MACROECONOMIC FACTORS AND SMEs PERFORMANCE IN NIGERIA (1992-2021)

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Abstract
The study examined the impact of macroeconomic factors on the performance of small and medium-scale enterprises (SMEs) in Nigeria for a period of 30 years (1992 - 2021). The main objective of this study was to examine how macroeconomic factors have influenced the performance of small and medium-scale enterprises in Nigeria. The dependent variable was the performance of SMEs, while the independent variables were Gross Domestic Product (GDP), Foreign Direct Investment, Export trade, and Inflation rate. The study was anchored on Keynesian Theory. The study used data from the Central Bank of Nigeria's Statistical Bulletin and subjected them to multiple regression analysis. The findings of the study revealed that there is a significant relationship between GDP and SME performance in Nigeria. Also, Export had a negative insignificant relationship with SMEs performance in Nigeria. And that the inflation rate had a positive but insignificant relationship with SMEs performance in Nigeria. While Foreign Direct Investment had a positive and significant relationship with SMEs performance in Nigeria. The study conclude that macroeconomic factors had mixed effects on SMEs performance in Nigeria. The study, therefore, recommended that the Central Bank of Nigeria should formulate policies to stabilize macroeconomic factors, thereby affecting the performance of SMEs positively.
Keywords: *FDI, GDP, Export Trade, Inflation, SMEs.*

Introduction

The macroeconomic environment constitutes one of the major pillars for the growth of enterprises in a country and poverty reduction. Macroeconomic factors refer to the major economic indicators and variables that affect the overall performance of a country's economy. Every government in the world aims at pursuing not only a cautious policy to maintain macroeconomic variables stability, and to promote a favorable context for private investment and growth, but also to ensure the availability of adequate budgetary resources to priority sectors in order to fight against poverty in direct support to economic growth (Gbandi & Amissah, 2014).

According to asset base and workforce size, the Central Bank of Nigeria (2012) classifies Small and Medium Scale Enterprises in Nigeria. The requirements include a staff strength of between 11 and 100 individuals and an asset base between $5 million and $500 million. Therefore, companies that retain sales, assets, yearly turnovers, or a number of employees below a particular threshold could be considered small-scale enterprises. They contribute significantly to a nation's economy by creating jobs for a sizable number of people and stimulating innovation. They are owned by people, typically CEOs (Chief Executive Officers). They may receive support from governments in the form of incentives, such as preferential tax status and easier access to loans, to help them stay in business. It is noteworthy to

state that SMEs are considered the backbone of an economy as they make up a significant proportion of businesses in most countries and play a crucial role in job creation, innovation, and economic growth. They also contribute to the diversity of the economy and provide competition to larger businesses. Hence, looking at the possibilities of SMEs as an economic frontier, how have macroeconomic components influenced their position in Nigeria? Thus, this study seeks to identify the impact of macroeconomic components on the performance of SMEs in Nigeria.

Review of Related Literature

Concept of Small and Medium Scale Enterprises in Nigeria

Small and medium scale enterprises (SMEs) in Nigeria are seen as the backbone of the economy and a key source of economic growth, dynamism and flexibility. A study done by the Federal Office of Statistics shows that 97% of all businesses in Nigeria employs less than 100 employees, implying that 97% of all businesses in Nigeria are "small businesses". The SME sector provides, on average, 50% of Nigeria's employment and 50% of its industrial output (General Statistics Office, 2007). Indeed, there appears to be an agreement that the development of SMEs in Nigeria is a step towards building a vibrant and diversified economy (Ojiako, 2014). The definition of SMEs depends mainly on the level of development of the country. According to the 2021 NBS MSME Survey, the main source of capital for small and medium scale enterprises in Nigeria is personal savings with 59%, followed by family source with 16.7%, and Grant as the least source with 1.2%. Nationally, 55.7% of SMEs operated by sole proprietors had access to bank finance. Analysis shows that deposit money banks is mostly accessible (69.6%), closely followed by Micro finance banks (23.4%) and development bank 4.9% (NBS MSME Survey, 2021).

