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Entrepreneurship Financing and its Effect of Unemployment Rate in Nigeria: The Msmes' Perspective, 2001 – 2017

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Abstract

This research examined the effect of entrepreneurship (proxied by micro, small and medium scale enterprises) financing on unemployment rate in Nigeria. The annualized time series for 17 years were obtained from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics. This paper employed ex-post facto design, which relied on secondary data from 2001 to 2017. A stationarity test was done to check Unit Root and normality test was conducted to ensure normal data distribution. Though the series attained stationarity at level and after first differencing could not be integrated of same order (indicated absence of long-run association); hence Vector autoregressive (VAR) estimation was employed in analyzing the modified model. The estimates indicated that bank credit to micro, small and medium scale enterprises (MSMEs) did not have positive and significant effect on the Nigeria employment market. The results also indicated that bank lending rate and inflation rate did not have positive and significant influence on unemployment rate. This implied that funds that accrued to MSMEs were not adequate as to stimulate activities in the subsector let alone reducing the high unemployment rate in the country during the review period. Conclusively, since MSME is a prominent subsector that can drive the Nigeria economy, rising lending rate retards their development and overall economic relevance; hence the government and monetary authorities should come up with brilliant policies and create friendly business environment for MSMEs to do better. Access to finance should also be simplified and obtainable at a lower lending rate.

Keywords: Entrepreneurship, MSMEs, Unemployment Rate, Vector Autoregression, Nigeria.

Introduction

Entrepreneurship is the process of setting up a business or businesses, leveraging on inherent financial risks thereto in order to make profit. Although very small in size, entrepreneurial process exemplified by micro, small and medium-sized enterprises (MSMEs) appears the most important enterprises in any economy evaluated on the basis that when all their specific contributions are aggregated, they exceed that of large enterprises. MSMEs (often referred to as SMEs) act as a catalyst for growth and development of the economy by way of their positive effects on job creation and poverty reduction. According to Omonigho (2017); Taiwo, Falohun and Agwu (2016), MSMEs make up over 90 percent of all companies outside the 'white-collar' job sector by adding value that develop variety of goods and services, generate employment, improve living standards and contribute significantly to gross domestic product (GPD) of global economies.

In contributing significantly to economic development, access to finance by MSME operators has become decisive since they rely so much on loanable funds. Finance represents the life-force of every business in terms of satisfying their working capital, asset and expansion objectives. The problem is not just credit concerns; it encompasses issues surrounding its availability, accessibility and cost elements linked to it. For instance, conventional banks in Nigeria are hesitant in processing credits to MSMEs because they consider them a high risk investment. Funds when given are tied up in short-term maturities that hardly guarantee worthwhile returns. This setback is noticeable among the micro and small businesses, 59 per cent of them report difficulties in accessing finance, 35 per cent of medium firms and 11 per cent of large SMEs facing difficulties obtaining loans (CBN, 2014). A review of MSME financing in Nigeria has shown that funding for the sub-sector is derived from deposit money banks, micro finance banks, governments and agencies in the form of soft loans and interventions loans and only 3 per cent of MSMEs' working capital and 2 per cent of their fixed assets were financed from private funding sources. This creates a huge financing gap to the public sector. Over time, government has taken the challenge to support MSMEs, through various interventions, bilateral arrangements and establishment of various institutions and programmes (CBN, 2014 citing World Bank, 2012). It should be borne in mind that one of the critical problems facing Nigeria today is high rate of unemployment. Thus, development of micro, small and medium scale enterprises is acknowledged as a supposed solution to the effect of unemployment in Nigeria. Taking the various MSMEs financing sources into consideration, it became imperative to empirically ascertain how these enterprises had utilized funds accumulated for 17 years (2001 – 2017) to operate, grow, expand and create employment in Nigeria. This sampled period was chosen because the researchers felt that it would be proper to use a period of unbroken democratic dispensation in Nigeria during which there was a paradigm shift from seeking "white-collar" job to skill acquisition.

Statement of the Problem

MSMEs role in industrialization and economic development in both developed and developing economies cannot be overemphasized. The benefits an economy reaps from this subsector include facilitating output growth through innovation, simplifying process of technology transfer, diversifying of business and advancing of entrepreneurial process as they

are likely to metamorphose into large enterprises that may quicken economic development. Above all, MSMEs have been noted as a source of job creation that results in poverty reduction (Owenbbiugie and Igbinedion, 2015; Ashamu, 2014).

