FISCAL POLICY AND SMALL AND MEDIUM SCALE ENTERPRISES PERFORMANCE IN NIGERIA

[1*]Ariyibi Mayowa Ebenezer, [2]Efemena Emily O., [3]Olowofela Olusola Enitan

[1,3]Department of Banking and Finance, Olabisi Onabanjo University –Nigeria
[2] Finance Department, Aradel Energy Limited - Nigeria

e-mail:
[1*]ariyibimayowa@gmail.com *(corresponding author)*
[2]efemenaopubor@gmail.com
[3]olowofelaolusola@gmail.com

ABSTRACT

The macroeconomic policies, which fiscal policy is inclusive of, are very germane in determining the performance level in the country, most especially in determining the developmental quota that the small and medium scale enterprises would contribute to the economy, so poor usage of the fiscal policy can stifle the effectiveness of the SMEs' performance, and their contributive role has a source of growth in an economy. Based on their relevance, this study examines the impact of fiscal policy on small and medium-scale enterprises' performance in Nigeria. The secondary time series data was sourced from the Central Bank Statistical Bulletin and the National Bureau of Statistics from the period 1991 to 2022. The ARDL (Auto-Regressive Distributed Lag) was employed to draw inferences after being informed by the unit-root test. The findings revealed that the expansionary measure of fiscal policy shows that government re-recurrent expenditure has a negative insignificant effect on small and medium-scale enterprises' total credit from commercial banks. Government capital expenditure has a negative significant effect on small and medium-scale enterprises' total credit from commercial banks. The contractionary measure of fiscal policy shows that value-added tax has a positive significant effect on small and medium-scale enterprises' total credit from commercial banks. Company income tax has a negative significant effect on small and medium-scale enterprises' total credit from commercial banks, while electricity consumption has a negative insignificant effect on small and medium-scale enterprises' total credit from commercial l banks. It is therefore recommended that policymakers should enhance the efficiency of capital expenditure to support SME-enabling projects and infrastructure.

Keywords: *Fiscal Policy; SME's; Government Expenditure; Taxation and ARDL*

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INTRODUCTION

In the global village, most especially in Europe where industrialization was seen as the most valuable hub for the attainment of economic development and growth has been shifted towards the equipment and development of small and medium-scale enterprises to achieve both the private and public sector developments. The European Commission (2016) revealed that Small and Medium-scale enterprises generated 3.9 million euros and absorbed 90 million populace in employment. In Romania alone in 2015, this developmental hub (SME's) gave a value addition of 50% to the economy, while 28 EU countries benefited from a 57.3% value addition to their economy, via the functionality of the Small and Medium Scale Enterprises (Cladiu et al 2019; EU 2016).

In Africa, according to the report of the African Development Bank, SME's are propellant of economic development and poverty reduction, with the enterprise contributing to 55% of the Gross domestic product and 45% of employment level of the continent, this is visible since its constitutes 90% of the type of business operating in the continents (AFDB, 2021; Adewale and Ojo, 2024). But After the over-dependence of the Nigeria economy on the industrial sector alone, since 1960, the 1988 industrial policy did not only accommodate the large scale industries but began given attention to the buoyancy and effectiveness of small and medium scale enterprises as a contributor to sustainable development in the economy.

The performance of the small and medium scale enterprises in Nigeria remain a pivotal point for development for a developing economy like Nigeria with SMEDAN, which is the development agency in Nigeria estimating that SMEs in Nigeria contributed about 48% to the overall GDP in the economy (SMEDAN 2021; Abbas et al, 2024). The Small and medium scale enterprises are source of employment, competition, invention and innovation, economic dynamism, entrepreneurial competence, income distributor, local technologies, investments and industrial diversity all in the usefulness to contributing their quota to economic development (Udo and Mohammed, 2022; Mbatu, 2018; Balu, 2015).

Inclusively, goods and services developed by small and medium developed by small and medium scale enterprises are also re-fined and improved upon and used by large firms. Ofoegbu et al (2013) depicted that since the SME's are key source of development in countries like China, South Korea and India, if policies are made with the awareness of the SME's in consideration their blake and wobbling contribution to GDP would be visible on the trajectory of development in Nigeria. Ovat (2013) and Chidume & Nenbee (2022) revealed that for maximum performance of small and medium scale enterprises, the macroeconomic policies deployed by the government are very important. The fiscal policy is one among the macroeconomic policies (monetary, fiscal and Trade) that is been used to sustain and achieve macro-economic stability in Nigeria being a developing country.

