Financial Deepening and Small and Medium Scale Enterprises (SMEs) Output in Nigeria

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ABSTRACT: The study examined the relationship between financial deepening (FD) and entrepreneurial growth (EG) in Nigeria for the period of 1986-2021 (36years). This was done in respect to the measures of FD, namely; Ratio of Broad Money Supply to Gross Domestic Product (M_2/GDP), Ratio of Private Sector Credit to Gross Domestic Product (PSC/GDP), Ratio of Market Capitalization to Gross Domestic Product (MCAP/GDP) and Ratio of Loans to Small and Medium Scale Enterprises to Gross Domestic Product (LSMSE/GDP) in relation to EG was proxied by Small and Medium Scale Enterprises Output (SMSEO) in Nigeria. The data for the study was sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Development Indicators. Then, the stationary and normality tests was carried out, followed by the descriptive statistics, correlation and multiple regression tool of analysis with the aid of E-VIEW 9.0 statistical package. The results showed that M_2/GDP, PSC/GDP, MCAP/GDP and LSMSE/GDP have positive and negative significant effect on SMSEO in Nigeria. Hence, the study indicated that FD had a considerable impact on EG in Nigeria. The report proposed that the CBN compel deposit money Banks (DMBs) to extend greater loan facilities to entrepreneurs (private sector), including young graduates and new entrepreneurs, without collateral to enable them to participate in successful businesses. In addition, venture capital firms should be developed to aid in EG, resulting in the production of value and wealth.

KEYWORDS: Financial Deepening, Entrepreneurial Growth, Money Supply, Loans, and Small and medium Scale Enterprises

1. INTRODUCTION

Banks and other financial institutions play critical roles in the operation of every economic system, acting as the hub around which economic activity revolves (Okere, Uzokwe & Ekujereonye, 2021). The premise is that when the financial sector extends credit to the productive areas of the economy at reasonable rates, the total economy grows inclusively (Nwajiaku, Ananwude & Obi-Nwosu, 2020). According to Nwakobi, Oleka, and Ananwude (2016), the opportunity required to sustain growth in an economy is lubricated by the availability of liquid money-FD. Thus, FD has been identified as one of the measures that, when correctly stated and implemented, will foster EG and development, particularly in emerging economies such as Nigeria (Okere, et al, 2021).

FD can improve economic performance by increasing the competitiveness of financial markets; hence, non-financial sectors of the economy gain indirectly, which in turn affects the Nigerian economy, particularly the manufacturing sector (Chiawa & Abur, 2016). FD is required to provide financing for EG through small and medium enterprises as a result of crowding out by large corporations, and that with a deeper financial sector; larger corporations can raise funding more easily through bonds and equity, allowing banks to lend to small and medium enterprises (Paramaditha, 2017). Though receiving funds from banks has a cost, such expenses would be minor if the government (particularly in emerging nations) intervened through development programmes or policies aimed at boosting entrepreneurial activities (Eke, Okoye and Evbuomwan, 2020). Because of the high cost of funds in the banking system, most entrepreneurs in Nigeria are unable to acquire funds from banks. According to Nwajiaku et al. (2020), banks charge as much as 22 percent interest rate on loans to businesses, which is in addition to the collateral requirement. According to Nwakoby and Ananwude (2016), entrepreneurs in Nigeria have limited access to bank financing due to a lack of collateral to match the funds required. This stifles creative company ideas that could lead to job growth, poverty reduction, wealth generation, and an improvement in living standards. Although developing entrepreneurial skills is a crucial condition, funding must be accessible for the envisioned business idea to come to fruition (Ovat, 2017).