Finance is seen to create entrepreneurship and other businesses. Entrepreneurship measured by micro, small and medium-sized enterprises (MSMEs) creates workers, and workers become good customers that use the firms' goods and services. Entrepreneurship therefore, seems to flourish when employment is significantly generated, poverty positively reduced, and sustainable economic growth and development witnessed in an economy. In view of that general perception, the importance of MSMEs has been confirmed in different countries such as USA, Asian economies: Indonesia, Japan and Thailand where over 50 million MSMEs employ over 120 million workers, adding that these firms account for over 75 per cent of the total industries and about 70 per cent job opportunities in those countries (Guillamon, 1996 cited in Taiwo, *et al.*, 2016).

However, MSMEs in Nigeria have been unable to carry out the invaluable roles, particularly their inability to reduce unemployment rate. Presently, the unemployment rate has progressively been on the rise despite concerted efforts of government to create jobs through its intervention programmes to MSMEs since the return to democratic rule in 1999 (Gbam, 2017). In spite of the series of interventions, the labour market in the country is presently unable to absorb the teeming fresh graduates.

Although various studies (Ubesie, Ananwude, Esomchi and Onyia, 2017; Opafunso and Adepoju, 2014) have been done on the link between entrepreneurship and economic growth, not much attention has been paid to the subsector's contribution to the employment market. Furthermore, those researches focused more on small and medium scale enterprises without extending their scope to the micro segment of entrepreneurial process. Against that background the primary objective of this paper therefore was to annex 'micro' firms to the entrepreneurial activities (represented by micro, small and medium-sized enterprises) and ascertain how its financing had influenced job creation in Nigeria over the period 2001 – 2017.

Review of Related Literature

Conceptual Review

MSME Financing

Financing is the act of raising or providing the money required for a project by somebody or an organization. Money is a scarce resource, and usually insufficient in supply. Therefore, a lot of effort (mental or physical) and time are deployed to obtain it at a considerable cost. Finance remains an indispensable resource at the disposal of a micro, small and medium-sized enterprise required for its formation, operation, growth, expansion, and so on. In that regard, where, when and how an enterprise raises and appropriates it for optimal result is the deciding point.

Available sources of funding open to MSMEs in Nigeria include personal resources, unofficial loans from family and friends, partners and business associates, co-operative societies. Official loans come from conventional banks. According to CBN (2014), government has over the years, established various institutions, schemes and programmes to support MSMEs. These included the Nigerian Industrial Development Bank (1962), Small Scale Industries Credit Scheme (1971), the Nigerian Bank for Commerce and Industry (1973) and the Bank of Industry (2001).

From 2002, the Central Bank of Nigeria intervened by creating several schemes including the Refinancing and Rediscounting Facility, ₦200 Billion Restructuring/Refinancing Scheme, ₦200 Billion Commercial Agricultural Credit Scheme (2009) and the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (2011). Besides government and the CBN, other institutions like the World Bank and Nigerian Bankers' Committee have come up with SME support schemes such as the US\$41 million World Bank SME I Loan Scheme (1984), World Bank US\$270 million SME II Loan Scheme (1990) and the Small and Medium Enterprises Equity Investment Scheme (2001) by the Bankers' Committee. The World Bank (2012) however, observes that loan disbursement to MSME subsector is extremely low with less than 10 per cent of these firms reportedly receiving a loan from a commercial bank and with MSME loans accounting for approximately 5 per cent of these banks' lending portfolios. To improve access to needed credit facilities for the rapidly growing MSME subsector (currently is estimated at 10 – 50 million in Nigeria).

What does the term MSME denote? The micro, small and medium scale enterprises are subsectors of the industrial sector which carry out essential functions for industrial development of developed and developing economies, including Nigeria. MSME means different things in different countries; hence lacks unanimous definition among scholars (Anigbogu, *et al.*, 2015; Bamidele, 2012). In the United States and India, for instance, MSMEs could be very big companies, whereas in Nigeria they would, as their name suggest, be firms that operate on a limited scale. However, in order to adopt a functioning definition for MSMEs, various criteria that affect different countries equally was used as standard. In the United States, any firm that hires less than 500 employees is termed a small scale enterprise (Stoner, *et al.*, 1996 cited in CBN, 2014). In Uganda, firms with less than 10 workers are micro enterprises, while those that engage between 50 and 100 are classified as medium scale enterprises. In India, business units that employ 1 – 100 workers are seen as small scale enterprises.