The Fiscal policy in the economy dictates productivity and capacity utilization index of the small and medium scale enterprises in Nigeria. The accurate usage of government revenue collection and expenditure per time would either make or stifle the performance level of SME's in Nigeria (Oke, 2013; Adekunle and Adesanya, 2022). Implementation of expansionary policy of the fiscal policy implies government increases the purchasing power of the economic agents via government spending, while on the other hand in the presence of abnormal increase in money supply in the economy, the contractionary fiscal policy is being pursued.

SMEs often struggle to access credit due to high interest rates and limited collateral, with financing challenges varying between start-ups and established businesses, as well as across different growth rates. While private equity markets, particularly unregulated ones, have enhanced access to venture capital, disparities remain globally. In Nigeria, SMEs rely primarily on personal or family savings and government support, which are inadequate due to widespread poverty and low savings rates, leaving many underfunded and vulnerable to failure without institutional backing (Etale and Bibiere, 2021; Etale and Light, 2021).

Government policies have also hindered SMEs, such as the "stabilization measures" of 1982, which included import bans and subsidy cuts, disrupting financial support for these enterprises. Furthermore, domestic investors face stiff competition from foreign companies operating in Nigeria, while SMEs bear the burden of numerous unofficial taxes imposed by state and local governments, including levies, registration fees, and sanitation charges, creating costly and unfavorable business conditions (Ehikioya et al., 2018). Conclusively, studies like Mohamed and Mnguu (2014), Adekunle et al. (2022), Gbande et al. (2018), Odutola et al. (2021), Eke et al. (2024), and Olufemi et al. (2024), has explored fiscal policy's impact on economic growth and SME performance. These studies were unable to capture how the expansionary and contractionary fiscal policy implementation influence the performance of SMEs in Nigeria. The studies mentioned above that have explored government spending and taxation on SME performance have yet to specifically capture the individual effects of government capital expenditure and recurrent expenditure on SME performance. Additionally, they have not examined how company income tax and value-added tax distinctly impact SME performance. Addressing these gaps would contribute to the empirical body of knowledge by identifying which type of expenditure has the most direct impact on SMEs at the grassroots level and by clarifying how these two forms of taxation influence SME performance in Nigeria. Based on the above premises this study examined the impact of fiscal policy (Expansionary and Contractionary) on Small and medium-scale performance in Nigeria.

LITERATURE REVIEW

This study is anchored on the Savers-Spenders theory. Mankiw's (2000) Savers-Spenders theory of fiscal policy outlines three main ideas regarding government revenue, expenditure, and debt. The first proposition suggests that temporary tax changes significantly influence demand for goods and services. Higher tax rates reduce spenders' disposable income, while lower rates boost it, thus affecting their purchasing power (Eze & Ogiji, 2013). The second proposition states that government spending can reduce capital in the long term, as increased consumption limits investment, raises the marginal product of capital, and reduces both employment and output. Additionally, higher interest rates encourage savers to save more, yet this shift decreases investment and output (Eze & Ogiji, 2013). The third proposition suggests that government debt amplifies steady-state inequality since paying interest on debt requires higher taxes on both savers and spenders. However, only savers benefit from the interest, which ultimately increases their income and consumption while reducing that of the spenders (Eze & Ogiji, 2013). This study concentrates on how the ideas of government expenditure and taxation contributes of the SME's performance that is also a contributor to the economic growth and development in Nigeria and Africa as a whole.

The empirical reviews on fiscal policy and SME performance reveal recurring themes, methodological approaches, and findings. However, they also exhibit notable differences in focus, geographical scope, theoretical frameworks, and research methodologies. Many studies, including Eke et al. (2024), Olufemi et al. (2024), and Adekunle et al. (2022), emphasize the role of taxation and government expenditure in influencing SME performance. Taxation is a common variable examined in its capacity to either enable or constrain SME growth. Studies like Odutola et al. (2021) and Gbande et al. (2018) also highlight government expenditure as a pivotal factor in supporting infrastructure and operational capacity for SMEs. Across studies such as Olufemi et al. (2024), Censon et al. (2023), and Odutola et al. (2021), government expenditure is consistently found to have a positive and significant effect on SME performance and economic growth. These findings underscore the importance of fiscal investment in promoting entrepreneurship and enterprise sustainability.

