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Impact of Small and Medium Scale Enterprises (SMEs) Financing on Poverty Reduction in Nigeria

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Abstract

Although financing for small and medium-scale enterprises (SMEs) is widely regarded as a mechanism for promoting inclusive development, empirical evidence on its contribution to poverty reduction in Nigeria remains mixed. This study examines the impact of SMEs financing on poverty reduction in Nigeria using time-series secondary data spanning 1992 to 2023. To ensure the reliability of the estimates, the data were first tested for stationarity using the Augmented Dickey-Fuller (ADF) unit root test. The study further employed the Autoregressive Distributed Lag (ARDL) bounds testing approach to examine the long-run relationship and the effects of Deposit Money Banks' (DMBs) financing to SMEs, agricultural businesses, and manufacturing businesses on poverty reduction. The ARDL bounds test confirmed the existence of a long-run relationship between SMEs financing and poverty reduction in Nigeria. The long-run ARDL estimates showed that financing to SMEs exerted a negative but statistically insignificant effect on poverty reduction. In contrast, DMB financing to agricultural and manufacturing businesses had a positive and statistically significant effect on poverty reduction. The study concludes that although general SME financing has not significantly reduced poverty, targeted financing to the agricultural and manufacturing sectors has greater potential to improve poverty outcomes in Nigeria. These findings contribute to the understanding of

sector-specific financial interventions and imply that strengthening credit-information infrastructure, expanding credit guarantees, prioritizing lending to productive sectors, maintaining single-digit interest rates, and improving the efficiency of financial delivery systems are essential for enhancing the poverty-reduction impact of bank financing.

Keywords: SMEs Financing; Poverty Reduction; Autoregressive Distributed Lag Model; Agricultural Financing; Manufacturing Financing

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) sector is very important to the economic fortune of a nation. The sector is responsible for contributing immensely as the catalyst to economic rejuvenation due to its capacity to create jobs and increase the gross domestic products of a country. Data from the World Bank attested to the fact that MSMEs account for 40% of national income (GDP), 50% of employment and about 90% of businesses (Gentrit & Pula, 2015). Reports by Price Waterhouse Coopers MSMEs Survey (PwC MSME Survey 2020), Small and Medium Enterprises Development Agency of Nigeria, and National Bureau of Statistics (SMEDAN/NBS), MSMEs survey (2018) affirmed that 96% of the businesses in Nigeria are MSMEs contributing 50% to the National GDP.

Therefore, growing the MSMEs sector has being the concern of every government most especially in the developing countries. The Sustainable Development Goals (SDG) projection was to eradicate poverty by 2030 and one of the practical ways to achieve this feat is for the government, international agencies and other philanthropists to look for ways to support the massive creation, growth and development of the Micro, Small and Medium Enterprises (MSMEs) sector due to its importance as catalyst of industrial growth, employment generation, poverty reduction and human capital development (SMEDAN, 2018).

Over the years, the Nigerian economy has been craving economic diversification to ensure less reliance on the oil sector. The main sectors of the economy have failed to achieve this task; hence, attention must also be given to the informal sector, which is comprised of Micro, Small, and Medium Enterprises (MSMEs). Despite these impressive statistics, the Nigerian economy has witnessed unstable economic growth, and the SMEs failed to maintain and achieve a sustainable growth path and poverty reduction. According to Oyelaran (2020),

a significant challenge confronting SMEs in Nigeria is the availability of affordable and accessible sources of financing.

It is believed that a good financial system should at least support the SME sector and rescue them from struggle. According to SMEDAN (2020), 65% of new SMEs in Nigeria die before their fifth year, primarily due to lack of funding, and this percentage has risen to almost 80% in 2020. Compared to the Asian countries where the rate is less than 50% and developed countries such as the UK, where it is less than 20%, it signifies a lack of synergy between the financial system and the SME sector in Nigeria.

The Nigerian government has made several efforts to promote the growth of the SME sector over the years. These include an increase in the number of registered microfinance banks, improvement in funding of development banks such as the Bank of Industry (BOI) and Bank of Agriculture, among others (CBN, 2021). When it was realized in 2018 that, despite the existence of these agencies, some SMEs were still finding it challenging to meet the liberal conditionalities for accessing funds, the CBN came up with various schemes such as the Anchor Borrowers Programs and the Trader Money Schemes, among others (CBN, 2021).

Notwithstanding, the performance of the SME sector indicates that all these efforts have yielded little or no commensurate results. Many scholars have questioned the roles of the market and the financial intermediaries, which provide the following services: allocation of capital and information, corporate governance and monitoring, risk management, pooling savings, and exchange of goods and services, which are the main channels through which the financial system influences the SMEs (Ussif & Salifu, 2020). According to Oyelaran-Oyeyinka (2020), both the financial intermediaries and the capital market have different roles in promoting the real sector of the economy.

