Original Article

The Effect of Small Scale Enterprises on Poverty Reduction in Nigeria

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Abstract - *The objective of this study examined the effect of small and medium-scale enterprises on poverty reduction in Nigeria, using annual time series data sourced from the CBN Annual Report of various issues. SMEs were proxied by the ratio of commercial bank credit to SME's to private sector credit, (RCP), microfinance credit to SME's (MCS), Inflation (INF), and interest rate (INT), while poverty was proxied by the incidence of poverty (PI). The model built was estimated using autoregressive distributed lag bound test and Vector Error Correction Mechanism (VECM). It was found that there exists a long-run relationship between SME's and poverty reduction. However, the error correction mechanism was not rightly signed and found to be insignificant, difficult to be adjusted in the long run. While DLRCP and LINF had a negative effect on DLPI, indicating (PI) reduction. DLMCS and LINT had a positive impact on DLPI. It found that DLMCS causes variation in DLPI, and DLRCP while LINT and LINF cause less change on poverty level in Nigeria. In conclusion, there is a significant relationship between SME's and poverty reduction in Nigeria. The study recommended that microfinance banks should provide loans and overdrafts to SMEs to solve the problem of poverty.*

Keywords - *Small and medium scale enterprises, poverty reduction, unemployment, economic growth, Nigeria.*

I. INTRODUCTION

Small and Medium Scale Enterprises have risen in popularity in the last three decades. They have consistently enjoyed the support of a broad range of stakeholders such as governments, scholars, practitioners as well as international organizations. The reason for this is as a result of their potentials to satisfy ostensibly employment, emerging economy, through stimulating innovation, revenue challenges of developing and emerging economies which can be annexed by stimulating innovations, as well as the creation of jobs for the teeming youths and women which will result to the achievement of sustainable development goals (World Bank, 2010; Musamali&Tarus, 2013).

In the developing world, the importance of SMEs is also acknowledged. According to Ojo (2003), the activities and operations of small-scale enterprises are the drivers for Asia's economic success as the sub-sector plays an integral part in the economic development by employing more than 60% of the workforce, more importantly in rural areas. It stands as the source for generating income, and its redistribution enhances the acquisition of capital, alleviates poverty, empowers people, particularly women and the youths (Addaney, Akudugu&Asare, 2016). Not only that, but SME's also facilitates the forming of a new group of small and medium scale entrepreneurs, that is, expanding the middle class, as well as broader income distribution, have the potential to increase and diversify household incomes as well as minimize household poverty. It could be that SMEs possess the capacity to promote economic growth and also to advance socio-economic development at both the national and local levels (AnaneCobbinah& Manu, 2013). Despite all these, it is worrisome to know that; small-scale enterprises still form the lesser part of industries as it only employs just tiny proportion of the population in Africa (Yusuf &Dansu, 2013; Adeloye, 2012).

Nevertheless, several studies have identified inadequate and poor support services, limited access to credit as well as unfair market competition as some of the significant challenges that impede their contributions to socio-economic development, especially in developing countries (Anyanwu, 2003; Lawson, 2007, Odili&Ighedosa, 2014). Most notably, in Nigeria, access to credit by SMEs has not been straightforward, and this has been attributed to inadequate financial markets, the attitude of most of the deposit money banks, plus improper documentations by SMEs to access credit (Meijerink&Roza, 2007, Tsai, 2015). This situation limits the opportunity of rural industries to obtain loans for

their development and sustainable growth. Importantly, without an appropriate support system in place to promote SMEs, it is unlikely for poverty and unemployment to be eradicated or brought down to the barest minimum.

For example, Nigeria has been witnessing a high rate of poverty across the six geopolitical zones, and this has attracted the developed nation's stakeholders about the country, which has been acknowledged as the giant of Africa. Nigeria is blessed with abundant human and natural resources among its counterparts; unfortunately, within her richness, the citizens leave in abject poverty, leaving less than $1.25 a day (Adebayo &Olarenwaju, 2014). Historically, the incidence of poverty, as reported by the Central Bank of Nigeria, revealed that the prevalence of poverty in Nigeria has never been below 50%. In 1992 it was 57.1%, grew to 63.5% in 1996, in 2002 it was 66.9%, it was reduced to 60.90% in 2010 and increased to 61.2% in 2017(CBN, 2017). Comparing these records with neighboring states like South Africa, Ghana, Kenya, and the Gambia, Nigeria has the highest poverty level, and this is worrisome and calls for urgent attention.