Balunywa (2001) cited in CBN (2014) argues that the number of workers might not be ideal for designating a firm big or small, because entrepreneurial strategies vary for different economies. For instance, in countries that adopt high labour intake policy of industrialization like India, a typical MSME should have more workers than in a country where high capital input is the indicator as in most advanced economies. In that sense, the scholar posits that a capital requirement of between US\$5,000 – US\$50,000 would be considerable for a typical MSME to function optimally. Another yardstick for describing MSMEs is linked to daily productivity/turnover. The plausible explanation is that some firms might have little capital investment, but bring about large turnovers like a trading firm. Thus, a turnover of about US\$50,000 per month is considered a standard for conceptualizing an MSME.

In line with the foregoing, the National Policy on MSMEs (2012) cited in Omonigho (2017) in its definition of MSME factors in both labour and capital inputs to classify MSMEs into micro, small and medium as presented in Table 1.

Table 1: Categorization of MSMEs by Employment and Capital Base

S/N.	Size Category	Employment	Assets (excluding land and buildings)
a.	Micro Enterprises	Less than 10 workers	Less than ₦5m
b.	Small Enterprises	10 – 49 workers	₦5m to less than ₦50m
c.	Medium Enterprises	50 – 199 workers	₦50m to less than ₦500m

Source: Omonigho (2017)

Bearing Table 1 in mind, any firm employing less than 10 workers with a working capital of less than ₦5 million could be seen as a micro enterprise. For small-sized enterprises, the staff strength would be 10 - 49 workers with asset size of over ₦5 million but less than ₦50 million. Medium sized enterprises are those that hire 50 - 199 workers, with asset base of over ₦50 million, but less than ₦500 million. The assets that make up this categorization exclude land and buildings. However, in the event of conflict of classification between the work force and asset size, the policy accords preference to work force over asset size.

Concept of Unemployment Rate

Employment refers to the total number of people who work for pay in a given population, while unemployment or joblessness refers to a situation when people are without jobs and they have actively searched for work for quite a while. According to the International Labour Organization, "unemployed workers" are those who are currently not working but are willing and able to work for pay, and have actively searched for work (NBS, 2017). The unemployment rate measures the number of people actively searching for work as a percentage of the entire workforce. A rising unemployment rate in an economy results in high poverty level with related welfare problems (Ajibola, Ogundana and Ekure, 2018).

Entrepreneurship is viewed as the means to gainful employment. Olowe, Moradeyo and Babalola (2013) affirm that sustained entrepreneurial development acts as a source of job creation for the populace with accompanying income stability, poverty and unemployment reduction in many developing countries including Nigeria. A concise review of job statistics indicates that MSMEs represent as follows: (i) 91% of the formal enterprises, contribute between 52% and 57% to GDP, and generate about 61% of employment in South Africa; (ii) 92% of the formal companies, contribute about 70% of GDP, and offer about 85% of employment in Ghana, and (iii) 87% of the formal business organizations, contribute about 50% to GDP, and create about 50% of jobs in Nigeria (Abor and Quartey, 2010; Omonigho, 2017).

Theoretical Review

Credit Rationing Theory (Restriction of Credit Availability)

The underpinning theory employed in this study is the credit rationing theory. Credit rationing theory developed by Stiglitz and Weiss in 1981 was modeled on imperfect credit market otherwise attributed to a situation where parties to a contract lack equal information (information asymmetry), which compels banks to commit much cash and time resources to acquire facts about borrowers so as to monitor them. The theory assumes that when agency problem such as information asymmetry and moral hazards (the tendency of people who are insured against a specific hazard to cease to exercise caution to avoid the hazard) affect credit

availability and the capital structure of new startup MSMEs, the situation is seen as credit rationing.