In addition, there are many obstacles to accessing funds by the SMEs in Nigeria, ranging from lack of required collateral to stringent conditionalities and documentation, among others (SMEDAN, 2020). Moreover, the seeming failure of various policies, programs, and efforts of the stakeholders to promote the growth of the SMEs sector in Nigeria has worsened the situation. Notwithstanding, it was discovered that some SMEs in Nigeria still found ways to obtain required funding that has aided their performance despite these obstacles. This signifies that some factors contribute to the funding success of these SMEs (SMEDAN, 2020). Consequently, identifying these factors might shed light on how

other SMEs can still achieve funding success and sustainable positive performance, even in Nigeria's current financial system.

Besides the fact that improving the financial system may enable SMEs' financing. However, there might be a missing link between the Nigerian financial system and SMEs. According to AfDB (2020), this might be due to the financial system's current policies, programs, and structure. Naturally, a well-structured financial system will advance policies that will significantly impact the economic agents like the real and service sectors, especially the SME sector being the largest and most potent economic agent in Nigeria (Ogbonna, Mobosi, & Ugwuoke, 2020).

Therefore, examining related economic agents' pain points and understanding the financial system to propose changes that can improve the performance of the SMEs through access to funding that enables the sector to contribute to the achievement of a sustainable growth and development particularly reducing poverty in Nigeria is one of the major tasks of this research effort. Based on this, the study examined SMEs financing and poverty reduction in Nigeria. Specifically, the study examined long-run relationship between SMEs financing and poverty reduction in Nigeria, assessed the impact of Deposit Money Banks (DMBs) financing to SMEs, Agricultural businesses and manufacturing businesses on poverty reduction in Nigeria.

Literature Review and Theoretical Framework

Conceptual Review

The scope of the definition of financing varies considerably among scholars, agencies and international organizations. Mckinney (2019) asserted that, financing means asking any financial institution (bank, credit union, finance company) or another person to lend you money that you promise to repay at some point in the future. Financing is borrowing money with a promise to repay that money and some additional fee, or interest, over a period of time. Bank financing is the extension of money from a bank to another party with the agreement that the money will be repaid. Nearly all bank financing are made at interest, meaning borrowers pay a certain percentage of the principal amount to the lender as compensation for borrowing. Association of Chartered Certified Accountants (ACCA) (2020) pointed that, bank loans are one of the most common forms of finance for small and medium-sized enterprises (SMEs). They are generally a quick and straightforward way to

secure the funding needed, and are usually provided over a fixed period of time. Bank loans can be capital/principal repayment or interest-only and can be structured to meet the business's needs. Deducing from the above, this study therefore defined SMEs financing as a formal and organized process of funding business activities, making purchases, or investments of an enterprise by commercial, development and or micro finance banks with specific amount in which the enterprise is expected to repay with interest over a predetermined period of time.

Poverty is a plaque which affects people all over the world, though generally considered as one of the manifestations of underdevelopment. There is hardly a universal way of defining poverty because it affects many aspects of human conditions. However, the conventional concept of poverty depicts it as a condition in which people live below a specified minimum income level and are unable to provide the basic necessities of life needed for an acceptable standard of living. According to James (2024), the term poverty refers to the state or condition in which people or communities lack the financial resources and other essentials for a minimum standard of living. As such, they cannot meet their basic human needs. According to World Vision Canada (2023), poverty in the simplest sense of the word, is a state where one lacks access to basic needs such as food, clothing and shelter. It is also used to describe a person whose living conditions prevent them from being able to acquire education, seek medical help, secure a stable job, and participate in recreational activities due to a lack of money. Poverty is not just about money, though. It is a bigger conversation about marginalization, exclusion, and domestic and international economic indicators.

Theoretical Framework

The study was anchored on the theoretical postulations of Static Trade-off, Pecking Order and the basic needs theories. The pecking order theory (POT) was initially introduced by Donaldson (1961) who studied financing practices of large firms and observed that "management strongly favor internal generation as a source of new funds". When external capital is required, managers generally avoid to issue new stock (Vasiliou & Daskalakis 2009). The theory was extended and modified by Myers and Majluf (1984) later. The pecking order theory is popularized by Myers and Majluf (1984) where they argue that equity is a less preferred means to raise capital because when managers (who are assumed to know better about true condition of the firm than investors) issue new equity, investors believe that managers think that the firm is overvalued and managers are taking advantage of this over-

valuation. As a result, investors will place a lower value to the new equity issuance. The argued that basically, financing comes from three sources, internal funds, debt and new equity. Companies prioritize their sources of financing, first preferring internal financing, and then debt, lastly raising equity as a "last resort". Hence; internal financing is used first; when that is depleted, then debt is issued; and when it is no longer sensible to issue any more debt, equity is issued. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available, and debt is preferred over equity if external financing is required (equity would mean issuing shares which meant 'bringing external ownership' into the company). Thus, the form of debt a firm chooses can act as a signal of its need for external finance.