In other proffer solution to this great challenge, there has been an advocate for the growth of SME's in terms of channeling of funds from the available financial institutions, government interventions, and availability of technical knowhow that would enhance and motivate people to embrace skill acquisition which would translate to the growth of small and medium scale enterprises and consequently, proffer solution to poverty and unemployment rate in Nigeria. Although, Nigeria government has put in efforts to ensure that unemployed and underemployed individuals secure jobs through her different programs such as rural banking scheme, Peoples Bank (1989), Nigerian Directorate of Employment(1977), Family Economic Advancement Programme (FEAP), Poverty Alleviation Programme (PAP), Community Banking and Microfinance banking, National Directorate of Employment (NDE), SMEEIS, ACGSF, SMECGS, EDC'S (Acha, 2012, CBN Annual Reports, 2017). Of recent, there has been an introduction of Youth Enterprise with Innovation (YOUWIN), entrepreneurship programs at the NYSC camps, etc. Yet, much has not been achieved, as the poverty incidence continues to move in an upwards trend. (Adekoya&Olanipekun, 2017, Ayodeji&Ajala, 2018).

Despite the fact that incidence of poverty has been a general concern, much has been written, and many recommendations have been provided; however, this study would be an addition to the existing literature from the Nigeria context on how SME's could be an inducing factor in helping to reduce poverty in Nigeria. More importantly, while many studies employed descriptive statistics through primary data, this study contributes by using the VAR estimation technique to see the effect of SMEs on poverty in Nigeria. It also helped in the area of time scope by extending the time scope to 2018.

II. LITERATURE REVIEW
A. Conceptual Clarification

The UNIDO defines SMEs in terms of the number of employees and classifies the same both at the developing and developed economies is not similar manner (Abor &Quarty, 2010). They classified SMEs in developing countries is usually practiced as follows:

- Micro-firms to have workers with less than five;
- Small-firms to have workers with between five and nineteen;
- Medium-firms to have workers within twenty and ninety-nine, while
- Largefirms to have workers within one hundred and more.

They also classified SMSI in industrialized countries as follows:

- Small firms to have employees not more than ninety-nine;
- Medium-firms should also have employees between one hundred and five hundred; while,
- Large firm workers can have up to five hundred and more.

Despite the above definitions, SMEs have been defined by different economists in so many ways but recognized SMEs to have significant potential for the generation of employment. Still, they are significant and as a contributor to livelihood for the poor class. Importance of SMEs has been recognized all over the world. SMEs increase productivity growth in the economy, which plays a vital role in public welfare and poverty reduction. SMEs do not only play a significant complementary role in the industrialization of the economy, but they also rejuvenate structural change. Productivity growth in the economy implies innovation in the economy. Small scale industries (SMEs) are those small entrepreneurs engaged in production, manufacturing, or service at an inconsequential scale. Small and medium-sized enterprises play a central role in Nigeria's economic and social development in the post-independence era. Small and medium-sized enterprises are the basis of any developing economy that has a useful, efficient, flexible, and innovative business trend. Across the world, SME units have been accepted as creators of economic growth and to promote poverty reduction and fair development. The phrase Small and Medium Enterprise (SME) is generally used in the United States of America.

But the states of the European Union as tradition have a way of defining SMEs. For example, Germany limits small

and medium-sized enterprises to two hundred and fifty (250) employees, but the Belgians say that their staff is up to one hundred (100) employees. However, recently the European Union has presented a standardized concept by classifying companies with fewer than ten (10) employees as "micro", while those with less than fifty (50) employees as "Small" and any other company with less than two hundred and fifty (250) used as "medium".

Olagunju (2004) stated that an undertaking in which one is involved in the task of creating and managing an enterprise for a purpose, opportunity for training managers and semi-skilled workers is classified as entrepreneurship which is the brain behind every successful SMEs.

The Nigeria poverty profile began to trend after the oil boom in the 1970s (Okoli, 2015; Ozoana, 2013). It was further discovered by Ozoana, that the 1980s saw the collapse of the oil price in the international market, which resulted in a decline in the revenue of Nigeria.