Nwoye and Akan (2023) and Tabet and Onyeukwu (2019) identify the adverse effects of multiple and disproportionate taxation on SME performance, demonstrating how poorly designed tax policies can stifle growth. Many studies incorporate complementary variables beyond fiscal policy, such as human capital (Eke et al., 2024), access to finance (Abbas et al., 2024; Adekunle et al., 2022), and electricity supply (Adekunle et al., 2022). These variables emphasize that fiscal policy operates within a broader ecosystem affecting SME performance. Several studies are anchored in established economic theories, such as the Keynesian theory (Eke et al., 2024), Solow growth model (Olufemi et al., 2024), and institutional theory (Abbas et al., 2024). These frameworks provide a foundation for interpreting the relationships between fiscal policy and SME outcomes.

Almost all studies conclude with policy recommendations, advocating for better-designed fiscal policies to support SME growth. For instance, Mohamed and Mnguu (2014) suggest counter-cyclical fiscal measures, while Salami et al. (2023) emphasize targeted entrepreneurship interventions.

Some studies focus narrowly on specific fiscal policy components, such as taxation (Adekunle et al., 2022; Tabet and Onyeukwu, 2019), while others, like Olufemi et al. (2024) and Ehikioya et al. (2018), take a broader approach, incorporating multiple fiscal measures like government expenditure, budget deficits, and tax administration. Lihong (2023) uniquely explores fiscal policy for SMEs under economic crises, emphasizing context-specific interventions. While most studies are Nigeria-specific (Eke et al., 2024; Abbas et al., 2024; Adekunle et al., 2022), others, like Censon et al. (2023) and Mohamed and Mnguu (2014), adopt a regional or international perspective, covering multiple countries in Southeast Asia and Africa. This diversity in scope provides comparative insights but limits the applicability of findings to specific contexts. Quantitative approaches dominate the reviews, with methods like ARDL (Eke et al., 2024) and panel regression (Censon et al., 2023). However, some studies, such as Abbas et al. (2024) and Tabet and Onyeukwu (2019), use qualitative approaches, offering in-depth but less generalizable insights. Mixed-methods approaches, though not prominently featured, could bridge the gap between qualitative depth and quantitative rigor. There is variability in the choice of theoretical underpinnings. While Keynesian theory and growth models are commonly used (Eke et al., 2024; Olufemi et al., 2024), some studies, like Adekunle et al. (2022), rely on theories specific to taxation or business growth. Ehikioya et al. (2018) and Idris (2019) notably lack a theoretical framework, weakening their conceptual grounding.

The impact of taxation is not uniformly interpreted. For instance, Eke et al. (2024) and Adekunle et al. (2022) report positive effects, while Nwoye and Akan (2023) and Tabet and Onyeukwu (2019) highlight its negative implications. This divergence suggests that the design and implementation of tax policies significantly influence outcomes. While most studies examine SME growth and performance (Olufemi et al., 2024; Gbande et al., 2018), others, like Abbas et al. (2024), prioritize SME survival and resilience, particularly in challenging regulatory environments. This distinction highlights the dual objectives of fiscal policy: fostering growth and ensuring sustainability. Certain studies, such as Adekunle et al. (2022) and Mohamed and Mnguu (2014), incorporate non-fiscal challenges like inflation, competition, and business environments, providing a holistic view of SME performance. Others, like Odutola et al. (2021), remain narrowly focused on fiscal measures. The reviewed studies converge on the notion that well-designed fiscal policies, particularly government expenditure and equitable taxation, are critical for enhancing SME performance. They emphasize the need for policy coherence to address fiscal and non-fiscal barriers. Differences in methodological rigor, focus areas, and contextual settings underscore the complexity of fiscal policy's impact on SMEs. For example, the mixed findings on taxation reveal the nuanced interplay between policy design and business realities.

METHODS

This section captures the model that was employed for testing the relationship between fiscal policy and performance of small and medium scale enterprises in Nigeria. These models was adapted and adjusted to explore the relationship between Adekunle et al. (2022), Olufemi et al. (2024) and Nwoye and Akan (2023). The secondary time series data was sourced from the Central Bank Statitical Bulletin from the period of 1991 to 2022. The fiscal policy measures was captured from the perspective of expansionary and contractionary fiscal policy. The Auto-regressive distributed lag (ARDL) model was used to draw inference after the stationary test gave the validity in other not to violate Enger Granger (1949).