The basic needs theory was introduced by the International Labour Organization's World Employment Conference in 1976 (ILO, 1976). The ILO published a study that defined basic human needs that people in developing countries have and which may be addressed by those who seek to help people where these needs are not well met. They are; food, clothing, housing, education and public transportation. The basic needs approach is one of the major approaches to the measurement of absolute poverty in developing countries. It attempts to define the absolute minimum resources necessary for long-run term physical well-being, usually in terms of consumption goods. The poverty line is then defined as the amount of income required to satisfy those income. The theory further posits that, a traditional list of immediate basic needs is food including water (Denton, 1990). Many modern lists emphasize the minimum level of consumption of basic needs of not just food, water, clothing and shelter, but also sanitation, education and health care. The theory has described as consumption-oriented given the impression that poverty elimination is not all that easy (Dharam, 1978).

Thus; the study seeks to use the theoretical underpinnings of the Pecking Order and basic need theories considering the strong theoretical links between debt financing which will be provided through bank and by lowering its weighted average cost of capital structure with debt over equity SMEs improve its profitability. There is a strong theoretical linkage between income earned and the basic needs and services enjoyed. Increase income is secured through economic activities including SMEs business operations. Thus, the study seeks to use the above theoretical underpinnings to assess how SMEs financing improve the income of the SMEs operators to meet their basic needs so as to break the yoke of poverty in Nigeria.

Empirical Review

There are several studies on the effect of SMEs financing on poverty reduction in Nigeria but with different objectives and directions. These diverse objectives and directions have led to different conclusions about the relationship between the two and the implications on the Nigerian economy. To study the effect of commercial bank SMEs financing on poverty reduction in Nigeria, Ololade, Abiodun, Olaoye and Isaac (2020) examined the effect of small and medium scale enterprises on poverty reduction in Nigeria, using annual time series data sourced from CBN Annual Report of various issues. 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 commercial bank credit to SME's to private sector credit and inflation had a negative effect on per capita income, indicating (PI) reduction. Microfinance credit to SME's and interest had a positive impact on per capital income. In conclusion, there is a significant relationship between SME's and poverty reduction in Nigeria.

Ogunleye, Aderibigbe, Lucas, Ishola and Aderemi (2020) focuses on examination of the relationship between entrepreneurship financing from the perspective of Small and Medium Scale Enterprises (SMEs) and poverty eradication in Nigeria from 1990 to 2018. Data were collected from the Central Bank of Nigeria Statistical Bulletin and World Development Indicators. Autoregressive Distributed Lagged, Bounds test and Error Correction Model techniques were utilized to analyze the data. The results of the study confirmed that agriculture and forestry financing did not eradicate poverty in the short run in Nigeria. However, the aggregate commercial banks' SMEs financing, the manufacturing and food processing business financing contributed to poverty eradication in the short run and long run respectively. But broad money supply contributed to poverty eradication in the short run only.

Olopade, Kazeem and Taiwo (2023) examined at the relationship between Nigerian small- and medium-sized enterprise (SMEs) financing and reducing poverty. The study used a structured questionnaire and a survey research design. The population for the study are selected small and medium scale enterprise in Abeokuta Ogun state with the total population of 2,862.Acording to SMEDAN as at May (2023).The study adopted a Krejcie and Morgan

Model (1970) sample determination formula to select the sample of (343) respondents. The findings of the study revealed that there is positive relationship between the dimensions of SMEs financing(i.e. SMEs Bank Lending, Credit Guarantee Schemes, Venture Capital and Private Equity Investments, and Government Support Programs) and poverty reduction with regression and correlation values of (0.765,0 .787, 0.76, and 0.771) respectively.

Mokuolu and Oluwaleye (2023) investigated small and medium-sized businesses' (SMEs) role in reducing unemployment in Nigeria. Secondary time series data was obtained for the study. Estimation methods used in the study's analysis includes descriptive statistics correlation analysis, ARDL co-integration, parsimonious error correction model and other post estimation tests. Discoveries from the study revealed that SMEs contribution to export pose positive insignificant impact on unemployment reduction in Nigeria in the long run and a negative insignificant impact on industrial growth in short run; Deposit Money bank (DMB) credit to SMEs pose positive significant impact on industrial.

Mohammed, Ab-Rahim and Shah (2019) investigate the role of Small and Medium Enterprises (SMEs) on poverty reduction in Nigeria. Data were obtained from 432 small and medium entrepreneurs of Niger State in eight Local Government Areas selected through a cluster sampling technique. The results indicate that all paths in the model are significant i.e. all their β are positive and p-values are < 0.05, and the four hypotheses proposed are supported. The result shows that there are positive changes in the poverty status of the people due to their involvement in SMEs activities of employment, innovation, human capital development and income.