Nigeria abandoned the non-oil sector, which metamorphosed to the decline of the country's revenue while her poverty level increased. Again, Okoli, (2015) and Ozoana (2013) noted that the continuous nose-diving of the oil prices in the international market resulted in the dismal poverty level in the country. Government revenue also started reducing as a result of the over-dependency on oil revenue and the inability to mobilize funds from the non-oil sector. To add more salt to the country's injury, the external reserves of Nigeria become deteriorated and emanated from huge accumulated trade arrears. As a result, which could not make the government provide basic amenities and social facilities, and in investing in antipoverty programs to improve SMEs' performance becomes a problem.

The government has been adequately supporting the SMEs sector in recent years with its antipoverty policy aimed at promoting SMEs in Nigeria, in a way to increase employment and intending to reduce poverty. Despite this, the government policies failed actually to mitigate poverty reduction and raise doubts in mind Nigerians on how sincere the government is in the implementation of the SMEs' development policies (Tijani, Oyeniyi&Ogunyomi, 2012; Anigbogu, Edoko, Okoli, 2016).

B. Theoretical Framework

To provide a proper theoretical foundation for this study, poverty reduction theory is adopted. One of the poverty reduction theories was postulated by Karl Marxian which explains that poverty comes about as a result of the situation a poor person finds himself or herself, which resulted from so many factors that lead to making the poor a victim of circumstances that is critical of the production system (Alfandega, 2017). Karl Marx revealed that the entrepreneurial practices of the who owns means of production (capitalists) need to move away from labor to capital intensive ways of production to boost production hitch will result to increase profitability can also lead to massive unemployment, and this causes poverty. Capital intensive production will pressurize the capitalist to retrench workers to make way for increased profitability; as a result, it will lead to massive unemployment. In any case, retrenched workers will either migrate to resurface in urban areas or change professions. This continued retrenchment by capitalists will increase the number of poor in the economy, and the long-run effect is increasing in poverty levels. A series of structural failures give rise to an increase in the number of poor. Gordon (1982) also observed these structural defects to be racial and gender discrimination and nepotism, resulting in deprivation of a particular section of the populace's opportunities for jobs, education, and social assistance. Albrecht and Milford (2001), in their contribution to this theory, opined that massive restructuring of economic systems would lead to increased economic and social marginalization of an entire group of people. Such groups end up poorer due to the lack of access to opportunities. The Marxist theory, in his recommendation, put poverty alleviation through better structures of production and increased education and training to those rendered extraneously by technological improvement to adapt through a change of environment to change of profession. Hence, to achieve this, as advised, small and medium scale enterprises can be adopted by the poor to solve their poverty problem with the help of government intervention. In the long run, the issue of poverty can be minimized.

C. Empirical Review

Oregu and Chima (2013) researched on small-scale enterprises' roles in reducing poverty in Nigeria between 2001 and 2011. Secondary data were sourced from CBN Annual reports statement of account of various editions. Two models were estimated of which the first model says that employment level proxied by poverty is a function of SME's gross domestic product, agriculture gross domestic product and manufacturing a gross domestic product, on the other hand, the second model says that, SME's GDP is a function of commercial bank loans, government fund to SME's and interest rate. These models were estimated using regression analysis. The earnings of SMEs captured by their contributions to GDP were statistically significant to explain the level of employment and, therefore, the reduction of poverty. Furthermore, SME financing and the level of government participation are not significant for the growth of SMEs, measured by their level of income (SGDP). OgbuaborMalaolu and Tuluma (2013) assessed the usefulness of providing the double economic problems of poverty and unemployment in Nigeria through small businesses, commonly known as burnt walls. He also examined the socio-economic characteristics of the bricklayers and also the main problems that threaten their growth and performance.

The variables used were household socio-economic characteristics such as annual income from burnt bricklaying, the number of bricks laid, number of meals taken per day house type, access to improved medical service, access to clothing, children/family members education, level of education of the respondents and family size. The results show that burnt bricklaying has a significant positive effect on poverty alleviation, income generation job creation in Nigeria.