This theory assumes also the existence of numerous banks that compete to maximize profit by way of collateral and interest, as well as numerous prospective borrowers that strive to maximize their profit through their choice of projects. The expected project outcome is not known to the bank, but known to the borrowers (MSMEs) because of unbalanced information available to both parties (information asymmetry). Put differently, credit rationing happens, if among loan applicants some secure loan, while others do not for no justifiable reason. Some successful applicants may have obtained the loan at a higher interest rate. A bank's credit rationing policy could be affected by the distinctive features that characterize the borrowers, lending institutions, the loan, as well as the property used as security against the loan.

MSME financing from a supply-side standpoint is extremely important for sub-Saharan Africa. CBN (2014) citing World Bank (2012) asserts that *"SMEs in sub-Saharan Africa are more financially constrained than in any other developing region. Only 20 percent of SMEs in sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks, as against 23 percent in Eastern Europe and Central Asia."* Against that backdrop, governments worldwide should promote and support MSMEs on the premise that they contribute significantly to national productivity, employment and income generation together with training opportunities.

Supply Leading Theory

Supply leading theory relates to the financial intermediation role of banking institutions. Ubesie, *et al* (2017) explains that a robust banking system with efficient financial intermediation process promotes economic growth, stressing that this is achieved through channeling savings to the productive sector of the economy, thereby stimulating MSMEs, which eventually lead to employment generation. The advocates of this theory believe that financial services provided by banks act as catalyst for improving the performance of MSMEs in the economy in terms of job creation. This suggests that countries with advanced financial system are likely to do better in this regard. Ubesie, *et al* (2017) citing Schumpeter notes that one of the significant impacts of supply-leading credit facilities method is that as entrepreneurs access credits, their vision of success widens, thereby making them to aim higher. The supply leading theory assumes a platform that guarantees entrepreneurial development through finance.

Empirical Review

This paper concentrated on the effect of MSMEs financing on unemployment rate in Nigeria spanning the period 2001 – 2017. To achieve clear perception of objective of this study, a number of relevant empirical studies were closely reviewed, which include Muogbo and John-Akamelu (2018) that investigated the impact of entrepreneurial skills in reducing youth unemployment in Nigeria using ABC Transport in Anambra State as a case study. The study employed descriptive survey design. Data were elicited from 160 respondents via questionnaire items. Their responses were analyzed using suitable statistical tools such as the simple percentage and the chi-square method. The result showed there were roles entrepreneurial skills and businesses played in reducing youth unemployment in Nigeria through entrepreneurial

development. Secondly, the finding indicated that youths in Anambra State can be given basic training on how best to establish and grow business enterprise in local communities within the State.

Effiom and Edet (2018) studied the effect of environmental factors on success of SMEs in Nigeria. Depending on primary survey instrument, and analyzing the data using multiple regression technique, the results revealed that external environmental factors of infrastructure and institutions promote SME development, but remain restraining variables to SMEs' performance. Marketing practices had a negative and non-significant effect on SMEs' profitability.

Omonigho (2017) assessed the effect of small and medium scale enterprises on economic growth in Nigeria from 1982 – 2012. Secondary data sourced from National Bureau of Statistics, CBN Statistical Bulletin, CBN Annual Report and Statement of Accounts was analyzed using Pearson Product-Moment correlation Coefficient. The finding indicated that SMEs related positively and significantly with economic growth in Nigeria within the sampled period.

Ezeaku, Anidiobu and Okolie (2017) assessed the effect of SMEs financing on manufacturing sector growth in Nigeria employing time series data from 1981 to 2014. A co-integrating relationship was ascertained using the Engel and Granger residual based approach which showed evidence of a long-run relationship between SMEs credit and manufacturing output growth in Nigeria. The findings of the error correction model (ECM) indicated that SMEs financing had a positive effect on the manufacturing sector growth. The findings indicated that when credits to the SMEs improved by 1%, manufacturing output increased by 14.5%. The findings also showed that interest rate and inflation rate had a negative influence on manufacturing sector growth. A unit change in interest rate brought about a 15.7% decrease in output growth of the manufacturing sector. The study concluded that while SMEs remained a critical sector that could propel the Nigeria economy, rising interest rate impeded their growth process and total economic significance.

Owolabi and Nasiru (2017) examined the relationship between deposit money bank credits to SMEs and each of unemployment and poverty using Pearson's correlation technique. The finding showed deposit money bank credits to SMEs related negatively and non-significantly with unemployment, and negatively and significantly between SME credit and poverty.