Ogunjobi, Oladipo, Eluyela, Ekiran and Adigbole (2024) examined the impact of agricultural financing on poverty reducing and economic growth in Nigeria using Keynesian macro-economic framework. The study made use of annual data set of Nigeria from 1981 to 2021. The Auto Regressive Distributed Lag (ARDL) co integration technique was applied. From the results, Agricultural credit grant scheme fund (ACGSF) which is the major indicator of agricultural financing shows a positive and insignificant relationship with the dependent variable Gini Coefficient Per Capita (GNIPC)- a proxy for poverty. This implies that an increase in agricultural financing will increase GNIPC that is, an increase in agricultural financing will decrease poverty rate in Nigeria but not significantly.

Hammed, Adedokun and Ademosu (2023) investigates the extent to which specific agricultural financing will impact food production and reduce poverty level. The study

employs secondary data which spans 1981 to 2021 and adopts Autoregressive Distributed Lag (ARDL) for the methodology. The choice of ARDL is to capture the impact for short- and long-run period. The findings from the study highlight the following: specific agricultural financing is found to be highly instrumental in promoting food production in the country.

Olayemi, Aderemi, Ojelade and Adebayo (201*9)* attempt to empirically examined role of agriculture in poverty reduction in Nigeria. Consequently, the study utilized the DOLS and Granger Causality Approach to address the objective of this study. However, the principal findings that emerged in this study are as follows: in the long run, there is a significant positive relationship between the employment in agriculture and poverty level, inflation rate and poverty level have a negative relationship with each other. Meanwhile, agricultural output causes a significant reduction in the poverty level. Also, one-way feedback relationship runs from agricultural output to the poverty level in the country.

To study the effect of agricultural SMEs financing on poverty reduction in Nigeria, Aderemi, Efunbajo, Amusa and Rasheed (2020) provide an answer to the question whether entrepreneurship financing regarding Small and Medium Scale Enterprises (SMEs) eradicate poverty in Nigeria between 2000 and 2018. The study utilized data from the Central Bank of Nigeria Statistical Bulletin and World Development Indicators. Consequently, Autoregressive Distributed Lagged, Bounds test and Error Correction Model techniques were utilized to address the objective of the study. The study found that, agriculture and forestry financing does not contribute to poverty eradication in both the short run and the long run. However, mining and quarrying business financing eradicate poverty in the short run. In the same vein, financing of manufacturing and food processing businesses contributes to the eradication of poverty in the long run. Aggregate lending of the commercial bank causes eradication of poverty in both in the short run and the long run respectively.

Adetiloye, Nkwodimmah, Babajide and Osuma (2023) investigated the impacts of this funding from both the public and banking sectors on the increase in employment and poverty reduction in Nigeria. The study adopted the autoregressive distributed lag (ARDL) which has the capacity to determine the long run relationships between variables to analyse the available data. Results indicate consistently high significant levels with capital and bank investments. It is discovered that the sustained capital investment is required from both public and private sectors, but clearly funding from the banking (private) sector had higher

positive impact and provided higher positive significant level in the long run than from public sector. With results the intervention in agriculture through the Agricultural Credit Guarantee Scheme (ACGSF) as presently constituted is no longer helpful in the long run as results are significantly negative.

METHODOLOGY

The research design for the study is ex-post facto research design because the study employed methodology that looks into how independent variables with certain qualities that already exist prior to the study as its affects a dependent variable so as to establish a cause-effect relationship between SMEs financing and poverty reduction in Nigeria. Data relating to the variables of the study are time series secondary data and are drawn from periodic publications of the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) statistical bulletins and World Development Indicators (WDI) covering the period of twenty –three years from 1992 to 2023. The period was chosen because of intense campaign to promote SMEs activities and eradicate poverty in the country within the period. This study employed statistical and econometric methods such as tables, Augmented Dickey Fuller Test (ADF) for unit root testing and Autoregressive distributed lag Bound Test (ARDL) for long-run and short-run analysis. The ARDL methods was used because it accommodates time series data that are either integrated of order one [I(1)] or order zero [I(0)] process or the mixture of both but were not integrated of order two [I(2)]. Diagnostic tests such as; Breusch-Godfrey Serial Correlation LM test, Breusch-Pagan-Godfrey Heteroscedasticity Test, Ramsey RESET Test for model specification and Jarque-Bera test for normality of the residuals were used to validate the estimated model.