Tersoo (2013) focused on the national poverty eradication program on wealth creation in Benue State by examining the current strategies adopted by the Federal Government of Nigeria through the National Poverty Eradication Programme (NAPEP) and the effect on the beneficiaries in Benue State. The explanatory survey method was utilized for the collection of data through a questionnaire administered on one hundred and nine (109) respondents selected from beneficiaries and key officials of NAPEP in six (6) local government areas of Benue State. The study suggested that the strategies employed by NAPEP had not made a significant impact in improving the lives of beneficiaries in implementation strategies adopted by NAPEP. More so, poor funding, corruption, as well as the untimely release of funds, inability to effectively monitor and impact assessment plans, with bad governance, were seen as the most important major constraints in the successful implementation of poverty reduction programs in Nigeria.

Hussain, Bhuiyan, and Said (2015) accessed the role of micro, small and medium enterprises in eradicating poverty in Malaysia. The study used a content approach by reviewing extensively on the existing studies on the subject matter, and it was found that the development of micro, small, & medium enterprises depends on individuals or a group of peoples that have certain factors such as innovativeness, family background, government support programs, and training or education. As a result, individual entrepreneurial characteristics, like an increase in youth empowerment and women's participation in entrepreneurship. A significant role played in the development of entrepreneurship is the robust collaboration between government-university-industry resulted in stimulating employment and creating job opportunities which will lead to alleviating poverty

Ayodeji and Ajala (2017) examined micro-financing and poverty reduction in Nigeria, covering a time scope from 2000 to 2016. The study sourced secondary data on microfinance credit, a number of microfinance banks registered, and interest rate whole autoregressive distributed lag was used as the estimation technique. It was found, that there exists a long-run relationship between micro-financing and rural-poverty reduction. Also, microfinance credit was found to be significantly negatively related to the rural poverty index, such that the higher the microfinance credits available to the rural dwellers, the lower the rural poverty index, though the numbers of microfinance banks are insignificantly positively related to rural poverty index in Nigeria

John-Akamelu and Muogbo (2018) evaluated the contribution of small and medium-scale enterprises in poverty eradication in Nigeria. Primary data were sourced from the population size of 150 through the administration of a questionnaire to employees of some selected SMEs' S in Anambra state, and the sourced data were analyzed using the Chi-square method. Findings revealed, that small and medium enterprises provided employment opportunities, training ground, and harness utilization of local resources, thereby helping in reducing the poverty rate in Nigeria

III. METHODOLOGY

This study made use of annual time series data covering the period from 1999 to 2017, and the data were sourced from the CBN Statistical Bulletin of various editions. Two models were formulated. For the first model, small and medium-scale growth was used as an independent variable to measure the performance of SMEs. In contrast, the incidence of poverty was used as the dependent variable. On the second model, commercial bank credit to SME's, microfinance credit to SME's, government funds to SMEs, Interest rate, and inflation were used as the independent variable while small and medium scale enterprises' GDP was used as the dependent variable. The estimation technique employed for the study was the Vector error correction mechanism.

A. Model Specification

Model for this study is adapted from the study of Oregu and Chima (2015). The model was stated thus
EMP= f (SGDP, AGDP, MGDP)

That is, employment as a function of small and medium scale enterprises growth SGDP, Agricultural GDP, Manufacturing GDP. The authors believe that employment in the disaggregated sector of SMEs would bring down poverty indirectly through employment. The second model stated that,
SGDP= f (CBCS, GFS, INT)

Where, small and medium scale enterprises gross domestic product is a function of commercial bank credit to SME's, government funds to SME's and interest rate. However, this study adapted these models by incorporating the incidence of poverty as the proxy for poverty to replace. At the same time, SGDP is expanded to include microfinance credit to SME's as one of the variables determining the performance of SMEs. Also, CBCS is replaced by the ratio of commercial banks credit to SMEs to private sector credit

Hence, model 1for this study is stated thus,
PI= f (SGDP) ------1
Where SGDP= f (RCP, MCS, INT, INF)

Therefore, the new model is stated as

PI= f(RCP, MCS, INT, INF)　　　　-------2

In an explicit form, the model is stated as

$PI_t = \beta_o + \beta_1 RCP_t + \beta_2 MCS_t + \beta_3 INT_t + \beta_4 INF_t + U_t$　　-------3

This model is therefore estimated using Vector Autoregression, and it is therefore stated thus