Ubesie, Ananwude, Esomchi and Onyia (2017) assessed the effect of private sector credit on development of small and medium scale enterprises in Nigeria. For this purpose, a hypothetical deductive research design was employed using annualized time series data obtained from Central Bank of Nigeria Statistical Bulletin spanning 1986 - 2015. Prior to estimating the model, sensitivity analysis of serial correlation LM, heteroskedasticity, Ramsey rest specification and multi collinearity tests were conducted. The finding of the Auto-Regressive Distributive Lag (ARDL) proved existence of a long-run relationship between private sector credit and SMEs development. In terms of the effect analysis, the granger causality test showed that private sector credit had a significant influence on development of SMEs. Similarly, real exchange rate was found to have significantly influenced SMEs development.

Asogwa and Dim (2016) assessed the relationship between entrepreneurial development and unemployment reduction in Anambra State, Nigeria using survey research design. Data were obtained from samples of 30 youths drawn from each of the five selected local councils of the State totaling 150 respondents out of which 135 were used for analysis. Pearson correlation and

analysis of variance (ANOVA) were used as techniques of analysis. Findings revealed as follows that: (a) entrepreneurship training related significantly with unemployment reduction in Nigeria, (b) entrepreneurship empowerment had a significant relationship with unemployment reduction in Nigeria, (c) entrepreneurship traits related significantly with unemployment reduction in Nigeria, and (d) there were various setbacks against unemployment reduction in Nigeria. This relates to the premise that majority of entrepreneurs have the initiative to start new business enterprises, but lack skills, tools, corruption, economic instability, and lack of infrastructure and management capacity have also combined to constrain efforts of the entrepreneurs in reducing unemployment in Nigeria.

Ekong and Ekong (2016) examined how unemployment problem is dealt with through skills acquisition by the National Directorate of Employment (NDE) in Akwa Ibom State of Nigeria. Employing data covering 1987 – 2012 that was primary and secondary in nature, the finding revealed a positive relationship between skills acquisition by NDE and unemployment reduction in Akwa Ibom State within the studied period though not without daunting challenges.

Ilegbinosa and Jumbo (2015) investigated SMEs and economic growth in Nigeria for the period 1970 – 2012. The ordinary least square, co-integration and error correction model were employed to estimate the data obtained during the period under consideration. The variables in the model were made up of gross domestic product as the regressand, while the regressors comprised finance available to small and medium enterprises, interest rate and inflation rate. The finding revealed that finance available to MSMEs had a positive effect on economic growth, whereas interest rate and inflation rate had negative and positive effect on economic growth respectively. It was concluded that the regressors (except interest rate) played a positive role in determining the effect of MSME on economic growth in Nigeria within the period reviewed.

Ayuba and Zubairu (2015) assessed impact of banking sector credit on the growth of small and medium enterprises in Nigeria using annualized data for 1985 – 2010. In line with the methodology, descriptive statistics, correlation matrix and error correction model were applied in testing the hypothesis. The finding indicated that banking sector credit exerted a significant influence on the growth of SMEs in Nigeria since it positively impacted on some key macroeconomic variables of growth like exchange rate, inflation, trade debts and so on.

Anigbogu, *et al* (2015) employed the ordinary least square method to examine the effect of financial intermediation on small and medium enterprises performance in Nigeria from 1980 to 2013. A preliminary test using Augmented Dickey-Fuller was conducted, and stationarity was attained after first differencing. Results showed that financial intermediation (proxied by credits to SMEs, lending rate, monetary policy rate and exchange rate) had a positive and significant effect on SMEs performance in Nigeria.

Dada (2014) studied the effect of commercial banks' credit on SMEs' development adopting Ordinary Least Square (OLS) method to estimate the multiple regression models. The result showed that commercial banks' credit to SMEs and the time and saving deposits of commercial banks had a positive and significant effect on SMEs development proxy by wholesale and retail trade output as a component of GDP, whereas exchange rate and interest rate revealed advert effect on SMEs' development.

Imafidon and Itoya (2014) ascertained the effect of commercial banks loan to SMEs on the growth of the Nigeria economy covering the period 1993 - 2012. Employing co-integration and error correction model techniques the researchers found that commercial banks loans to

SMEs did not indicate significant effect on economic growth in Nigeria within the studied period mainly on account of lack of access to credit warranted by inability of commercial banks to meet their credit needs.