Ghandi and Amissah (2014) studied the business financing of SMEs in Nigeria, taking into consideration the importance of microfinance banks, cooperatives, and commercial banks in Nigeria. The sources of investment finance for SMEs in Nigeria included proprietor's savings, moneylenders, and local authorities. The formal investment sector included equity financing through VC and business angels (Ghandi & Amissah, 2014). The informal finance sector (IFS) provided more than 70% of the funds needed by SMEs (Ghandi & Amissah, 2014). Financing for SMEs is crucial to the economic growth of Nigeria (Ghandi & Amissah, 2014; Ilegbinosa & Jumbo, 2015). SMEs in Nigeria face difficulty in accessing bank credits and other commercial agencies (Gulani & Usman, 2013; Ilegbinosa & Jumbo, 2015). Banks found it harder to deal with SMEs in comparison to other clients because of the high risks and lack of information associated with SMEs (Kozarević et al., 2015). Access to operational funds such as credit finance, labor, and technology were significant problems faced by SMEs (Gulani & Usman, 2013). Financing for SMEs usually comes from individual savings, family, and associates, while credits from banks and other commercial institutions hardly occur (Gulani & Usman, 2013; Ilegbinosa & Jumbo, 2015).

However, operation of SMEs involves some major challenges like Financial Problem, Management Problem, Inadequate Basic Infrastructure, Socio-Cultural Problems, Strategic Planning Problems, Location/Economic Problems, Poor Accounting System, Multiple Taxation, and Unstable policy environment.

Macroeconomic Factors

Macroeconomic factors refer to the economic conditions and trends that impact the overall performance of an economy. These factors are measured and analyzed to understand the health and direction of the economy (Mankiw, 2016). Here are some of the most important macroeconomic factors or components:

Gross Domestic Product (GDP): Gross Domestic Product (GDP) is a measure of the total value of goods and services produced within a country's borders in a specific time period, typically a year. It is often used as an indicator of a country's economic performance and can be used to compare the economic output of different countries.

Foreign Direct Investment (FDI): FDI stands for Foreign Direct Investment, which refers to investments made by foreign entities (individuals, companies, or governments) into another country's economy. FDI involves a long-term relationship between the investor and the recipient country, with the aim of establishing a lasting interest in the economy of the recipient country.

Export Trade: Export trade refers to the sale of goods or services produced in one country to customers or businesses located in another country. It is an important aspect of international trade and plays a crucial role in the economic development of countries. Export trade helps businesses reach new markets and expand their customer base, leading to increased revenue and job creation.

Inflation Rate: Inflation rate is the rate at which the general level of prices for goods and services in an economy is increasing over time. It is typically expressed as a percentage change in the price level from one period to another, usually on an annual basis.

Theory Adoption

The Keynesian Theory was adopted in this work because it shows that government intervention, such as fiscal policy (government spending and taxation) and monetary policy (interest rates and money supply), can help stabilize the economy during recessions and promote full employment.

The Keynesian theory was adopted because it shows that government intervention in macroeconomic component will have positive impact on SMEs performance and the more money government put in through monetary policy and fiscal policy will aid SMEs in their output. The Keynesian theory stress the relevancies of macroeconomic component as it has positive impact on SMEs performance in Nigeria.

Empirical Review

A number of studies indicate significant relationships between export trade, interest rate, Foreign Direct Investment, inflation rate and GDP fluctuation variables and the

financial performance of a firm in terms of its profitability and security returns. Menike (2006) investigated the effects of export trade, interest rate, rate and GDP fluctuation variables on stock prices in emerging Nigerian stock market using monthly data. The results indicated that most of the companies reported a higher coefficient of determination which justifies higher explanatory power of export trade, interest rate, inflation rate and GDP fluctuation variables in explaining stock prices. Consistent with similar results of the developed as well as emerging market studies, inflation rate and export trade react mainly negatively to stock prices in the Nigerian Stock Exchange (NSE). The negative effect of Treasury bill rate implied that whenever the interest rate on Treasury securities rise, investors tend to switch out of stocks causing stock prices to fall.