$PI_t = \lambda_1 + \alpha_{11}\sum PI_{t-1} + \alpha_{12}\sum RCP_{t-1} + \alpha_{13}\sum MCS_{t-1} + \alpha_{14}\sum INT_{t-1} + \alpha_{15}\sum INF_{t-1} + \varepsilon_1$

$CBCS_t = \lambda_1 + \alpha_{11}\sum PI_{t-1} + \alpha_{12}\sum RCP_{t-1} + \alpha_{13}\sum MCS_{t-1} + \alpha_{14}\sum INT_{t-1} + \alpha_{15}\sum INF_{t-1} + \varepsilon_1$

$MCS_t = \lambda_1 + \alpha_{21}\sum PI_{t-1} + \alpha_{22}\sum RCP_{t-1} + \alpha_{23}\sum MCS_{t-1} + \alpha_{24}\sum INT_{t-1} + \alpha_{25}\sum INF_{t-1} + \varepsilon_1$

$INT_t = \lambda_1 + \alpha_{31}\sum PI_{t-1} + \alpha_{32}\sum RCP_{t-1} + \alpha_{33}\sum MCS_{t-1} + \alpha_{34}\sum INT_{t-1} + \alpha_{35}\sum INF_{t-1} + \varepsilon_1$

$INF_t = \lambda_1 + \alpha_{41}\sum PI_{t-1} + \alpha_{42}\sum RCP_{t-1} + \alpha_{43}\sum MCS_{t-1} + \alpha_{44}\sum INT_{t-1} + \alpha_{45}\sum INF_{t-1} + \varepsilon_1$

Where, λ_1 λ_2, λ_3= Constant Term, PI= Poverty incidence, RCP= Ratio of Commercial bank credit to SME's to private sector credit, MCS= Microfinance bank credit to SME's, GFS= Government funds to SME's, INT= Interest rate, INF= Inflation, U=Stochastic error term, $\alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5$= Auto regressive coefficients matrices of the variables to be estimated.

IV. ANALYSIS AND INTERPRETATIONS
A. Philip Perron Unit Root Test

The result of the unit root using the Philip Perron test is presented in Table 1 below. The variables were transformed into their logarithm forms before the test. It was found that the series were integrated of difference order, that is, at first difference l(1) and at level l(0). The test revealed that PI, CBCS, and MCS were stationary at first difference l(1), while LINF and LINT became stationary at level l(0). This was ascertained by comparing the PP-critical test with the resulting test at a 5% level of significance. Hence, the study rejected the null hypothesis of unit root and accepted that the series has no unit root.

Table 1. Summary of Philip Perron Unit Root

Variables	Critical Test	@ level	@ the first diff
LPI	Test	-2.1298	-5.8279
	Prob	0.2354	0.0001
LRCP	Test	-.0.5814	-4.2476
	Prob	0.8579	0.0031
LMCS	Test	-1.9655	-15.7433
	Prob	0.2990	0.0000
LINF	Test	-3.7569	-9.2823
	Prob	0.0009	0.0000
LINT	Test	-3.4356	-9.7087
	Prob	0.0192	0.0000

Source: Authors Computation's from Eviews, 9.0

Before estimating the model, the study subjected the variables to two diagnostic tests, which were Breusch pagan and Godfrey serial correlation tests. The results of the tests are presented in Table 2 below, and it was revealed that, the two tests passed the diagnostic test criteria, which indicated that, the variables were free from serial correlation and heteroskedasticity problem as the F-statistics and probability values are greater than 5% level of significance. This means that the variables in the series passed the diagnostic tests.

Table 2. Summary of Diagnostic Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.390185	Prob. F(10,12)	0.2905
Obs*R-squared	12.34439	Prob. Chi-Square(10)	0.2627
Scaled explained SS	4.629139	Prob. Chi-Square(10)	0.9145
Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.871404	Prob. F(2,14)	0.1904
Obs*R-squared	4.851802	Prob. Chi-Square(2)	0.0884

Source: Authors Computation's from Eviews, 9.0

After the above test, the next step was to find if the variables move in a long run, that is, if there is a long-run relationship existing among the variables. This was done using ARDL bound test, and the results are presented in Table 3 below. It was found that, the F-statistics of 7.7159 is greater than the critical value bounds at a lower value of 2.86 and upper value of 4.01. Since the F-statistics is greater than the two bounds, the study, therefore, rejects that the variables have no long-run relationship and accept that the variables in the model move in the long run.