Linear Representation:

$$SMEP_t = (\beta_0 + \beta_1 GEC_t + \beta_2 GER + \beta_3 CIT_t + \beta_4 VAT + \beta_5 ELECT + \varepsilon_t)$$

The Auto-regressive Distributed Lag (ARDL) approach by Pesaran, Shin, and Smith (2001) is used for testing the existence of co-integration relationship and error-correction estimation. The ARDL approach is been applied to the exogenous and endogenous variables of a different order of co-integration (Pesaran and Pesaran, 1997). This approach allows the estimation of short and long-run parameters concurrently. The short-run (error-correction model) model and the long-run model (co-integration model) of the ARDL model equation can be specified is written as:

$$\Delta SMEP_t = \rho\varrho_{t-1} + \sum_{i=1}^{q} \alpha_{1i}\, \Delta SMEP_{t-i} + \sum_{i=0}^{q} \alpha_{2i}\, \Delta LGEC_{t-i} + \sum_{i=0}^{q} \alpha_{3i}\, \Delta LGER_{t-i} + \sum_{i=0}^{q} \alpha_{4i}\, \Delta LCIT_{t-i} + \sum_{i=0}^{q} \alpha_{5i}\, \Delta LVAT_{t-i} + \sum_{i=0}^{q} \alpha_{6i}\, \Delta LELECT_{t-i} + \beta_1 LGEC_{t-1} + \beta_2 LGER_{t-1} + \beta_3 LCIT_{t-1} + \beta_4 LVAT_{t-1} + \beta_5 LELECT_{t-1} + \varepsilon_t \quad (1)$$

The short-run model (Error-correction model):

$$\Delta LSMEP_t = \rho\varrho_{t-1} + \sum_{i=1}^{q} \alpha_{1i}\, \Delta LGEC_{t-i} + \sum_{i=0}^{q} \alpha_{2i}\, \Delta LGER_{t-i} + \sum_{i=0}^{q} \alpha_{3i}\, \Delta LCIT_{t-i} + \sum_{i=0}^{q} \alpha_{4i}\, \Delta LVAT_{t-i} + \sum_{i=0}^{q} \alpha_{5i}\, \Delta LELECT_{t-i} + \varepsilon_t \quad (2)$$

SMEP stands for commercial bank loan to SME's as a percentage of total credit, GEC stands for government capital expenditure, government re-current expenditure, CIT stands for company income tax, VAT stands for value added tax. ELECT stands for Electricity consumption $\rho\varrho_{t-1}$ is the lagged error correction term for equation 1-2 and α_1- α_7 are the short-run coefficient and β_1- β_4 are the long-run parameter for that explanatory variables, t is the time period in the inquiry, ε_t are the error term.
The table below reveals the description of the variable employed in the research Inquiry.

Table 1
Description of Variables

S/N	Description	Unit	Source
1	Small and Medium Scale enterprises total credit from commercial bank (SMEP)	₦' Billion	CBN Statistical Bulletin (2022)
2	Government capital expenditure (GEC)	₦' Billion	CBN Statistical Bulletin (2022)
3	Government re-current expenditure (GER)	₦' Billion	CBN Statistical Bulletin (2022)
4	Company Income (CIT)	₦' Billion	CBN Statistical Bulletin (2022)
5	Value added tax (VAT)	₦' Billion	CBN Statistical Bulletin (2022)
6	Electricity consumption (ELECT)	Percentage	National Bureau of statistics.

Source: Author's compilation, 2024

RESULTS AND DISCUSSION

The table 2 captures the descriptive analysis of the selected variables which are measure of central tendency, dispersion and normality.

Table 2
Descriptive Analysis

	SMEP	GER	GEC	VAT	CIT	ELECT
Mean	0.294332	3.064495	2.776945	2.301360	2.372857	2.065066
Median	0.482129	3.172137	2.847860	2.549445	2.572765	2.098386
Maximum	1.594994	4.186498	4.502247	3.561020	3.689883	2.202099
Minimum	-1.020281	1.582558	1.599482	0.000000	0.732394	1.872102
Std. Dev.	0.911934	0.745855	0.560030	0.897531	0.805003	0.113432
Skewness	-0.099748	-0.356997	0.377306	-1.017432	-0.390333	-0.401824
Kurtosis	1.389476	2.069100	4.630608	3.584070	1.967382	1.664326
Jarque-Bera	3.511447	1.835151	4.304429	5.975743	2.234318	3.239836
Probability	0.172782	0.399487	0.116226	0.050395	0.327208	0.197915
Sum	9.418639	98.06385	88.86224	73.64352	75.93142	66.08211
Sum Sq. Dev.	25.78035	17.24528	9.722639	24.97244	20.08893	0.398873
Observations	32	32	32	32	32	32