The model of the study is in line with empirical model by Ogunleye, Aderibigbe, Lucas, Ishola and Aderemi (2020) who focuses on examination of the relationship between entrepreneurship financing from the perspective of Small and Medium Scale Enterprises (SMEs) and poverty eradication in Nigeria from 1990 to 2018. Variables included in the model were Deposit Money Banks Financing to SMEs (DMBFSMEs), Deposit Money Banks Financing to Agricultural Businesses (DMBFAB), Deposit Money Banks Financing to Manufacturing Businesses (DMBFMB) and Per Capita Income (PCI) is proxies for Poverty Reduction. In line with the above, the functional form of the model for the study is stated as follows;

PCI = f(DMBFSMEs, DMBFAB, DMBFMB)……..…(3.1)

The stochastic form model was expressed for estimation as thus;

PCIt = β0+β1DMBFSMEs+β2DMBFABt+β3DMBFMBt +εt……..(3.2)

The stochastic form of the model is specified in accordance to ARDL model specification for estimation as thus;

$$PCI_t = \beta_0 + \sum_{i=1}^{n} \beta_1 PCI_{t-i} + \sum_{i=0}^{n} \beta_2 DMBFSME_{t-i} + \sum_{i=0}^{n} \beta_3 DMBFAB_{t-i} + \sum_{i=0}^{n} \beta_4 DMBFMB_{t-i} + \varepsilon_t \ldots\ldots\ldots (3.3)$$

Where;

PCI = Per Capita Income (proxies for Poverty Reduction)
DMBFSMEs = Deposit Money Banks Financing to SMEs
DMBFAB = Deposit Money Banks Financing to Agricultural Businesses
DMBFMB = Deposit Money Banks Financing to Manufacturing Businesses
βO = intercept or constant term;
β1- β4 = long -run coefficients
εt = Error term with the assumption of zero mean and constant variance.

RESULTS

Unit Root Test

The variables of the study were subjected to unit root tests using the Augmented Dickey-Fuller (ADF) test to determine the stationarity levels of the series. The results of the tests are presented in Table 1

Table 1: ADF Unit Root Test Result

Variables	ADF Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	Prob.	Order of Integration
PCI	-3.952393	-3.670170	-2.963972	-2.621007	0.0050	I(1)
DMBFSMEs	-6.672449	-3.670170	-2.963972	-2.621007	0.0000	I(1)
DMBFAB	-4.225295	-3.689194	-2.971853	-2.625121	0.0027	I(1)
DMBFMB	-4.988101	-4.416345	-3.622033	-3.248592	0.0030	I(0)

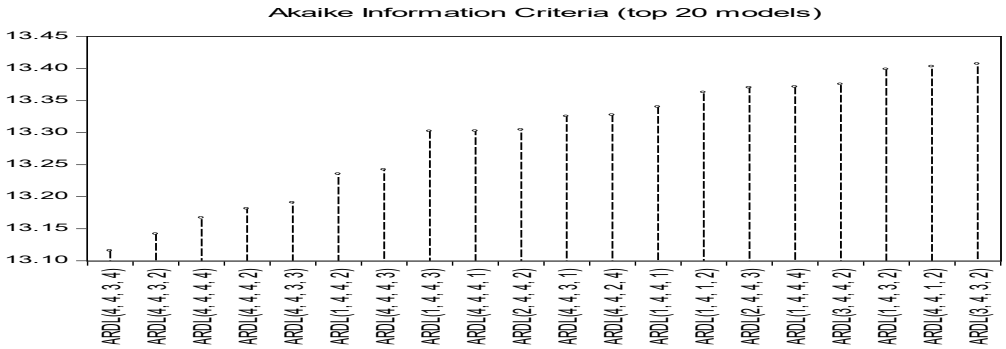
Source: E-Views 9.0 Output, 2025.

Table 1 indicate that all the variables are integrated at order one I(1). This condition warrants the application of ARDL methods which accommodates series that are either I(1) or I(0) process or the mixture of both. The stationarity tests are necessary to guard against spurious regression and to ensure no variable is integrated of order two. The test was based on Akaike Information Criterion (AIC) which was selected automatically.

Presentation and Analysis of ARDL Estimated Results

ARDL Optimal Lag Selection

The Akaike information Criterion (AIC) was used to select the optimal lag for the models. The graph of the optimal model selection summary is presented in figure 1.



Source: E-Views 9.0 Output, 2025

Figure 1: AIC Graph Showing Optimal Model Selection Summary

Figure1 shows that, top 20 ARDL model specifications were considered. Although an ARDL (4, 4, 3, 4) was finally selected. However, it can also be seen how well some other specifications performed in terms of minimizing AIC.

ARDL Bounds Test

The Autoregressive Distributed Lag (ARDL) Bounds test approach to co-integration was employed to investigate if the variables used for the study converge in the long-run. The ARDL Bound test result is presented in Table 2.

