale enterprises because information symmetrics lead to sub-optimal flows of finance available to smaller firms when compared to large quoted firms. This theory helps to explain why deposit money banks see small and medium scale enterprises as high risky ventures which they try to avoid (Okoli, Duru & Agobua, 2015).

The endogenous theory according to Okoli, Duru and Agobua (2015) explains why investment in education, infrastructure, research and development can help to boost productivity. These theories are very relevant to our study in the sense that Nigeria has vast agricultural and raw material base. These agric and non-oil sector form the core of SMEs in the country. By financing and sustaining these SMEs, Nigeria can develop her products into the international market thereby gaining comparative advantage through these products. This is based on the deductive reasoning of growing SMEs, which will result in increased production of raw materials and other agric products through innovations, which in turn will help to drive economic growth distinct from revenues earned via the petroleum sector.

Empirical Review: Muritala et al (2012) examined the impact of small and medium scale enterprises on economic growth and development of Nigeria using primary data. Their study agrees that there is a significant relationship between SMEs and economic growth.

Hassan, Aku and Habakuk (2017) studied Small and Medium Scale Enterprises as a tool for Economic Growth and Development in Nigeria. Using content analysis, he evaluated some of the activities of SMEs in many economies of the world like Great Britain and Japan. He found that SMEs contributed to human as well as structural improvement in the economies of nations. In order to replicate similar developmental 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.

Esu and Ubong (2015) in their analysis of economic diversification and economic growth in Nigeria employed time series data covering thirty-two years' period (1980 – 2011). Using the

error correction mechanism (ECM) and variables such as trade openness, total oil and non-oil trade, non-oil FDI, exchange rate and inflation rate, their result point to the fact that Nigeria could tap from her largely untapped trade potentials for sustained gains; both in the short run and long run. Their findings show that this can be achieved through conscious effort at diversifying the economy, encouraging large-scale industrialization of the non-oil (real) sector of the economy, emphasizing deepening technology in every trade and investment discourse, and sustaining recent improvements in the agricultural sub-sector.

Ovwiroro (2017) examined the challenges and improvement strategies in the diversification of the Nigerian economy through entrepreneurship. He sampled 91 SME owners from a population of 183 registered Small and Medium Scale Enterprises (SMEs) in Warri, Delta State of Nigeria using simple random sampling. His analyses revealed that various challenges affect the diversification of the Nigerian economy which include: low capital, poor access to loan, over taxation, inadequate infrastructural facilities, and poor transportation system. He recommended that government and financial institutions should continuously support the SMEs in Nigeria through the provision of soft loans and improved infrastructural facilities to help drive the economic diversification.

METHODOLOGY

Data on output of small and medium scale enterprises, interest rate, non-oil trade (export), deposit money bank loan to small and medium scale enterprise, gross domestic product, infrastructure, interest rate and inflation rate were sourced from the Central bank of Nigeria (CBN) Statistical Bulletin.

The data were purged of spurious relations by testing for stationarity using the Augmented Dickey Fuller (ADF) Unit Root test and the cointegration test ascertained the long run relationship amongst the variables. Also, the causality test was carried out to determine the effect of the current changes in diversification indices on the future growth of the Nigerian economy.

Model Specification

Hassan, Aku and Habakuk (2017) and Duru (2017) contend that Output of the small and medium scale enterprises to some extent depends on loans to SMEs. These loans to SMEs in the long run lead to increased effect of SMEs on economic growth through enhancing economic activities of the SMEs. This assertion is further modified into a simultaneous equation model where SMEs output is seen as a function of Bank loans to SMEs in addition to intervening variables such as Interest Rate, Non-oil Export, Rate of Inflation etc.. On the other hand, economic growth (proxied by Gross Domestic Product) is enhanced through the contributions of SMEs (i.e. SMEs output) in addition to other related economic growth indices – Terms of Trade, Total Non-Oil trade and Inflation Rate.

The two equations can be put in a functional form as follows:

$$\text{SMEQ} = f(\text{DMBL}, \text{INTR}, \text{TNOT}, \text{GDP}) \quad \dots(1)$$

$$\text{GDP} = f(\text{TOT}, \text{SMEQ}, \text{TNOT}, \text{INF}) \quad \dots(2)$$

Putting the equations above in Econometric form, we have:

$$\text{SMEQ} = \alpha_0 + \alpha_1 \text{DMBL} + \alpha_2 \text{INTR} + \alpha_3 \text{TNOT} + \alpha_4 \text{GDP} + U_{1t} \quad \dots (3)$$

$$\text{GDP} = \beta_0 + \beta_1 \text{TOT} + \beta_2 \text{SMEQ} + \beta_3 \text{TNOT} + \beta_4 \text{INF} + U_{2t} \quad \dots (4)$$

Where:

SMEQ = Small and Medium Scale Enterprises Output

DMBL = Deposit Money Banks' Loan to Small and Medium Scale Enterprises

INTR = Interest Rate

GDP = Gross Domestic Product

TNOT = Total Non-oil Trade

TOT = Terms of trade

INF = Inflation rate

U = Stochastic Error terms, $\alpha_1 - \alpha_4$ and $\beta_1 - \beta_4$ are the parameters of the model to be estimated and α_0 and β_0 are the intercepts of both equations.