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EG is partly dependent on the banking sector's competence and willingness to allow financial intermediation (Nwakobi, Oleka & Ananwude, 2019). According to Okere et al (2020), the development of any economy of any nation is heavily reliant on the functionality and interplay of Small and Medium Enterprises (SME's). In any economy, there is a definite correlation between financial deepening and entrepreneurial development (Wairagu, 2016). FD promotes rapid economic growth by improving the mobilization, allocation, and operational efficiencies of financial resources (Eke, et al, 2020). Entrepreneurs (who constitute the majority of Nigeria's deficit unit) may not always have the funds to start a business; they require financing to do so (Ehiedu, Odita & Kifordu, 2020). As the real sector expands, so does demand for financial services, which is followed by unblocking resources in the traditional sector and deploying them into the contemporary sector, where they can be invested effectively (Nwajiaku, et al, 2020).

Deepening the economy means supporting economic development, which has a significant impact on the actions of entrepreneurs/SME operators in any economy, particularly in emerging countries like Nigeria (Nwakobi et al, 2019). Given the widely held belief that EG is the key to poverty eradication, job creation, and rapid economic development, monetary authorities in Nigeria have initiated and implemented various policies aimed at developing entrepreneurial through the development of SMEs over the years (Nwakobi et al, 2019).

CBN has implemented a number of initiatives to guarantee that Nigeria's financial industry maintains significant depth and liquidity in order to compete effectively in the global financial market (John & Ibenta, 2017). In 2004, the CBN started a reform programme aimed at consolidating the banking system. The reform increased the minimum capital requirements for commercial and microfinance banks, respectively. At the end of the consolidation process, 25 commercial banks emerged. This was cut to 24 banks by the end of December 2007, which was further reduced to 22 licensed commercial banks as of 2017. In the post-consolidation age, there are fewer banks with better capital bases of $25 billion each (John et al, 2017). However, the concern of systemic risk persists, and the supply of credit to investors and businesses remains uncertain (Ohwofasa and Aiyedogbon, 2017). Hence, the rise of entrepreneurship is rather slow.

FD is supposed to attract a reservoir of savings and idle funds and allocate them to enterprises, entrepreneurs, governments, and families for the purposes of investment projects in order to stimulate economic returns; this is the base that triggered EG. DMBs, through their intermediation role, are supposed to provide the needed financial assistance to SMEs in order for them to operate optimally (Ehiedu, Onuorah and Mbagwu, 2022). However, banks have identified inadequate funding as a threat to the performance of SMEs due to the fact that banks are often reluctant to lend to SMEs due to the perceived risky nature of SMEs by them.

Despite all of the monetary authorities' attempts to deepen the economy and promote EG in Nigeria, the unemployment rate has remained high, rising from 13.1% in 2000 to 23.9% in 2011, and 28.6% in 2017 (IMF, 2017). Over 100 million Nigerians live below the poverty line on less than US$1 per day, with the percentage of the population living in abject poverty climbing from 54.7% in 2004 to 60.9% in 2017 (Yusuf, 2017). Above all, Nigeria's human development index (HDI) remains appallingly low at 0.532 in 2016, much below the world weighted average of 0.7 (Human Development Report, 2017). Has FD aided EG in Nigeria?

According to the empirical studies accessible thus far, this question has not been well studied in the context of Nigeria. The sheer scale of the research focusing on financial deepening and economic growth; Nwantto and Chinwudu (2016), Igwe, Edeh, and Ukpere (2016), Nwakobi, Oleka, and Ananwude (2019), Nzotta and Okereke (2009). Olawumi, Lateef, and Oladeji (2017) focused on the profitability of chosen banks. At the time of this study, the only accessible study on FD and EG in Nigeria was that of John and Ibenta (2017), and more recently, the work of Nwajiaku, Ananwude and Obi-Nwosu (2020), and Okere, Uzokwe, and Ekujereonye (2020). (2021). This study varies from those of John and Ibenta (2017), Nwajiaku, Ananwude, and Obi-Nwosu (2020), and Okere, Uzokwe, and Ekujereonye (2021) in that it presented a better proxy for EG, loan to small and medium-sized firms output.