Olweny and omondi (2011) sought to find out the impact of macroeconomic factors on the performance of the stock market. The results showed evidence that Foreign direct investment, Interest rate and Inflation rate, affect stock return volatility. On foreign direct investment, magnitude of volatility as measured by beta was relatively low at 0.209138 and significant since the probability is almost zero, 0.3191. This implies that the impact of foreign exchange on stock returns is relatively low though significant.

Oriwo (2012) studied the relationship between macroeconomic variables and stock market performance in Nigeria. The study found that there exists a significant relationship between macroeconomic variables and the stock market performance. This relationship was found to be either positive or negative depending on which variable is being put under consideration. This study recommended that the macroeconomic environment is very important and should closely be monitored to ensure stability.

Darfor and Agyapong (2010) studied the effects of macroeconomic variables on commercial banks stock prices. The results of the research indicated that the Nigerian Stock Exchange All-share index influenced the level of stock prices of Nigerian Commercial Banks. Both the stock prices of Standard Chartered Bank and Social Security Bank also influenced Nigerian Commercial Banks stock prices positively. However, inflation and exchange rates did not influence the stock prices of NCB significantly.

Nkuah and Gaeten (2013) undertook a study on challenges and determinants in accessing bank credit by SMEs in Nigeria. Their findings were that as part of the entrepreneurs' characteristics, male entrepreneurs were most favoured by financial institutions than their female counterparts in credit accessibility. The study also revealed that entrepreneurs within the age category of 31years to 40 years as well as 41 years to 50 years were considered worthier of credit than the other age groups.

With regards to a firm's peculiar characteristics and credit accessibility, the study revealed that firms in the service sector were most favoured than those in the production and agricultural sectors due to the volatility of the latter sector and the resultant high tendency of loan default.

Afolabi (2013) studied the role of the family counsel board on the growth of Small and Medium Enterprises in Nigeria after exit of the founder. The study found that the family counsel board skills affected the growth of SMEs. The study further found that the family counsel board composition affected the growth of SMEs to a great extent. The board composition affected the growth of SMEs through Idea generation, diversity of opinions, flexibility, speed of decision making, profit margins, increased sales, delegation of duties, restricting outside decisions, and keeping up with competition. Those facets of family counsel board structure affecting growth of SMEs were, firm-level assessment, transformational style, delegation of duties, roles of the CEO and family counsel board flexibility.

Osoro and Ogeto (2014) investigated the effect of macroeconomic fluctuations on the financial performance of listed manufacturing firms in Nigeria. The study found is evidence that foreign exchange, interest rate and inflation rate have significant effects on the performance of the firms in the construction and manufacturing sectors. The effect of macroeconomic factors on the performance of the agricultural sector was however insignificant at 95% confidence level the effects of macroeconomic factors were inconclusive and thus required further research. The study recommended that the government to come up with strategies and policies to protect the construction, manufacturing and agricultural sectors due to their immense contribution to the economy of the country by formulating policies aimed at controlling the effects of rapid fluctuations of the macroeconomic factors and their effects on the various sectors.

Claudiu, Ion, Corina, and Simona (2019) examined how certain economic and social factors influence the short- and long-term performance of small and medium enterprises (SMEs). The study targets European Union (EU) countries. In order to obtain short- and long-term influences, an analysis that carries out three types of tests is conducted: testing stationarity, testing cointegration, and testing causality between the indicators identified as influencing factors and the variable measuring the performance of SMEs. From an econometric perspective, the results are among the most varied, both in the long- and short-term, however, they also have a correspondent economic explanation.

Anh-Tuan, Aila, Quan, and Scott (2021) examine the relationship between intellectual capital (IC) and corporate performance in the context of Asian developing economies characterized by an underdeveloped corporate governance system. Using a sample of 1,958 small and medium-sized enterprises (SMEs) in Asian developing countries covering a 10-year period from 2007 to 2016, they investigated this relationship in a dynamic modeling framework that controls for potential sources of endogeneity. The study revealed that human capital and relational capital, have a positive effect on SMEs' financial performance. The results reveal that human and relational capitals appear to be key elements that enhance the basis of service quality for the SME.