Table 3. Summary of ARDL Bound Test

Test Statistic	Value	K
F-statistic	7.715904	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.50%	3.25	4.49
1%	3.74	5.06

Source: Authors Computation's from Eviews, 9.0

Before estimation of Vector Error correction Mechanism, the lag selection was necessary, and in doing this, the variables in their logarithm and differencing forms

were run at level, at lag 1 and lag 2 using regression. The result is presented in Table 4 below. It was found that, lag 1 was picked as it was found to be the least of AIC. Due to this, lag 1 was found to be suitable for running VECM

Table 4. Summary Lag Selection Criteria

	AIC	SIC	HQ
Lag 0	-2.453	-2.209	-2.385
Lag 1	-2.342	-1.8977	-2.23
Lag2	-3.002	-2.7579	-2.85

Source: Authors Computation's from Eviews, 9.0

Vector Error Correction Model (VECM) was employed as an estimation technique in this study since the variables in the model were not integrated in the same order to meet the condition for the long-run –equilibrium relationship known as cointegration. Hence a better option for estimation is the Vector error correction Model (Ramaswamy&Slok, 1998). This means that, when series are integrated of different orders and co-integrated, the best option to be used is VECM hence, its adoption in this study. The result of the VECM is displayed in Table 5 below. It revealed that, the speed of adjustment or disequilibrium among the series in a short run is not rightly signed, and it is insignificant, as the probability of 0.3694 is higher than 0.05, i.e., 5% level of significance. This implies that, there is no short-run relationship among the variables in the series. However, the result shows that, the ratio of SME's commercial credit to private sector credit (LRCP) of -0.0181 and LINF of -0.0502 have a negative effect on the incidence of poverty, while DLMCS of 0.2324 and LINT of 0.0981 have a positive effect on LPI. This indicates that, 1% increase in LRCP and INF would bring about a reduction of poverty, while a 1% increase in microfinance credit to SME's and LINF would bring about

an increase in poverty. The Durbin Watson of 2.09 indicates that variables in the series were free from autocorrelation.

Table 5. Summary of VECM

Variable	Coeffs	SE	T-Stat	Prob
DLRCP	-0.0181	-0.0197	-0.9198	0.6094
DLMCS	0.2324	-0.015	15.4063	0.0405
LINF	-0.0502	-0.0069	-7.2329	0.4866
LINT	0.0981	-0.038	2.5803	0.8325
R2=0.5958	Adj-R2=0.4442	F-STAT=0.0132	D.W=2.09	ECM=0.1848

Source: Authors Computation's from Eviews, 9.0

The next step to go is to run an impulse response analysis which shows how the poverty level in the country responds to impulses from the explanatory variables within the 10years. Result is presented in Table 6 below. It was found that, in year 1, there were no impulses from the explanatory variables, but the incidence of poverty was seen responding to its own innovation and recorded 0.0752. In year 2, all variables except INF transmitted negative impulses, and this reduces the DLPI to 0.0356. In Year 3, all other variables transmitted positively except LINF with a negative value of -0.0082. In year 5, all variables transmitted positive impulses. However, the innovation of DLPI was brought to 0.5571. In year 7, DLPI recorded 0.05931of which DLMCS and LINF transmitted negatively to the DLPI. In year 8, it was the same reaction as year 7. Year 9 also revealed that LINF was among the variables transmitted negatively to DLPI, and in year 10, DLMCS and LINF were found transmitting negative impulses while others transmitted positively to LPI. This indicates that the RPI poverty level in Nigeria responded to the explanatory variables

Table 6. Summary of Impulse Response

Period	DLPI	DLRCP	DLMCS	LINF	LINT
1	0.075287	0.000000	0.000000	0.000000	0.000000
2	0.035642	-0.002708	-0.011253	0.000197	-0.00093
3	0.078011	0.017659	0.017473	-0.00827	0.002928
4	0.049555	0.004210	-0.016905	-0.00966	0.005799
5	0.055718	0.004529	0.004244	0.002831	0.002922
6	0.060641	0.008174	-0.000648	-0.00932	-0.00054
7	0.059310	0.008841	-0.001209	-0.0051	0.006900
8	0.053505	0.004343	-0.004449	-0.00381	0.001415
9	0.060610	0.007860	0.002498	-0.00455	0.002702
10	0.057405	0.007566	-0.003252	-0.0067	0.003363