Hence, this study fills the gap by focusing solely on the effect of FD on EG. This becomes critical since EG is the cornerstone for establishing a country's economic efficiency. The following sections will be based on a review of related literature, methodology, results, discussion, and summary of findings, conclusion, and recommendations.

2. REVIEW OF RELATED LITERATURE

This section discussed the opinions of authors, brilliant minds and authorities in the effect of FD on EG in Nigeria (1986-2021) that are relevant and valid to my topic. This will have been done under the following sub-headings: Conceptual review, theoretical review, empirical review and literature gap.

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2.1 Conceptual Review
Financial Deepening (FD)

Scholars disagree on the definition of FD. Hamilton and Godwin (2017) defined FD as a growth in the supply of financial assets, which has resulted in a wide range of financial assets being available in the Nigerian economy. Deepening the financial sector simply implies that the deposit money bank can mobilize adequate savings for the purpose of investing (Ehiedu, Onuorah and Okoh, 2021). The money supply to GDP ratio illustrates the expansion of domestic savings and offers the true structure for the production of diverse financial claims, which is feasible with the development of Nigeria's banking system (Christian, 2017).

In accordance with Akhator and Marcus (2018), this phrase refers to the increased provision of financial services with a wider range of services geared toward the development of all societal levels. Kiprop (2016) defines FD as the expansion of the financial system and its role as financing with a wider range of services geared toward the development of all levels of society. It also refers to the increased availability of financial services and access to fundamental financial services like credit, savings, and insurance. Making it simpler for system users to engage in financial markets for saving and investment decisions, as well as allowing markets to deploy a concrete amount of cash without matching changes in asset values, is a key component of deepening the financial system (Ademola & Obamuyi, 2018).

According to the International Monetary Fund (2017), FD is the multidimensional process by which financial markets provide services that facilitate the efficient interchange of goods, services, savings, and investments. Kiprop (2016) defines FD as the expansion of the financial system and its role as financing with a wider range of services geared toward the development of all levels of society. It also refers to the increased availability of financial services and access to fundamental financial services like credit, savings, and insurance. On the other hand, FD, according to Akhator and Marcus (2018), refers to the increased provision of financial services with a wider range of services intended to promote the development of all societal segments. Fitzgerald (2016) believes that financial development entails the construction and extension of institutions, instruments, and markets that support the investment and growth process.

The development and deepening of DMBs has resulted in the extension of DMBs instruments and growth process, which has greatly improved financial services to clients in the Nigeria banking society. Onyemachi (2016) defines banking industry deepening as a strategic approach to developing the banking industry and other financial sectors in the Nigerian economy by increasing the financial instruments/assets in the money and capital markets, which in turn expands the Nigerian economy's real sector. Obviously, this action is taking in rising economies in order to expand the intermediation process and accomplish economic progress (Onyemachi, 2016).

Osinsanwo (2017) defines FD in three dimensions: I the range of financial markets for savings and investment decisions is well utilized by the financial sectors and agents, particularly long maturities of financial instruments; ii) through the intermediation process, banks and other financial institutions are able to concentrate huge capital in financial market and handle larger turnover, without having adverse effects on the various financial institutions. In other words, the deepening of financial markets allows savers to invest in a variety of quality investments with reduced risk sharing, which drives borrowers to access the variety of management quality investment risk instruments. Thus, deepening in the financial sector has resulted in the establishment and expansion of financial instruments, institutions, and the overall growth process of the financial sector.

According to Balago (2015), FD was conceptualized as the financial depth (size) and liquidity of the market, which has facilitated individual access to various dimensions of financial services and has resulted in efficiency on the part of financial institutions in providing financial services at the lowest cost possible and with favourable revenue, which has boosted the capital market level of activities.