Another recent study by Le, Le, Pham, and Vo (2023) examined the effect of innovation on the performance of small and medium-sized enterprises (SMEs) in Vietnam. The study used east-squared regressions and 2SLS regressions to examine the effect of innovation on the performance of SMEs and discovered that SMEs with innovation tend to perform better than SMEs without innovation. The result further showed that the positive effect of innovation on firm performance mainly comes from the effect of improvement of existing products, an important type of innovation in SMEs. Overall, the results show the important role of innovation in enhancing the firm performance of SMEs, which sheds light on the literature on the controversial relationship between innovation and SMEs performance in the world.

Methodology

The research design adopted a descriptive design. This research work is patterned after the Keynesian theory. Keynesian theory shows that government intervention in macroeconomic component will have positive impact on SMEs performance in Nigeria.

This study used the following model of multiple linear regressions where SMEs performance was regressed against Gross Domestic Product, Exprt trade, Inflation rate and Foreign Direct Investment (FDI).

This study adopted and modified the work of Olweny and Omoddi (2011), and their model is stated thus,

MC= (FD1, INTR, INTF).

However, the redefined model of the study is stated thus,

$SMEP = \alpha + \beta 1GDPt + \beta 2IEXTt + \beta 3INFt + \beta 4FDIt + \varepsilon$.....eq 1

Where;

SMEPt = SME enterprises Profitability

α = Coefficient of regression.

βt = Regression Coefficients

GDPt = Annual GDP rate

EXT = Export Trade

INFt = Annual inflation rate

FDIt = Foreign Direct Investment

ε = is the error term

Presentation and Interpretation of Result

Test for Stationarity

The stationarity test requires that the variables in the series model must be stationary at a given level and the p-value must be significant at that level. Stationarity is attained where the test statistics are most negative and greater than the critical value of the chosen level of significance.

Table 1: Unit Root Tests

Var	ADF Test	C. Values @5%	P-value	Order of Integration
SMEs	-6.539310	-2.971853	0.0000	I(1)
GDP	-4.819160	-3.580622	0.0032	I(1)
FDI	-4.564504	-2.971853	0.0012	I(1)
INFR	-5.153109	-2.971853	0.0003	I(1)
EXPORT	-2.144262	-1.952910	0.0329	I(0)

Source: Author's E-view 12.0 Computation

Table 1 present the summarized unit root test which display the tests for stationarity properties of the series following the Augmented Dickey Fuller (ADF) statistics. All the variables were found to be stationery at order one (1) except Export which was stationary at level. At both first difference and level as reported, the ADF Statistics for all the respective variables in macroeconomic factors in GDP, FDI, INFR and EXPORT with the SMEs were all negative as the critical values at 5% significance level. The reported P-values were all less than 0.05 chosen level of significance for which cause, the Null Hypothesis of the presence of unit root in all the variables is convincingly rejected.

Test of Hypothesis

This part tests the hypotheses stated in chapter one as modeled in chapter three. In testing for these hypotheses, we proceeded to test the data for each in the study area;

Table 2: ECM Regression Result for Model 1 to 4

Dependent Variable: SMES
Method: Least Squares
Date: 04/30/23 Time: 00:24
Sample (adjusted): 1993 2021
Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	0.000342	9.92E-05	3.448574	0.0022
FDI	0.000452	0.000158	2.853769	0.0090
EXPORT	-1.31E-05	1.08E-05	-1.217678	0.2357
INFR	0.041809	0.266470	0.156900	0.8767
ECM(-1)	0.348685	0.200399	1.739953	0.0952
C	4.825525	11.08519	0.435313	0.6674

R-squared	0.531595	Mean dependent var	39.15092
Adjusted R-squared	0.429768	S.D. dependent var	28.35292
S.E. of regression	21.41034	Akaike info criterion	9.147616
Sum squared resid	10543.26	Schwarz criterion	9.430505
Log likelihood	-126.6404	Hannan-Quinn criter.	9.236214
F-statistic	5.220567	Durbin-Watson stat	2.054005
Prob(F-statistic)	0.002398		