Imoughele and Ismaila (2014) assessed impact of commercial bank credit on the growth of SME in Nigeria for the period 1986 – 2012. The study used co-integration technique and error correction model (ECM) to estimate the series. The findings showed that SMEs and selected macroeconomic variables in the model had a long-run relationship with SMEs output. Other results indicated that saving and time deposits (STD) and exchange rate (EXR) had a significant influence on SME output; commercial bank credit to SMEs, total government expenditure and bank density had positive and non-significant on SME output, and interest rate had adverse effect on SME output.

Bassey, Asinya and Amba (2014) studied the effect of bank lending and macroeconomic policy on the growth of SMEs in Nigeria employing time series data obtained from the Central Bank of Nigeria for the period 1992 – 2011. OLS regression technique was used for analysis. The finding indicated that commercial bank credit had a positive and significant influence on the growth of SMEs in Nigeria within the period under consideration.

Sokoto and Abdullahi (2013) investigated how strengthening the SMEs can contribute to poverty reduction in North Western Nigeria. The study employed both primary and secondary data that was analyzed using t-test statistics. The result showed that large firms contribute more in terms of job creation than the SMEs evidenced by the countrywide data. The result invalidated the a priori expectation that SMEs do contribute to job openings.

Eigbiremolen and Igberaese (2013) examined the role of SMEs in attaining economic growth in Nigeria employing a linear regression, co-integration and granger casualty tests. The Johansen co-integration test showed two co-integrating equations among the variables. This implies that SMEs had a positive effect on economic growth within the sampled period; hence SMEs were useful in attaining increased gross domestic product. Furthermore, granger causality test showed that SMEs had a unidirectional effect on economic growth, thereby establishing the fact that SMEs remained one of the key drivers of an economy.

Nwosa and Oseni (2013) studied the impact of bank loans to SMEs on manufacturing output in Nigeria for the period 1992 – 2010. Using error correction modeling technique, the paper inferred that bank credit to SME sector exerted significant effect on manufacturing output both in the short and long run.

Methodology

Research Design

Ex-post facto research design was adopted because the independent and dependent variables were examined in retrospect for probable variations in independent variables produced on the dependent variable. Adoption of *ex-post facto* was informed on the premise that relevant data were not manipulatable by the researcher.

Nature and Sources of Data

This paper utilized data obtained mainly from the secondary sources. Sourcing published data that is acceptable is a sine qua non for obtaining extremely reliable results. We obtained data from the National Bureau of Statistics and Central Bank of Nigeria Statistical Bulletins

covering the period 2001 – 2017. The choice of 2001 as base year of study was based on data availability, particularly bank credit to MSMEs.

Model Specification

This paper examined the effect of entrepreneurship financing on unemployment rate covering the period 2001 - 2017 by using data from Nigeria. Linear regression model for this paper was culled from the study of Ezeaku, *et al* (2017) that examined SMEs financing and its effect on manufacturing sector growth in Nigeria for the period 1981 – 2014 using the model functionally specified as:

$$MVA_t = \alpha_0 + \alpha_1 \log SMCR_t + \alpha_2 INTR_t + \alpha_3 INFR_t + \alpha_4 EXR_t + \mu_t \text{-----} (1)$$

Where MVA is annual growth of manufacturing value added, α_0 = constant, α_1 , α_2 , α_3 and α_4 are coefficients. SMCR is the deposit money bank credit to SMEs, INTR is interest rate, INFR is inflation rate, EXR is official exchange rate, and μ is error term.

However, this study modified the foregoing model to suit our objective, and then rewritten as:

$$UNR_t = \beta_0 + \beta_1 BCMSME_t + \beta_2 BCLR_t + \beta_3 IFR_t + \mu_t \text{-----} (2)$$

Where, UNR means unemployment rate; BCMSME is bank credit available to MSMEs; BCLR is bank credit lending interest rate and IFR becomes inflation rate. For the other acronyms, β_0 is constant, β_1 , β_2 , β_3 and β_4 are coefficients, μ is error term and t is time period.