FD is the improvement in the provision of financial services with a diverse range of services in all sectors of the economy (Ohwofasa & Aiyedogbon, 2017). It entails a higher money supply-to-GDP ratio (M2/GDP). It refers to liquid money; the more liquid money there is in an economy, the more prospects for continuing expansion open up (Sackey & Nkrumah, 2017). FD denotes an improvement in the financial industry, which has affected the economy at all levels. It also promotes the expansion of the money supply, as measured by the M2/GDP ratio and other price indexes, implying that the more liquid money available in the economy, the greater the chances for continuous growth.

To deepen the financial industry means to make it easier for participants to participate in financial markets for making investment and savings decisions, and markets can also deploy a tangible amount of cash without matching swings in asset values. Similarly, the financial industry can develop a diverse group of assets for risk diversification. In other words, as a market matures, savers and borrowers have more chances to invest in a variety of investment, risk-sharing, and risk-management instruments (Goswami & Sharma, 2017). It has been widely acknowledged that the higher the level of FD, the more the accessibility of financial services, which allows for risk diversification in funding. Hence, the availability of financial services in a

country is determined by the extent of that country's FD. This increases the long-run per capita income and economic growth of the population of that country (Patrick, 1966, quoted in Tahir, Shehzadi, Ali, and Ullavvh) (2015).

Financial depth is a concept that most people understand to mean three things. First, the sector and its agents can employ a variety of financial markets savings and investments to fund long-term securities. This is the aspect of financial access. Second, financial intermediaries and markets can and do deploy bigger volumes of capital and higher turnover without requiring large matching moves in asset values. This occurs when the market is liquid (Chami, Fullenkamp and Sharma, 2019). Third, the financial industry may and does develop a wide range of assets for risk sharing, with the goal of offering opportunities for hedging and diversification. Deep financial markets enable investment in a wide range of high-quality assets and risk-sharing mechanisms. Borrowers can also access various financing and risk management instruments thanks to a robust financial sector (Goswami and Sharma, 2017).

FD denotes the ability of financial organizations to efficiently marshal savings for the exclusive purpose of investment. The development in domestic savings lays the groundwork for the formation of diverse financial claims and activates affective actions of financial institutions in financial markets in order to provide the market with high-quality financial products and services (Ndekwu, 2019).

The ideas expressed above are consistent with Nnanna and Doga's (2019) research, which defines FD as a system devoid of financial repression. They believe that financial repression measures aimed at stimulating domestic investment by suppressing interest rates have had a negative impact. Negative real interest rates, on the other hand, pushed banks to be more risk adverse and unwilling to lend. On the contrary, when interest rates are more market-oriented and less negative in real terms, bank lending increases same goes for domestic investments and national savings.

Entrepreneurial Growth

Entrepreneurship, according to Omoruyi, Olamide, Gomolemo, and Donath (2017), is the capacity of an individual or group of individuals to discover or create an opportunity and take advantage of it to benefit society while also delivering success to the trailblazers and their organisation. The largest barrier to entrepreneurship in Africa is a lack of funding (Wujung & Fonchamnyo, 2016). According to World Bank data, the three factors that drive business performance in Sub-Saharan Africa, Latin America, and the Caribbean regions performed below the global average, while East Asia and the Pacific regions performed below the global average in terms of levels of bureaucracy and the least number of days to start a trade (Eke, Okoye & Evbuomwan, 2017).

The money to launch a business may not always be available to entrepreneurs; they need financing to do so. The demand-following theory, put forth by Berthelemy and Varoudakis in 1996 and cited in (Okere, Uzokwe, and Ekujereonye, 2021), states that FD happens as a result of rising demand in the real sector, indicating market diversification. Financial services are in greater demand as the real sector grows, which leads to the release of resources from the conventional sector and their deployment into the current sector, where they can be used to make profitable investments.

Small and medium-sized businesses can be developed in both urban and rural locations and require substantially less capital than large-scale businesses, which are frequently established in urban centres and call for large capital expenditures (Ovat, 2017 cited in Nwajiaku, 2017). (2020). According to Nweze (2015), the degree of financial system development unquestionably affects how much money can be raised from surplus economic units and directed to produce deficit units.