Source: Authors Computation's from Eviews, 9.0

The variance decomposition error was done to know which of the variables in the model causes more volatility in

the Poverty level in Nigeria. The result is presented in Table 7 below. It was found that in the first year, variation in LPI

was explained by its own innovation recording 100%; however, no shocks were recorded from other endogenous variables, as it can be seen from the table. In the second year, variation of 98.09 in LPI was explained by shocks from microfinance credit to SME's at 1.7903, recording the highest. This trend continued until the 10years as the microfinance credit to SME's was discovered to be the variables causing more variance in LPI, followed by LRCP, while INT and INF causes less variance in poverty level in Nigeria.

Table 7. Summary of Variance Decomposition Error

Variance Decomposition of DLPI:					
Period	S.E.	DLPI	DLRCP	DLMCS	LINF	LINT
1	0.075287	100.0000	0.000000	0.000000	0.000000	0.000000
2	0.084103	98.09323	0.103643	1.790343	0.000550	0.012230
3	0.117700	94.01582	2.303980	3.117993	0.494075	0.068130
4	0.129381	92.47582	2.012584	4.287666	0.966675	0.257250
5	0.141064	93.39375	1.796107	3.697375	0.853458	0.259310
6	0.154048	93.80953	1.787654	3.102134	1.082014	0.218672
7	0.165535	94.07944	1.833425	2.691878	1.032119	0.363138
8	0.174126	94.46726	1.719181	2.498095	0.980666	0.334795
9	0.184633	94.79745	1.710302	2.240165	0.932899	0.319185
10	0.193672	94.94112	1.707006	2.064144	0.967488	0.320242

Source: Authors Computation's from Eviews, 9.0

V. DISCUSSION OF FINDINGS

Having empirically examined the effect of small and medium scale enterprises on poverty reduction in Nigeria, using annual time series data sourced from CBN Annual reports of various editions and CBN statistical Bulletins covering a time period from 1992 to 2018, it was found that, there is a long-run relationship among the variables of interest while no short-run relationship was found as the error correction mechanism was found not significant and rightly signed which indicates that, the short-run discrepancies would be difficult to be adjusted and incorporated in the long run. However, it was also found that, LRCP and INT have a negative effect on the incidence of poverty which explains that, these variables help in reducing poverty while LMCS and LINF increase the level of poverty the more. It was further revealed that, LPI responded to all the explanatory variables shocks while among the variables, LMCS and LRCP cause more variation in the incidence of poverty in Nigeria. This implies that, finances play a vital role in reducing poverty when it is well channeled to the SME's for productive purposes. This is well acknowledged in the literature that SME's growth is affected by access to finance, and when this lingers, it will be difficult to solve the problem of poverty at any level. This empirical finding was in line with Ali et al. (2014) and Ayodeji and Ajala(2017) as they found that, finances as a function of SME's performance reduces the incidence of poverty.

VI. CONCLUSION AND RECOMMENDATIONS

The study concluded that, small and medium scale enterprises are a veritable tool for poverty reduction, and this could be achieved through easy access to credit and reduction in the level of inflation in the economy. It was therefore recommended that, microfinance banks which are the grass-roots banks, should stay within their scope by providing loans and overdrafts to SME's in the rural and urban areas so as to boost the activities of SME's and, at the same time, solve the problem of poverty in Nigeria. The commercial banks should also increase their tempo by reducing their documentation requirement to SME's and, in collaboration with the federal government, makes access to credit easy for SMEs so as to increase their performance and consequently reduce the incidence of poverty in Nigeria. More importantly, monetary policy authorities should ensure constant monetary policy measures in combating inflation and, at the same time, reduce MPR as these affect the performances of SME's which may aggravate the incidence of poverty. Meaning when inflation is within a country threshold, it will induce the growth of SMEs and, at the same time, indirectly solve the problem of poverty and at the same time, low MPR reduces bank lending rate, which in the long run, helps in reducing the poverty level in Nigeria.

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