Estimation of the two structural equations of the simultaneous equation model requires identification of each equation using the "Order" and "Rank" method of identification. The order condition, in quantitative form, states that an equation is identified if

- (i) $R - r_i \geq g_i - 1$ (necessary condition), and
- (ii) If we can form at least one non-zero determinant of order $G-1$ from structural parameters of the variables excluded from that equation (sufficient condition) (Egbulonu, 2005).

Where R = number of pre-determined variables in the model

r_i = number of predetermined variables in equation i

G = number of endogenous variables in the model

g_i = number of endogenous variables in equation i

For the order condition:

$$G = 2, R = 5, r_1 = 3, g_1 = 1, r_2 = 2, g_2 = 1$$

For equation (3), $R - r_1 > g_1 - 1$ meaning that equation (3) might be over-identified

For equation (4) $R - r_2 > g_2 - 1$ meaning also that equation (4) might be over-identified

Applying the rank condition for equation (3), we obtain the matrix of the structural parameters below:

SMEQ	GDP	DMBL	INTR	TNOT	TOT	INF
-1	α_4	α_1	α_2	α_3	0	0
b_2	-1	0	0	b_3	b_1	b_4

Striking off row 1 (equation being identified) and columns 1, 2, 3, 4 and 5 (the columns with non-zero parameters) to obtain the determinant $|b_1|$ and also $|b_2|$, since $G-1 = 1$

Since at least one of these determinants is non-zero, it means the rank condition is fulfilled, and equation (3) is therefore over-identified. Applying the same procedure to equation (4), we see that equation (4) is also over-identified.

RESULTS/FINDINGS

Table 1: Test for Stationarity Using Augmented Dickey Fuller (ADF) Unit Root

UNG	ADF test statistic at level	At first difference	2 nd difference	5% critical value	Order of Integration
LN GDP	-0.8809	-3.1021	-8.1209	-2.9458	1(1)
LNTOT	-1.5345	-5.9061	-3.8882	-2.9458	1(1)
INTNOT	-1.015628	-7.2128	-6.0867	-2.9458	1(1)
LNDMBL	-1.8895	-3.2082	-14.5327	-2.958	1(1)
LNSME	0.001319	-4.65319	-10.0364	-2.958	1(1)
INTR	-2.6225	-6.1522	-8.284	-2.958	1(1)

The result of the Unit Root test using Augmented Dickey Fuller shows that all the variables are stationary at first difference at 5% significant level i.e. they are integrated of order I(1).

Table 2: Unrestricted Cointegration Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.829230	163.5050	125.6154	0.0000
At most 1 *	0.631191	101.6447	95.75366	0.0185
At most 2	0.548099	66.73303	69.81889	0.0860
At most 3	0.483539	38.93280	47.85613	0.2630
At most 4	0.240284	15.80636	29.79707	0.7258
At most 5	0.141086	6.187996	15.49471	0.6733
At most 6	0.024411	0.864986	3.841466	0.3523

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

Result of the long run relationship using the unrestricted Cointegration rank test indicated that there are 2 cointegrating equations at the 0.05 level. The existence of at least 2

cointegrating equations denotes that a long run relationship exists among the variables of the model. Hence, we conclude that output of SMEs has long run effect on economic growth in Nigeria.

Table 3: Granger Causality Test

Pairwise Granger Causality Tests

Sample: 1981 2017

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LNTOT does not Granger Cause LNGDP	35	3.46918	0.0496
LNGDP does not Granger Cause LNTOT		3.11836	0.0588
LNTNOT does not Granger Cause LNGDP	35	3.43728	0.0498
LNGDP does not Granger Cause LNTNOT		2.67734	0.0851
LNDMBL does not Granger Cause LNSMEQ	35	3.73603	0.0310
SMEQ does not Granger Cause LNDMBL		1.77731	0.1864
LNSMEQ does not Granger Cause LNGDP	35	3.52908	0.0332
LNGDP does not Granger Cause LNSMEQ		3.88945	0.0214
INTR does not Granger Cause SMEQ	35	3.34195	0.0507
SMEQ does not Granger Cause INTR		2.01347	0.1512
INFR does not Granger Cause LNGDP	35	1.84930	0.1748
LNGDP does not Granger Cause INFR		3.21022	0.0545

Source: Extracted from the Eviews9 Output

Table 3 above shows the result of the Granger Causality test. The test shows that there is a bi-directional causal relationship between GDP and SME Output (SMEQ). This means that the current years' value of SMEs output can be used to predict future growth of GDP and vice versa. This result confirms the use of simultaneous equation model in our study.