Source: Computation by the author using E-view 12.0

The ECM result in Table 2 shows R^2 and Adjusted R^2 of 53.16% and 42.98% respectively. This shows that the chosen regression model best fits the data. Hence, the goodness of fit regression model is 53.16% and implies that chosen explanatory variables explain variations in the dependent variables to the tune of 53.16%. Also, with a high Adjusted R^2 of 42.98% which showed that the model can take on more variables conveniently without the R^2 falling beyond 53.16%. The f-statistics proved that the combine components of macroeconomic factors have significant effect on the SMEs performance with f-statistics of 5.220567 and probability of 0.002398 which is less than the critical 5% significance level. The Durbin Watson result of 2.054005 showed no presence of auto-correlation. Hence, the result of the regression result is reliable for decision-making and policy recommendation.

Restatement of Hypothesis One

H_{01}: The Gross Domestic Product (GDP) does not have a significant effect on the performance of small and medium-scale enterprises in Nigeria.

H_1: The Gross Domestic Product (GDP) has a significant effect on the performance of small and medium-scale enterprises in Nigeria.

Table 3: ECM Regression Result for Model 1

Dependent Variable: SMES
Method: Least Squares
Date: 04/30/23 Time: 00:24
Sample (adjusted): 1993 2021
Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	0.000342	9.92E-05	3.448574	0.0022
FDI	0.000452	0.000158	2.853769	0.0090
EXPORT	-1.31E-05	1.08E-05	-1.217678	0.2357
INFR	0.041809	0.266470	0.156900	0.8767
ECM(-1)	0.348685	0.200399	1.739953	0.0952
C	4.825525	11.08519	0.435313	0.6674

Source: Computation by the author using E-view 12.0

The result from the effect of GDP on SMEs performance showed t-statistics of 3.448574 with a probability value of 0.0022 which is significant at a 5% significance level. This, affirms that GDP within Nigeria affects SMEs performance significantly and an increase in GDP will cause the Nigerian SMEs performance to improve by 0.000342%.

The relationship in T-test showed that the GDP affected the SME's performance positively while also showing a significant relationship. Therefore, we reject the null hypothesis to accept the alternative that states that the Gross Domestic Product (GDP) has a significant effect on the performance of small and medium-scale enterprises in Nigeria.

Restatement of Hypothesis Two

$H_{02:}$ Export trade does not have a significant effect on the performance of SMEs in Nigeria

$H_{2:}$ Export trade have a significant effect on the performance of SMEs in Nigeria

Table 4: ECM Regression Result for Model 1

Dependent Variable: SMES
Method: Least Squares
Date: 04/30/23 Time: 00:24
Sample (adjusted): 1993 2021
Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	0.000342	9.92E-05	3.448574	0.0022
FDI	0.000452	0.000158	2.853769	0.0090
EXPORT	-1.31E-05	1.08E-05	-1.217678	0.2357
INFR	0.041809	0.266470	0.156900	0.8767
ECM(-1)	0.348685	0.200399	1.739953	0.0952
C	4.825525	11.08519	0.435313	0.6674

Source: Computation by the author using E-view 12.0

The result from the effect of Export on SMEs performance showed t-statistics of -1.217678 with a probability value of 0.2357 which is not significant at a 5%

significance level. This, affirms that Export within Nigeria does not affect SMEs' performance significantly and an increase in Export will cause the Nigerian SME's performance to decrease by -1.3105%.

The relationship in T-test showed that the Export does not affect the SME's performance positively while also showing a negatively insignificant relationship. Therefore, we accept the null hypothesis that state that Export trade does not have a significant effect on the performance of SMEs in Nigeria.