The model employed for this study was a system equation derived from equation (2). The vector autoregressive (VAR) model describes the dynamic interrelationship among stationary variables. If we have I(1) and I(0) orders of integration in our series, then it is an indication that our variables may not be co-integrated, and the suitable technique would be the restricted autoregressive model. Equation (2) is then modified to capture the model in log form, thus:

$$UNR_t = \beta_0 + \beta_1 UNR_{t-1} + \beta_2 \log BCMSME_{t-1} + \beta_3 BCLR_{t-1} + \beta_4 IFR_{t-1} + \mu_t \text{-----} (3)$$

Where t-1 is unknown lags to be determined, and other acronyms are as explained above. *A priori* expectation for the coefficients in the model appears thus: $\beta_1 > 0$; $\beta_2 < 0$; $\beta_3 > 0$.

Given the economic assumptions, an increased bank credit delivery to MSMEs would lead to increased productive activities. Thus, increased productive activities would therefore increase the total output of goods and services produced in the economy, and result in MSME growth and expansion; hence job creation. In view of this, the coefficient of BCMSME will be positive; that is, $\beta_1 > 0$. Moreover, based on the economic theory, a rise in bank lending rate will deter entrepreneurs from seeking financial support from banks, and so constrain rate of production in the country. The fall in productivity in the economy will result in contraction of businesses and loss of jobs. Hence, the coefficient of BCLR will be negative - $\beta_2 < 0$. Thirdly, an increased inflation rate (continual rise in

general prices of goods and services) would encourage promoters of MSMEs to produce more and thus, increase scope of activity like employment generation in the subsector; hence, $\beta_3 > 0$.

Techniques of Analysis

Vector Autoregressive (VAR) method was employed as technique of analyses, and to estimate the variables. Preliminary test for stationarity was conducted using Augmented Dickey-Fuller (ADF) process. Also, descriptive statistics was used to describe relationship of the variables in the model. Variables in the series were estimated based on 5% level of significance.

Mis-Specification Tests

Unit Root Test

Table 2: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variable	ADF-Statistic	5% Critical Value	P-value	Order of Integration	D.W. Statistic
BCMSME	-6.8362	-3.081	0.0001	I(1)	1.95
BCLR	-5.2294	-3.066	0.0008	I(0)	2.67
IFR	-3.6471	-3.066	0.0169	I(0)	2.01
UNR	-3.2263	-3.081	0.0386	1(1)	1.86

Source: Authors' Eviews Output, 2018

Stationarity test results presented in Table 2 reveals that all the variables are stationary after first differencing (i.e. at order one) with the exception of BCLR and IFR that became stationary at level. This means that the variables are stationary, but not integrated of same order. For this reason, Johansen co-integration test may not be required since there is no indication of long-run association among the series. Therefore, our series would be estimated using restricted vector autoregressive (VAR) rather than vector error correction (VEC) model since the series might lack long-run relationship.

Descriptive Statistics

Table 3: Descriptive Statistics Results

	BCMSME (A'B)	BCLR (%)	IFR (%)	UNR (%)
Mean	31710.10	17.77059	12.70588	19.12353
Median	16366.50	17.00000	11.80000	19.70000
Maximum	90176.50	24.40000	23.80000	27.40000
Minimum	11307.80	15.10000	6.600000	11.90000
Std. Dev.	25682.13	2.103201	4.667637	5.971550
Skewness	1.152091	1.964655	0.887505	0.038712
Kurtosis	3.037448	6.960398	3.076129	1.239352
Jarque-Bera	3.761718	22.04632	2.235822	2.199994
Probability	0.152459	0.000016	0.326962	0.332872
Observations	17	17	17	17

Source: Authors' Eviews Output, 2018

Table 3 shows residuals from all the variables (BCMSME, BCLR, IFR and UNR). Using the Jarque-Bera statistic value as yardstick for determination of normality test, the probability value is high among the variables: 0.15, 0.32 and 0.33, and is greater than 0.05, except 0.000016 (which is less than 0.05). Since they are greater than 0.05, it means they are normally distributed (sameness of property). Though the p-value of 0.000016 is less than 0.05 implying deviation from the normality process, it cannot discredit the model as the variable was subjected to other superior statistical processes.