Source: Author's compilation, 2024

SMEP has a mean value of 0.29%, Median value of 0.48%, and standard deviation has a variation of 0.91%. GER has a mean value of 3.06%, median value of 3.17% and standard deviation has a variation of 0.74%. GEC has a mean value of 2.77%, median value of 2.8$%, and standard deviation has a variation of 0.56. VAT has a mean value of 2.30%, median value of 2.54%, and standard deviation has a variation of 0.89%. CIT has a mean value of 2.37%, median value of 2.57% and standard deviation has a variation of 0.80. ELECT has a mean value of 2.06%, median value of 2.09% and standard deviation has a variation 0.11.
The skewness in the variable includes; PS (Primary School enrolment rate) indicates a short-tailed (negative skewness) at -0.15.

SMEP indicates a short-tailed (negative skewness) at -0.09, GER indicates a short-tailed (negative skewness) at -0.35, GEC indicates a positive-tailed (positive skewness) at 0.37, VAT indicates a short-tailed (negative skewness) at -1.01, CIT indicates a short-tailed (negative skewness) at -0.39 and ELECT indicates a short-tailed (negative skewness) at -0.40.

The Kurtosis in the variable include: SMEP is leptokurtic at 1.38, since (1.38>3), GER is leptokurtic at 2.06, GEC is platykurtic at 4.63, since (4.63<3), VAT is mesokurtic at 3.58, since (3.58=3), CIT is leptokurtic at 1.96, since (1.96>3), ELECT is leptokurtic at 1.66, since (1.66>3).

The table 3 captures the correlation matrix that shows the relationship between the dependent variable and independent variable. It is a pre-estimation test to detect the presence of multi-collinearity among the variables.

Table 3
Correlation Matrix

	SMEP	GER	GEC	VAT	CIT	ELECT
SMEP	1					
GER	-0.5121	1				
GEC	-0.5994	0.5936	1			
VAT	-0.6924	0.5626	0.5099	1		
CIT	-0.5352	0.5840	0.5104	0.5695	1	
ELECT	-0.6717	0.5502	0.6879	0.5768	0.5601	1

Source: Author's compilation, 2024

The multicollinearity of 0.90 shows to be very high and would generate spurious results if used for any ordinary least square estimation. It shows that the relationship between the variables in is below the threshold of 0.90. Government re-current expenditure, government capital expenditure, value added tax, company income tax and electricity consumption index has negative relationship with Small and medium scale credit from commercial banks.

The table 4 shows the unit root analysis that helps to inform the order of integration and the econometric technique that would be employed for the variables and research title.

Table 4
Unit Root Analysis

Variable	Level T-Stat	Critical Value @ 5%	First Difference T-stat	Critical Value @ 5%	Prob	Order of Integration
SMEP	-2.1288	0.2353	-2.4573	-2.9980	0.0191	I(I)
GER	-1.5111	-2.9604	-7.5348	-2.9639	0.0000	I(I)
GEC	0.2352	-2.9639	-4.0350	-2.9639	0.0041	I(1)
VAT	-4.3680	-2.9639	----------	---------	0.0017	I(0)
CIT	-1.7064	-2.9604	-4.7075	-2.9639	0.0007	I(I)
ELECT	-1.0900	-2.9604	-6.2611	-2.9639	0.0000	I(I)

Source: Author's compilation, 2024

The Augumented Dickey-Fuller unit root results which are a pre-estimation test, help to give direction on the actual econometrics analysis that would be suitable for drawing inferences for the outcome and explanatory variables in the model specification. SMEP, GER, GEC, CIT and ELECT are all stationary at first difference while VAT is stationary at level. Based on the order of integration of the variables, the ARDL (Auto-regressive distributed Lag) technique was used investigate both short and long-run relationships. This has to be followed, so as not to validate the position of Granger 1957, in drawing inference from faulty unit root expressions.

