# SMALL BUSINESSES-ECONOMIC GROWTH NEXUS IN POVERTY REDUCTION IN NORTH-WESTERN NIGERIA

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# A b s t r a c t

This study examines the role of SME in economic growth and poverty reduction in north-western Nigeria from 1987-2017 by employing time series data for Kano state, Nigeria and using ARDL method. All the variables are significant determinants of economic growth (GDP). Turnover of SME return is significant and negative, turnover on SME employment is significant and negative whereas the turnover of SME loan is positive and significant. In overall, the study's findings are in line with the views of prior studies, therefore, we conclude that the results of the estimates of our ARDL are valid and reliable. Outcomes of the empirical test found link between SME, economic growth and poverty reduction, from our results, the turnover of SME loan is positive and significantly contributes to GDP and reduce poverty. This study recommends: a) The government should stress on promotion of SME because they assist in poverty reduction. b) Government should protect SMEs through tariff increase or banning the goods and services produced by SMEs so as to protect them because they are still infants. c) There is the need to maintain and sustain reasonable family size by SME operators because large family could have negative effect on income.

# R e s e a r c h   H i g h l i g h t s

The role of small-businesses in economic growth and poverty reduction in developing nations is of concern to academicians, laymen, policy makers and elites. SMEs play important role because they employ and could be formed by people living in poor nations. After the 1986 economic reform, SMEs are perceived as the key to growth in Nigeria, reducing poverty and unemployment.

One of this study's motivations was the work by Karnani (2007) which focused on the poor as producers, they need not just steady employment, but reasonable earnings to put them above poverty line. According to Micah et al. (2015) more than 3/4 of the Northern Nigeria's population live under poverty. Likewise, it was estimated that the 3 geo-political zones of northern-Nigeria which are north-central, north-east and north-west have 67%, 71.2% and 72.2% respectively of their population facing the poverty scourge. Only few studies were conducted on this in developing country like Nigeria and precisely Kano, the ones conducted had contradictory and inconsistent findings, which created room for further study.

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# R e s e a r c h   O b j e c t i v e s

Alleviation of poverty is a wider socioeconomic creativity as shown by MDG adopted by United Nations. After the 1986 economic reform, SMEs are seen as the key to growth in Nigeria, reducing unemployment and poverty. Therefore, there is need to encourage SME in Nigeria because since it brings countless distribution of wealth and income, employment,

economic self-dependence, entrepreneurial development, reducing poverty among others, it means there is need to focus on it.

Not much studies were conducted in developing nation like Nigeria and specifically in Kano state on role of small businesses in economic growth and poverty reduction, the few studies conducted had inconsistent and contradictory results, which gives avenue for further study on this. Furthermore, little attention is given to SMEs as they are being left in the hands of the individuals which makes it informal. The performance of SMEs is for it as the instruments of economic growth and development, therefore, assisting in reducing incidence of poverty is the focus of this study. Looking at the current situation of Nigeria, it shows that SMEs should be given more consideration and encouragement.

## Methodology

To examine the role of small-businesses in economic growth and poverty reduction, this study employed time series data commencing from 1987-2017 time period using data from Kano State, in north-western Nigeria. The time period was chosen due to data availability.

This study followed the models used by Gebremariam et al. (2004) and Usaini et al. (2020), this study's model is specified as:

$$GDP_t = \theta_0 + \theta_1 TSR_t + \theta_2 TEM_t + \theta_3 TSL_t + \mathcal{E}_t \tag{1}$$

By taking the natural logarithm on the both side of Equation (1), it will become:

$$\ln GDP_t = \theta_0 + \theta_1 \ln TSR_t + \theta_2 \ln TEM_t + \theta_3 \ln TSL_t + \mathcal{E}_t \tag{2}$$

where: GDP signifies the gross domestic product, TSR signifies the turnover of SME return, TEM signifies the turnover on SME employment and TSL signifies the turnover of SME loan. $\theta_1$ - $\theta_3$ and $\mathcal{E}_t$ are the coefficients of the explanatory variables and the Gaussian error term respectively.

The study used ARDL method by Pesaran et al. (2001) and the observed ARDL method by some studies (Elijah S., 2019; S. Elijah & Musa, 2019; Sunday Elijah & Musa, 2019; Guza et al., 2018) for estimation of our model in other to estimate both short- and long-run relationship between our variables of interest.

## Results

The descriptive statistics showed the variables are normally distributed, for the correlation matrix, the range are in their absolute values ranging from 0.026 – 0.287 meaning there is no multi-collinearity issue based on rule of thumb. Augmented Dickey-Fuller and Phillip-Perron tests for unit-root were done, at I(1), all the variables are stationery by employing PP and ADF.

Lag 1 was automatically selected, to verify if ARDL(1,0,0,0) model have passed the diagnostic checks, LM, CUSUM and CUSUM-square tests was done. LM shows there is no serial correlation. The results of CUSUM and CUSUM-square tests showed our model and residuals are stable since the blue color lines are within the bounds. The long-run relationship known as bound test is significant at 5% meaning there is long-run cointegration relationships between the variables. Coefficients of turnover of SME-return and turnover on SME-employment are significant and negative while turnover of SME-loan is positive and significant. The results found link between SME, economic growth, and poverty reduction and these variables alleviate poverty. The short-run coefficients is negative, which is consistent with ARDL theory. The ECT is -0.3400, meaning the model adjust at a speed of 34.00% back to equilibrium. The convergence adjustment back to long-run equilibrium takes 2 years and 9 months (i.e. 1/34.00 X 100 = 2.9).

## Findings

This study examines small businesses-economic growth nexus in poverty reduction in north-western Nigeria from 1987-2017, employing time series data of Kano and using ARDL approach. It found that all the variables played vital roles in influencing economic growth. Turnover of SME-loan is positive and significant while turnover of SME-return and turnover on SME-employment are significant and negative. Generally, the findings are in line with prior studies. Link was found between SME, economic growth and poverty reduction, these variables alleviate poverty. This study recommended that: a) The government should stress on promotion of SME because they assist in poverty reduction among other recommendations.

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