Restatement of Hypothesis Three

$H_{03:}$ Inflation rate does not have significant effect on the performance of SME's in Nigeria

$H_{3:}$ Inflation rate have significant effect on the performance of SME's in Nigeria

Table 5: ECM Regression Result for Model 1

Dependent Variable: SMES
Method: Least Squares
Date: 04/30/23 Time: 00:24
Sample (adjusted): 1993 2021
Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	0.000342	9.92E-05	3.448574	0.0022
FDI	0.000452	0.000158	2.853769	0.0090
EXPORT	-1.31E-05	1.08E-05	-1.217678	0.2357
INFR	0.041809	0.266470	0.156900	0.8767
ECM(-1)	0.348685	0.200399	1.739953	0.0952
C	4.825525	11.08519	0.435313	0.6674

Source: Computation by the author using E-view 12.0

The result from the effect of inflation rate on SMEs performance showed t-statistics of 0.156900 with a probability value of 0.8767 which is not significant at a 5% significance level. This, affirms that the inflation rate does not affect SMEs' performance significantly and an increase in the inflation rate will cause the Nigerian SME's performance to increase by 0.041809%.

The relationship in T-test showed that the inflation rate does not affect the SME's performance significantly. Therefore, we accept the null hypothesis that state that the inflation rate does not have a significant effect on the performance of SMEs in Nigeria.

Restatement of Hypothesis Four

$H_{04:}$ Foreign Direct Investment does not has a significant effect on the performance of SMEs in Nigeria.

$H_{4:}$ Foreign Direct Investment has a significant effect on the performance of SMEs in Nigeria.

Table 6: ECM Regression Result for Model 1

Dependent Variable: SMES
Method: Least Squares
Date: 04/30/23 Time: 00:24
Sample (adjusted): 1993 2021
Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	0.000342	9.92E-05	3.448574	0.0022
FDI	**0.000452**	**0.000158**	**2.853769**	**0.0090**
EXPORT	-1.31E-05	1.08E-05	-1.217678	0.2357
INFR	0.041809	0.266470	0.156900	0.8767
ECM(-1)	0.348685	0.200399	1.739953	0.0952
C	4.825525	11.08519	0.435313	0.6674

Source: Computation by the author using E-view 12.0

The result from the effect of foreign direct investment on SMEs performance showed t-statistics of 2.853769 with a probability value of 0.0090 which is significant at a 5% significance level. This, affirms that foreign direct investment affects SMEs' performance significantly and an increase in foreign direct investment will cause the Nigerian SME's performance to increase by 0.000452%.

The relationship in T-test showed that the foreign direct investment affected the SME's performance positively while also showing a significant relationship. Therefore, we reject the null hypothesis to accept the alternative that states that foreign direct investment (FDI) has a significant effect on the performance of SMEs in Nigeria.

Findings, Conclusion, and Recommendation

The intention of this study was to ascertain the effect of macroeconomic factors on the performance of SMEs in Nigeria. The study was elaborately discussed and empirically reviewed. The anchor theory for the study is Keynesian theory and the variables are expected to have a positive impact on SMEs within the period under review.

The result obtained from the tests after analysis revealed that the independent variables employed in the model Gross domestic product and Foreign Direct Investment have a significant relationship with SMEs' performance while Export Trade and Inflation rate do not have a significant relationship with SMEs' performance in Nigeria. This shows that the value of the macroeconomic factors has a mixed significant relationship with SMEs performance. Hence, the study

concludes that macroeconomic factors have a mixed significant relationship with SME performance in Nigeria.

The following recommendations are stated for the study; The federal government should ensure macroeconomic factors are stirred to boost economic activities which will trigger SMEs within the Nigeria business environment.
The Nigerian export should be encouraged so as to enforce broader economic growth and possibly reduce the importation mechanism within the economy. This will enable SMEs to thrive in the long run.

The inflation rate should be reduced to single digits to encourage investment channels and centers within the economy and SMEs at large.
Foreign Direct Investment should be encouraged to boost the existence of SMEs as a follow-up partner in business within the Nigerian investment center.
The Central Bank of Nigeria should formulate policies to stabilize macroeconomic factors, thereby affecting the performance of SMEs positively.

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