Table 2: ARDL Bound Test to Cointegration

Test Statistic	Value	K
F-statistic	5.807571	3
	Critical Value Bounds	
Significance	I0 Bound	I1 Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: E-Views 9.0 Output, 2025

Table 2 shows that long-run relationships exist among the variables of the study because the F-Statistic (5.807571) is greater than the lower I(0) (3.23) and upper I(1) (4.89) bounds of the critical values at 5% significance value. This shows that, long-run relationship exist between SMEs financing and poverty reduction in Nigeria.

Analysis of ARDL Long Run Coefficients of the Estimated Model

The ARDL long-run coefficients were estimated to examine the long-run impact of the independent variables on the endogenous variable having established that, long run relationship exist among the variables. The estimated result of the ARDL long-run coefficients are presented in Table 3

Table 3: ARDL Long-Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DMBFSMES	-0.2407371	1.8327921	-1.313499	0.2215
DMBFAB	0.8477599	3.507454	2.417023	0.0388
DMBFMB	0.8148170	1.107547	0.735695	0.0480
C	0.2322661	7.5006086	0.309663	0.0369

Source: E-Views 9.0 Output, 2025

Table 3 shows that, holding other variables constant; deposit money banks financing to SMEs (DMBFSMES) has an insignificant negative impact on poverty reduction in the long-run. A unit increase in deposit money banks financing to SMEs (DMBFSMES) decreases poverty reduction by about 24%.

On the contrary, all things been equal, deposit money banks financing to agriculture businesses indicated positive and significant impact on poverty reduction in Nigeria for the period of the study. A unit increase in deposit money banks financing to agriculture businesses increases poverty reduction in Nigeria by 85% approximately.

Similarly, all things been equal, deposit money banks financing to manufacturing businesses has shown positive and significant impact on poverty reduction in Nigeria for the period of the study. A unit increase in deposit money banks financing to manufacturing businesses increases poverty reduction in Nigeria by 81% approximately.

The positive sign of the intercept (C) in the result indicates that, if all the regressors are held constant, the dependent variable poverty reduction would increase by 23% approximately. This is a pointer to the fact that, SMEs are financing engendered poverty reduction in Nigeria in the long-run for the study period, everything been equal (Ceteris paribus).

Tesy of Hypotheses

The hypotheses of the study were tested base on the result obtained from the ARDL estimated model at 5% critical levels. The summary of the tested hypotheses in presented in Table 4.

Table 4: Summary Result of the Tested Hypotheses

H(x)	Hypotheses	Sig. Level	Decision Rule
H_{O1}	Long-Run relationship does not exists between SMEs financing and poverty reduction in Nigeria	5.807571 > 3.23 & 4.35 (lower & Upper Bounds)	**Reject**
H_{O2}	Deposit Money Banks (DMBs) financing to SMEs has no significance impact on poverty reduction in Nigeria	.0.2215	**Accepted**
H_{O3}	Deposit Money Banks (DMBs) financing to agriculture businesses has no significance impact on poverty reduction in Nigeria	0.0388	**Rejected**
H_{O4}	Deposit Money Banks (DMBs) financing to manufacturing businesses has no significance impact on poverty reduction in Nigeria	0.0480	**Rejected**

Source: E-Views 9.0 Output, 2025

Table 4 provided the summary result of the tested hypotheses using the ARDL estimated. Given the decision criteria to reject H_O if the probability value is < 0.05, the estimated result indicated that, the null hypothesis which states that; deposit money banks (DMBs) financing to SMEs has no significance impact on poverty reduction in Nigeria cannot be rejected since the probability value is greater than the 5% significance level (.0.2215 > 0.05). Hence we concluded that, deposit money banks (DMBs) financing to SMEs has no significant impact on poverty reduction in Nigeria.

On the contrary, given the decision criteria to reject HO if the probability value is < 0.05, the estimated result indicated that, deposit money banks (DMBs) financing to agriculture businesses has no significance impact on poverty reduction in Nigeria is rejected since the probability value is greater than the 5% significance level (0.0388 < 0.05). Hence we concluded that, deposit money banks (DMBs) financing to agriculture businesses has significant impact on poverty reduction in Nigeria.