2.2 Theoretical Review

Supply Leading Hypothesis

Schumpeter (1911) proposed this idea, which was further reinforced by McKinnon (1973), Shaw (1973), Gupta (1984), Fry (1988), Greenwood and Jovanovich (1990), and Bencivenga and Smith (1991), among others. The supply-leading theory is based on the idea that financial development leads to economic growth. There is no need for financial intermediaries in a frictionless transaction without monitoring and information costs because the increase in transaction, monitoring, and information costs discourages trade between economic agents. The effort to lower these costs in order to encourage exchanges resulted in the formation of financial markets and institutions that comprised the financial industry.

According to the theory, in a developed financial sector, transaction, monitoring, and information costs fall dramatically, accelerating intermediation efficiency because it aids in the mobilization of savings, recognizes and makes funds available for viable business projects, managers' performance is monitored, aids in the diversification of risks and general trading, and encourages the exchange of goods and services. These services result in more efficient resource allocation, an increase in the acquisition of people and physical capital, and speedier technical innovation. This eventually leads to faster and longer-term growth in the economy (Schumpeter, 1911).

The supply leading hypothesis is relevant to the study because it gives one of the probable explanations for how financial sector expansion affects economic growth, which leads to high productivity in the Small and Medium Scale Enterprises industry. The

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core of this research is the relationship that exists between financial deepening and the productivity of Small and Medium Scale Enterprises.

Demand Following Hypothesis

Robinson (1952), Patrick (1966), and Demetriades and Hussein proposed this theory (1996). According to the demand-following hypothesis, economic growth results from the expansion of financial services. According to this model, high demand for financial services will result in the development of the real economy; thus, there is an increase in financial services, which has resulted in the creation of new financial markets and institutions in order to meet the accelerating demand for financial services.

This demand following hypothesis is important to this study because it depicts the association that co-exists between deepening and developments in the financial sector and entrepreneurial growth in the economy, as well as further understanding on how growth in the economy can drive deepening of the financial sector, resulting in high productivity in the output of Small and Medium Scale Enterprises in Nigeria.

Bidirectional Causality Hypothesis

Greenwood and Jovanovic (1990) proposed the hypothesis, which received support from Saint-Paul (1992), Berthelemy and Varoudakis (1996), and Harrison, Sussman, and Zeira (1999). The supply-leading and demand-following assumptions are combined in the bidirectional causality theory. This model describes the mutually or bidirectionally causal relationship that occurs between FD and economic growth. The expansion of the financial industry will gradually support economic growth, which will result in feedback that will lead to further expansion of financial services.

This hypothesis is significant to this study because it agrees that there is a relationship between FD and EG, which would trigger efficiency in the SMSEs industry, thereby bragging SMSEs output. It was discovered, however, that the two variables affect each other concurrently.

2.3 Empirical Review

Okere, Uzokwe, and Ekujereonye (2021) evaluated the impact of FD on EG in Nigeria from 1999 to 2018. The data for this study came from the CBN statistical bulletin. The investigation used the OLS econometric approach and the Granger causality tests. The series used in this investigation were nicely integrated at level 1(0). Given the ordinary least squares finding, the study found that financial deepening had a positive and substantial link with entrepreneurial development in Nigeria over the study period. This favourable and significant link was fueled by the number of bank branches (BBCH) and bank lending to small and medium-sized businesses (SMEs).

Nwajiaku, Ananwude, and Obi-Nwosu (2020) investigated the impact of FD on EG in Nigeria. According to the Granger Causality test with Autoregressive Distributed Lag (ARDL) technique of model estimation utilising data from 1986 to 2018, there is no significant influence of FD on EG. EG was found to have a considerable influence on FD via banking and insurance sector deepening.

Eke, Okoye, and Evbuomwan (2020) conducted a study on entrepreneurship and FD in selected African economies from 1995 to 2014, and evidence from the augmented Toda-Yamamoto technique shows that human capital does not have a long run causal effect on entrepreneurship and FD, implying low quality human capital for entrepreneurial development.