Estimation Procedure

VAR estimation as presented in Table 4:

Table 4: Vector Autoregressive (VAR) Estimates

Dependent Variable: UNR					
Method: Least Squares (Gauss-Newton / Marquardt steps)					
Date: 08/14/18 Time: 08:11					
Sample (adjusted): 2002 2017					
Included observations: 16 after adjustments					
UNR = C(1)*UNR(-1) + C(2)*LOGBCMSME(-1) + C(3)*BCLR(-1) +					
C(4)*IFR(-1) + C(5)					
		Coefficient	Std. Error	t-Statistic	Prob.
UNR(-1)		0.706761	0.133371	5.299231	0.0003
LOGBCMSME(-1)		-25.18069	11.64891	-2.161635	0.0536
BCLR(-1)		-0.017813	0.313893	-0.056749	0.9558
IFR(-1)		-0.030081	0.130476	-0.230548	0.8219
C		65.17308	28.05318	2.323197	0.0403
Source:	R-squared	0.929964	Mean dependent var	19.46875	65.17308 +
Eviews	Adjusted R-squared	0.904496	S.D. dependent var	5.989626	
2018	S.E. of regression	1.851013	Akaike info criterion	4.319650	
	Sum squared resid	37.68876	Schwarz criterion	4.561084	
	Log likelihood	-29.55720	Hannan-Quinn criter.	4.332014	
	F-statistic	36.51554	Durbin-Watson stat	2.272303	
	Prob(F-statistic)	0.000003			

$$0.706761UNR - 25.18069BCMSME - 0.017813BCLR - 0.030081IFR$$

The VAR estimate in Table 4 reveals that one period lag of bank credit to MSMEs, bank credit lending rate and inflation rate have negative effects on unemployment rate in Nigeria between 2001 and 2017. It is noteworthy that none of these independent variables (BCMSME, BCLR and IFR) effects are significant. Since our estimation is autoregressive, a period lag of unemployment has significant positive effect on the entrepreneurship financing. As proven by the F-statistic, the overall effect of the explanatory variables on the explained variable is significant. The Durbin-Watson value indicates that our model is not tainted by serial autocorrelation.

Discussion of Findings

The vector autoregressive results shown in Table 5 by no means indicate that the quantum of bank credits accessed by MSMEs between 2001 and 2017 was barely sufficient to drive entrepreneurship development in Nigeria let alone employment generation. This outcome is in agreement with Owolabi and Nasiru (2017). The foregoing results could have emanated from three possibilities: (1) the MSME operators lack the capacity to harvest available bank credits and

other intervention programmes of government; (2) the agency saddled with responsibility of data collection did not live up to expectation, and (3) the claim by government and monetary authorities that MSMEs are the key driving force for employment generation in the country is a ruse.

Contrary to the foregoing position, the study of Ubesie, *et al* (2017) using autoregressive distributed lag (ARDL) showed that private sector credits positively affected SME development between 1986 and 2015 in Nigeria. In the same vein, Anigbogu, *et al* (2015) employing the ordinary least square method proved that financial intermediation (proxied by credits to SMEs) had a positive and significant effect on SMEs performance between 1980 and 2013 in Nigeria. The conflicting empirical results presented above could be attributed to a number of reasons, but not limited to differences in time frames of research, methodology adopted, reliability of data obtained, or even the phenomena investigated.

Conclusion and Recommendations

Entrepreneurship (proxied by MSMEs) financing has generally been perceived as the lifeblood for employment generation in a country. The significance of MSMEs is acknowledged by monetary authorities and governments in Nigeria; for this reason should be accorded pivotal treatment by making finance accessible at low rate so as not only to boost economic activities in the subsector but make it sustainable. It is against this backdrop that this paper has been examined theoretically and empirically in this regard. It is imperative to disaggregate the economy with regard to ascertaining how MSME financing has affected unemployment rate. Similar studies in the Nigerian context are sketchy and the need to fill the knowledge gap actually inspired this research. Various analytical techniques were employed to achieve objective of our study. Entrepreneurship has been proxied by MSME. The results of the vector autoregressive model indicate that MSME financing did not have positive and significant effect on unemployment rate in Nigeria within the period 2001 and 2017. The results also showed that bank credit lending rate and inflation rate did not have positive and significant influence on unemployment rate. We conclude that while MSMEs remain an indispensably important subsector that can drive the Nigeria economy, high interest rate retards their development and overall economic value. This subsector requires nurturing; hence the government and monetary authorities should make policies and create investment friendly environment for MSMEs to do better. Access to finance should also be simplified and obtainable at lower lending rate.

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