In the same vein, given the decision criteria to reject HO if the probability value is < 0.05, the estimated result indicated that, deposit money banks (DMBs) financing to manufacturing businesses has no significance impact on poverty reduction in Nigeria is rejected since the probability value is greater than the 5% significance level (0.0480 < 0.05). Hence, we concluded that, deposit money banks (DMBs) financing to manufacturing businesses has significant impact on poverty reduction in Nigeria

Diagnostic Test Results

The study employed post-estimation tests to diagnose the residuals of the estimated model for valid and reliable outcomes. The test of serial correlation, Heteroskedasticity, Stability and normality test were conducted and the results presented in Table 5

Table 5: Summary of the Diagnostic Test Results

Test	Null Hypothesis	F-statistics	Prob. Value
Beusch Godfrey Serial Correlation LM Test	No Serial Autocorrelation	2.286184	0.1721
Breusch-Pagan Godfrey	No Hetroscedasticity	0.555810	0.8619
Jarque-Bera	Series residuals are normally distributed	1.469754	0.479564
Ramsey Reset	No Mis-specification	0.359618	0.7284

Source: Authors' computation using E-Views 9.0 Version

From Table 4.5 above, to confirm the validity or the opposite of the estimates, the model is subjected to serial correlation test. The null hypothesis is that there is no serial correlation in the residuals up to a specified lag order. The results in table 4.5 show that, the null hypothesis cannot be rejected because the probability value F-statistics is greater than the 5% significance level (0.1721 > 0.05). Thus, the model does not suffer from serial correlation.

To test whether the variance of the disturbance term is not the same for all the observations, the heteroscedasticity test has been conducted. The null hypothesis of this test is that the there is no heteroskedasticity. Therefore, the null hypothesis cannot be rejected

since the p-value of the F-statistics is greater than 5% significance value (0.8619>0.05). Hence, the model is homoscedastic.

To ascertain whether the residuals of estimated model normally, the Jarque-Bera (JB) statistic was conducted. The null hypothesis of the Jarque-Bera statistic states that residuals are normally distributed. The residuals presented in Table 4.5 reveals that, the null hypothesis that the series residuals are normally distribution is accepted because the p-values is greater than 5% significant level (0.479564 **>** 0.05)**.**

The estimated model was further subjected to model specification to ascertain if the estimated model was well specified. Ramsey reset test was conducted and the null hypothesis of the Ramsey reset test state that; no mis-specification of the model. The result presented in Table 4.5 holds that the F-statistic test shows that the coefficients on the powers of the fitted values from the regression are jointly zero. Therefore, the null hypothesis cannot be rejected since the probability value of F-statistics is greater than 5% significant level (0.7284 > 0.05). This implies that the model used in this study is well-specified.

DISSCUSION

The discussion of findings of the study is base on the objectives and tested hypotheses of the study. The first objective of the study was to assess the existing of long-run relationship between SMEs financing and poverty reduction in Nigeria. The result of the ARDL Bound test confirmed that, there is long-run relationship between SMEs financing and poverty reduction in Nigeria for the study period. The probability value for the upper and lower bounds pesaran critical value is significant at 5% indicating the rejection of the null hypothesis that, there is no long-run relationship between SMEs financing and poverty reduction in Nigeria. The implication of this finding is that, short-run disequilibrium in poverty reduction due to deposit money banks' financing to SMEs business activities could converge back to equilibrium in the long-run. The finding corroborate with similar findings by Ololade, Abiodun, Olaoye and Isaac (2020), as well as Ogunleye, Aderibigbe, Lucas, Ishola and Aderemi (2020) who found that there exists a long-run relationship between SME's financing and poverty reduction in Nigeria.

The second objective of the study assesses the impact of Deposit Money Banks (DMBs) financing to SMEs on poverty reduction in Nigeria. The estimated long-run coefficients of the ARDL model of the study indicated that deposit money banks financing

to SMEs (DMBFSMES) have an insignificant negative impact on poverty reduction in Nigeria as 1% increase in deposit money banks financing to SMEs (DMBFSMES decrease poverty reduction in Nigeria by 24%. The test statistic probability for the estimated coefficient of Deposit Money Banks (DMBs) financing to SMEs had shown an insignificant value to reject the null hypothesis that Deposit Money Banks (DMBs) financing to SMEs has no significant impact on poverty reduction in Nigeria. Hence we accept the null hypothesis and conclude that; Deposit Money Banks (DMBs) financing to SMEs has no significant effect on poverty reduction in Nigeria. The implication of this finding is that, DMBs financing to SMEs was not enough to propel poverty reduction in Nigeria for the period of the study. The finding aligned with similar findings established by Ololade, Abiodun, Olaoye and Isaac (2020) which indicated that, SMEs financing had a negative effect on Per capital income a proxy for poverty reduction in Nigeria. The result is however contradicted with else while findings established by Ogunleye, Aderibigbe, Lucas, Ishola and Aderemi (2020), Olopade, Kazeem and Taiwo (2023), Mokuolu and Oluwaleye (2023) as well as Mohammed, Ab-Rahim and Shah (2019) which revealed that there is a positive significant relationship between small and medium enterprises financing and poverty reduction in Nigeria as aggregate SMEs financing contributed to poverty eradication in the short run and long run respectively.