The table 5 shows the lag length criteria that would be used in carrying the ARDL technique analysis.

Table 5
Lag Length Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	41.94229	NA	3.67e-09	-2.396152	-2.115913	-2.306501
1	189.9265	226.9091*	2.21e-12*	-9.861764	-7.900088*	-9.234207*
2	228.6536	43.89072	2.53e-12	-10.04357*	-6.400458	-8.878108

Source: Author's compilation, 2024

The Akaike information criterion depicting the lag order length of (II) for the model is selected. After establishing the lag order length, the ARDL, short and long-run equation results were estimated and explained.

The ARDL Bound test helps to ascertain whether there is a long-run Co-integration relationship between the dependent variable of SMEP and explanatory variable GER, GEC, CIT, VAT and ELECT. The table 6 helps in the determination of the method, that inference would be derived from in terms of short-run relationship and long-run relationship.

Table 6
ARDL Bound Test

t-statistics	Value	K	I(0)	I(I)
F-statistics	4.478059	5	2.62	3.79

Source: Author's compilation, 2024

The result of the F-statistics value is 4.478059 higher than the I(I) and I(0) result which is 2.62 and 3.79 at a 5% level of significance. The calculated F-value is higher than the upper bound critical value, this implies that there is a long-run co-integration relationship between the outcome and explanatory variables.

ARDL Co-integration and Long-run Run Result

The table 7 is the co-integration (short-run) table that shows the short-run relationship between the variables and the speed of adjustment. The Table 7 shows the short-run relationship between fiscal policy and Small and Medium Scale Enterprises Performance in Nigeria.

Table 7
Co-integration Form

Variable	Coefficient	Std-Error	t-Statistic	Prob
D(GER)	-1.510536	1.631501	-0.925856	0.3675
D(GEC)	-0.113636	0.799884	-0.142066	0.8887
D(GEC(-1))	2.639467	1.203507	2.193146	0.0425
D(VAT)	6.981384	4.149281	1.682553	0.1107
D(VAT(-1))	-1.773930	1.098008	-1.615589	0.1246
D(CIT)	-0.920425	1.995028	-0.461359	0.6504
D(CIT(-1))	-3.287434	1.746486	-1.882313	0.0770
D(ELECT)	-4.331518	2.996924	-1.445321	0.1665
ECM(-1)	-0.528589	0.217805	-2.426886	0.0266

Source: Author's compilation, 2024

The Table 7 shows the short-run relationship between fiscal policy and Small and Medium Scale Enterprises Performance in Nigeria. The results show that the speed of adjustment from an earlier disturbance away from the long-run represented by the co-integ (-1) is negative and significant with an associated coefficient estimate of -0.528589. The value of the error correction term is 0.528589 depicts that a variation from the long-run equilibrium in one year is corrected by 52%. The model further shows the presence of a long-run relationship among the variables in all models. At a speed of adjustment of 52%, there exists a short-run association between all explanatory variables and outcome variables.

The Table 8 shows the long-run relationship between fiscal policy and Small and Medium Scale Enterprises Performance in Nigeria.

Table 8
Long-run Coefficients

Variable	Coefficient	Std-Error	t-Statistic	Prob
GER	-2.857677	3.823959	-0.747309	0.4651
GEC	-5.119231	3.230521	-1.584646	0.0315
VAT	8.911288	7.018093	1.269759	0.0213
CIT	-2.580449	3.086561	-0.836027	0.0147
ELECT	-8.194496	6.490153	-1.262604	0.2238
C	24.861381	15.419163	1.612369	0.1253

Source: Author's compilation, 2024

The long-run coefficient further showed the following for the fiscal policy (expansionary and contractionary) that GER (Government re-current expenditure) has negative insignificant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank), which implies that a percentage increase in GER (Government re-current expenditure) leads to -2.85 decrease in SMEP (Small and Medium Scale enterprises total credit from commercial bank). GEC (Government capital expenditure) has negative significant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank), which implies that a percentage increase in GEC (Government capital expenditure) leads to -5.11 decrease in SMEP (Small and Medium Scale enterprises total credit from commercial bank). VAT (Value added tax) has positive significant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank), which implies that a percentage increase in VAT (Value added tax) leads to 8.91 increase in SMEP (Small and Medium Scale enterprises total credit from commercial bank). CIT (Company income tax) has negative significant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank), which implies that a percentage increase in CIT (Company income tax) leads to -2.58 decrease in SMEP (Small and Medium Scale enterprises total credit from commercial bank). ELECT (Electricity consumption) has negative insignificant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank), which implies that a percentage increase in ELECT (Electricity consumption) leads to -8.19 decrease SMEP (Small and Medium Scale enterprises total credit from commercial bank).