Result of the Two Stage Least Squares

Equation 1

$$\text{LnSMEQ} = -1.5260 - 0.22098 \cdot \text{LnDMBL} + 0.047868 \cdot \text{INTR} + 0.653703 \cdot \text{LnTNOT} + 0.2499 \cdot \text{LnGDP}$$

$$t\text{-cal} = (-0.9731) \quad (-2.4286) \quad (2.8603) \quad (1.9477) \quad (0.0603)$$

$$P\text{-value} = (0.3373) \quad (0.0213) \quad (0.007) \quad (0.0603) \quad (0.4759)$$

$$\text{Adjusted R-Squared } 0.9796; F \text{ cal} = 43.159; \text{Prob}(F\text{-statistic}) = 0.0000$$

Equation 2

$$\text{LNGDP} = 4.5500 + 0.293805 \text{ LNTOT} + 0.842701 \text{ LNSMEQ} - 0.065 \text{ LNTNOT} - 0.004565 \text{ INF}$$

$$t\text{-cal} = (16.559) \quad (2.6726) \quad (5.3236) \quad (-0.40473) \quad (-2.1733)$$

$$P\text{-value} = (0.000) \quad (0.0117) \quad (0.000) \quad (0.6884) \quad (0.0373)$$

$$\text{Adjusted R-squared} = 0.994; F_{\text{cal}} = 12.1641; \text{Prob.}(F\text{-statistic}) = 0.0000;$$

DISCUSSION OF RESULTS

The result of equation 1 indicates that Non-oil Trade (i.e. non-oil export and GDP) are positively (but insignificantly) related to output of SMEs. For non-oil trade in particular, it means that what the SMEs produce and export are too insignificant to induce greater output of the SMEs. Also, loans to SMEs are negatively (but significantly) related to output of SMEs, implying that increased loans to SMEs are being diverted for other uses. The adjusted R^2 of approximately 0.98 shows that about 98% of total variations in SMEs output is explained by bank loans to SMEs, Interest rate, non-oil trade and GDP. The F-statistic is highly significant suggesting that the overall regression results of the equation are reliable.

In equation 2, (i.e. the major concern to this study), the parameter estimates of two of the three indices of diversification – terms of trade and output of SMEs appear with the expected positive signs and are also significant, while the third one – non-oil trade appears with the wrong negative sign and is insignificant in explaining economic growth through diversification.

The first two results above confirm that the SMEs are contributing significantly to the growth and diversification of the Nigerian economy. However, the relatively poor performance of non-oil export supports the view that exporters, particularly exporters of SMEs products are not given adequate incentives to encourage them to tap into the foreign markets. The adjusted R^2 of 0.99 shows that about 99% of total variation in economic growth is explained by terms of trade, output of SMEs, Non-oil trade and inflation rate. This is a very good fit, and proves that our model is plausible. The F-statistic is highly significant suggesting that the overall regression estimates of the equation are reliable.

Implication to Research and Practice

The implication of the findings is that a lot needs to be done to improve the output of SMEs in order to achieve the needed diversification of the Nigerian economy, especially through channeling the right credit and financial resources and incentives. These SMEs in Nigeria need to be strengthened as obtained in other developed and developing countries where SMEs are actively the backbone of such economies. The study found out empirically, that Small and Medium Scale Enterprises are very critical to the diversification of the Nigerian economy as proven in the works of (Oyekanmi, 2003, Osalor, 2012, Joseph & Michael, 2013).

Furthermore, the model showed that oil trade contributes positively and significantly to economic growth as expected but non-oil trade still has a negative and insignificant effect on

Nigeria's economic growth. This implies that new avenues for growing the economy are still not adequately harnessed and utilized effectively.

CONCLUSION AND RECOMMENDATIONS

The various literatures we reviewed in this study showed that the SMEs promote economic growth. It is, in fact, said to hold a major key to the diversification of every developing country's economic base. Empirical evidence from our study supports this positive link between diversification of an economy via SME and Economic growth.

Our findings showed that the SMEs are significant contributors to the growth and diversification of the Nigerian economy. The relatively poor performance of non-oil export supports the view that exporters, particularly exporters of SME products are not given adequate incentives to encourage them to break into foreign markets to sell their products.

In the light of the foregoing, we recommend that Nigeria should intensify her effort to boost the SMEs because that is where she has comparative advantage. Diversification of the Nigerian economy through the SMEs would help to reduce her dependence on oil and pave the way for broad-based economic growth.

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