The third objective of the study was to examine the impact of Deposit Money Banks (DMBs) financing to Agricultural businesses on poverty reduction in Nigeria. The long-run estimated coefficients of the ARDL model of the study indicated that deposit money banks financing to agriculture businesses indicated positive and significant impact on poverty reduction in Nigeria as a unit increase in deposit money banks financing to agriculture businesses increases poverty reduction in Nigeria by 85% for the period of the study. The test statistic probability for the estimated coefficient of Deposit Money Banks (DMBs) financing to Agricultural businesses had shown a significant value to reject the null hypothesis that Deposit Money Banks (DMBs) financing to Agricultural businesses has no significant impact on poverty reduction in Nigeria. Hence we reject the null hypothesis and conclude that; Deposit Money Banks (DMBs) financing to Agricultural businesses has significant effect on poverty reduction in Nigeria. This implies that financing to agricultural ventures had potentials of reducing poverty in Nigeria. The finding agreed with similar studies conducted by Ogunjobi, Oladipo, Eluyela, Ekiran and Adigbole (2024), Olayemi, Aderemi, Ojelade and Adebayo (2019) as well as Hammed, Adedokun and Ademosu (2023)

which revealed that, agricultural financing shows a positive relationship with poverty reduction as it is found to be highly instrumental in promoting food production in the country. The finding is however, at variance with studies carried out by Ogunleye, Aderibigbe, Lucas, Ishola and Aderemi (2020) as well as Adetiloye, Nkwodimmah, Babajide and Osuma (2023) who discovered that, agriculture and forestry financing does not contribute to poverty eradication in both the short run and the long run and intervention in agriculture through the Agricultural Credit Guarantee Scheme is no longer helpful in the long run as results are significantly negative.

The fourth objective of the study evaluates the impact of Deposit Money Banks (DMBs) financing to manufacturing businesses on poverty reduction in Nigeria. The long-run estimated coefficients of the ARDL model of the study indicated that deposit money banks' financing to manufacturing businesses have shown positive impact on poverty reduction in Nigeria for the period of the study as a unit increase in deposit money banks financing to manufacturing businesses increases poverty reduction in Nigeria by 81% approximately. The test statistic probability for the estimated coefficient of Deposit Money Banks (DMBs) financing to manufacturing businesses had shown a significant value to reject the null hypothesis that Deposit Money Banks (DMBs) financing to manufacturing businesses has no significant impact on poverty reduction in Nigeria. Hence we reject the null hypothesis and conclude that; Deposit Money Banks (DMBs) financing to manufacturing businesses has significant effect on poverty reduction in Nigeria for the study period. The finding is in consonance with similar study conducted by Ogunleye, Aderibigbe, Lucas, Ishola and Aderemi (2020) which revealed that aggregate commercial banks' SMEs financing, the manufacturing and food processing business financing contributed to poverty eradication in the short run and long run respectively. It also agreed with findings established by Aderemi, Efunbajo, Amusa and Rasheed (2020) that financing of manufacturing and food processing businesses contributes to the eradication of poverty in the long run.

CONCLUSION

In line with findings of the study, the study concludes that, there is long-run relationship between SMEs financing and poverty reduction in Nigeria. However, aggregate DMBs financing to SMEs was not enough to propel poverty reduction in Nigeria for the period of the study. It is also concludes that, deposit money bank financing to agriculture

and manufacturing businesses have potentials of reducing poverty in Nigeria. Based on the conclusion drawn from the findings, the following recommendations are made:

1. Central Bank of Nigeria (CBN) should establish credit-information infrastructure for small and medium-scale enterprises (SMEs) and provide credit guarantees through business associations to ease their access to finance. Commercial banks lend little to SMEs, partly because many banks are not designed to do so. Commercial banks may not know how to properly evaluate the working capital requirements of SMEs and their investment projects, so CBN could allow using non-fixed collateral, and work with business associations to ratchet up peer pressure. Peer pressure within a network of SMEs is effective in getting businesses to pay back their loans.
2. There is a need for adequate support system for the agriculture sector in Nigeria. Credit reform is the primary pathway to enhancing agricultural diversification and productivity. Deposit Money Banks (DMBs) in Nigeria should prioritize lending to the agricultural sector, ensure one digit interest rate for loans and advance to agriculture sector and improve efficiency in the financial delivery system by controlling both transactions and risk costs. Government through the Central Bank of Nigeria (CBN) must consider providing support to the banking system for reducing the rate of interest for agriculture sector loans and create an Agriculture-Risk Fund to provide relief to all categories of farmers in the case of successive droughts and in areas hit by floods and heavy pest infestation.

Similarly, the government should create enabling business environment with special single-digit interest manufacturing sector intervention fund, provision of stable power and infrastructure for the sectors, and maintain stable exchange rate regime that makes foreign exchange available to the manufacturers.

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