Diagnostic Tests of Fiscal Policy and Small and Medium Scale Enterprises Performance in Nigeria

Heteroskedasiticity Test

The Heteroskedasticity Test (e.g., Breusch-Pagan-Godfrey) is used to check if the variance of errors in a regression model is constant (homoskedasticity) or varies across observations (heteroskedasticity). Heteroskedasticity can invalidate standard errors and significance tests, leading to unreliable conclusions. The decision criteria is less 0.05, reject H_0; otherwise do not reject it (Whang, 1998; Kumar 2023).

Table 9
Heteroskedasiticity Test

Date: 11/16/24 Time: 16:37
Sample: 1991 2022
Included observations: 32

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
. |*** |	. |*** |	1	0.398	0.398	5.5684	0.818
. | . |	. *| . |	2	0.002	-0.186	5.5685	0.062
. | . |	. |* . |	3	0.003	0.093	5.5688	0.135
. *| . |	. *| . |	4	-0.080	-0.147	5.8198	0.213
. *| . |	. | . |	5	-0.139	-0.051	6.6012	0.252
.**| . |	.**| . |	6	-0.246	-0.225	9.1237	0.167
.**| . |	. | . |	7	-0.230	-0.061	11.428	0.121
.**| . |	.**| . |	8	-0.246	-0.230	14.176	0.077
. *| . |	. | . |	9	-0.179	-0.036	15.693	0.074
. *| . |	. *| . |	10	-0.070	-0.105	15.936	0.101

Source: EVIEW, 10

The Table 9 further validates no presence of serial correlation among the independent variables with Q-sta with a lag length of 10 showing prob value above 0.05.

Table 10
Heteroskedasiticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.911686	Prob. F(5,26)	0.4888
Obs*R-squared	4.773472	Prob. Chi-Square(5)	0.4441
Scaled explained SS	12.00125	Prob. Chi-Square(5)	0.0348

Source: EVIEW, 10

The Table 10 further validates no presence of heteroskedasticity Test in the model estimate with the prob value above 0.05. at 0.4888.

Auto-Correlation Test

The Autocorrelation Test (e.g., Breusch-Godfrey) checks whether residuals in a regression model are independent or correlated across observations. Autocorrelation can affect

efficiency and lead to biased estimates of coefficients. The decision criteria is reject H_0 if the p-value is less than 0.05, otherwise do not reject it. (Whang, 1998; Kumar 2023).

Table 11
Auto-Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

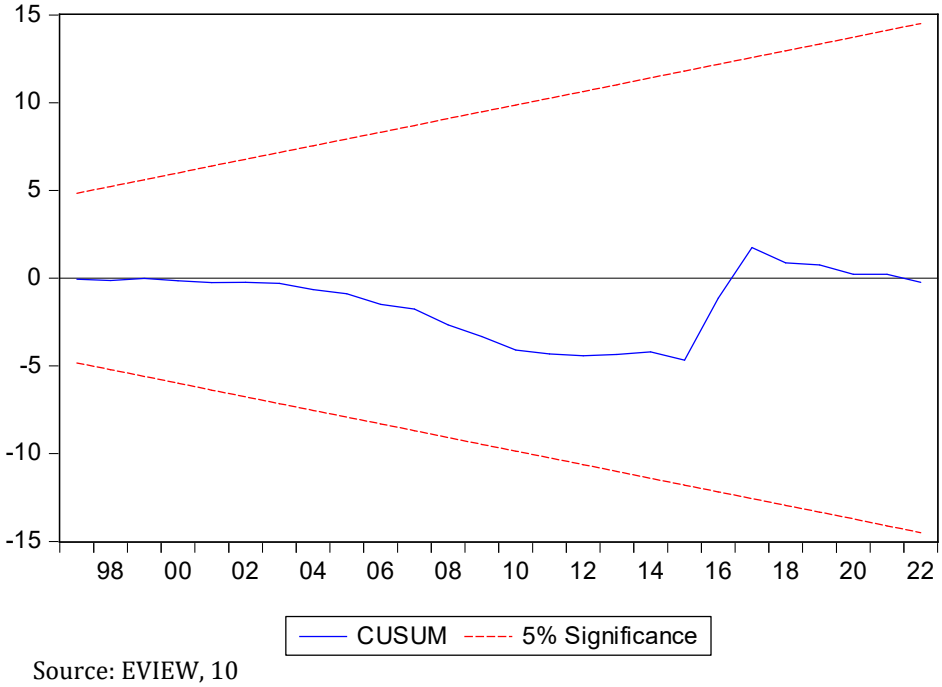
F-statistic	2.967763	Prob. F(2,24)	0.0705
Obs*R-squared	6.344864	Prob. Chi-Square(2)	0.0419

Source: EVIEW, 10

The Table 11 further validates no presence of auto-correlation in the model estimate with the prob value above 0.05. at 0.0705.

Cusum Test

The Cusum Test is a post-estimation test that helps to inform the stability of the econometric modelling if the findings would be accurate for policy formulation.

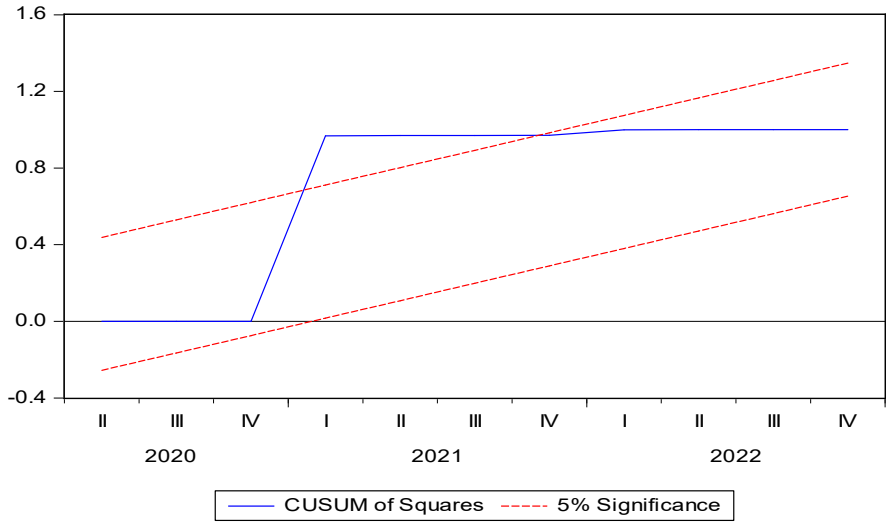


Source: EVIEW, 10

Figure 1
Cusum Test

Cusum Square Test

The CUSUM Square test is a further post-estimation test that helps to inform the stability of the econometric modelling if the findings would be accurate for policy formulation.



Source: EVIEW, 10

Figure 2
Cusum Square Test

The figure 1 and 2: Cusum test shows that the model fall within the 5% level of significance critical bounds, while the Cusum sqaure test has a small shift outside the 5% level of significance but holistically the model estimated is stable dynamically which makes the model valid for policy recommendations.

CONCLUSION AND SUGGESTIONS

The findings depicts that GER (Government re-current expenditure) has negative insignificant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank). GEC (Government capital expenditure) has negative significant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank). VAT (Value added tax) has positive significant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank). CIT (Company income tax) has negative significant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank). ELECT (Electricity consumption) has negative insignificant effect on SMEP (Small and Medium Scale enterprises total credit from commercial bank).

From the findings, it indicates that government capital expenditure (GEC) and company income tax (CIT) significantly reduce credit accessibility for SMEs, suggesting that high fiscal burdens and inefficient capital allocations hinder SME growth. Conversely, value-added tax (VAT) positively influences SME credit, highlighting its potential role in fostering liquidity and encouraging financial participation. However, government recurrent expenditure (GER) and electricity consumption (ELECT) show no significant impact on SME credit, reflecting inefficiencies in public spending and infrastructure provisioning.

It is therefore recommended that policymakers should enhance the efficiency of capital expenditure to support SME-enabling projects and infrastructure. A review of CIT policies is crucial to reduce fiscal constraints on SMEs. Furthermore, leveraging VAT revenue

to establish credit facilities for SMEs can amplify the positive effect observed. Improving electricity infrastructure and reducing costs can indirectly boost SME operations, enabling them to access and utilize credit more effectively.

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