Kayode, Ibenta, and Owoputi (2020) investigated the influence of FD on the performance of Nigerian manufacturing enterprises. The study's data, which ranged from 1986 to 2017, came from the CBN, the National Bureau of Statistics, and World Economic Indicators. The parameter estimates were created using the ARDL. The Toda-Yamamoto causality approach was also used to investigate the relationship between the variables. The validity of the results was also investigated using the Breusch-Pagan-Godfrey test. The data show that financial deepening has a considerable positive influence on the average capacity utilisation of Nigerian manufacturing enterprises. Furthermore, the findings reveal a unidirectional causality from FD to average capacity utilisation in Nigeria's industrial sector. The findings have a substantial impact on Nigeria's industrial sector performance.

Nwakobi, Oleka, and Ananwude (2019) explored the influence of FD on economic growth in Nigeria: A Time Series Appraisal (1986-2018). The model was estimated using the ARDL approach, with the effect assessed using Granger causality analysis, and it was discovered that financial deepening has no effect on Nigerian economic growth. The report also claimed that the amount of economic growth determines the level of development in the banking sector.

Akinmulegun and Akinde (2019), Ehiedu and Olanye (2014) investigated the impact of FD on manufacturing sector performance in Nigeria from 1981 to 2017. The study used time series secondary data from the CBN statistical bulletin and the World Bank Development Index. The manufacturing sector's performance (dependent variable) was proxied by the ratio of manufacturing value added to gross domestic product, while the independent variables included the ratio of credit to the private sector to GDP, the ratio of market capitalization to GDP, the ratio of transaction value to GDP, and the interest rate. The study used an ECM to estimate the effect of the independent variables on the dependent variable. The results revealed that the ratio of credit to the

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private sector to GDP with a coefficient of 0.189582 and the ratio of market capitalization to GDP with a coefficient of 0.006649 had a positive effect on manufacturing sector performance, whereas the ratio of value of transaction to GDP with a coefficient of -0.000532 and interest rate with a coefficient of -0.043801 had a negative effect on manufacturing sector performance. The study showed that financial deepening has a major impact on the performance of Nigeria's manufacturing sector.

John and Ibenta (2017) investigated the association between FD and EG in Nigeria. It drew on secondary data from the CBN Statistical Bulletin from 1986 to 2016. Pearson Correlation was used in the study to establish correlations between the variables. The findings revealed that the ratio of M2/GDP has a positive but not significant relationship with entrepreneurial growth; the ratio of credit to the private sector to GDP (CPS/GDP) has a positive but not significant relationship with entrepreneurial growth; and the ratio of deposit money bank branches to GDP (DMBB/GDP) has a negative and significant relationship with EG. Hence, the study indicates that money supply and credit to the private sector are stronger measures of financial deepening that can favourably benefit entrepreneurial growth in Nigeria.

Muhsin and Erife (2016) used panel data estimate methods to investigate the influence of financial development on entrepreneurship in 17 emerging market economies from 2004 to 2009. The analysis used two separate measures of financial development and three institutional elements to assess the relationships between the variables. The empirical findings revealed that, theoretically, financial development and per capita income level have a considerable and favourable impact on entrepreneurship.

Wairagu (2016) investigated the effects of FD on EG in Kenya. The FD indicators included credit received by entrepreneurs/SMEs, the affordability of interest rates, a savings culture, and financial sector regulation. This research study used a descriptive survey approach, and data were gathered from both primary and secondary sources. A questionnaire was used to collect primary data, whereas expressive documentary analysis was used to acquire secondary data. The acquired data were then coded before being analysed using the Statistical Package for Social Sciences (SPSS). The study's findings were then presented in tabular style, with a focus on line graphs and bar graphs. Major study findings revealed that the growth rate of loans obtained by entrepreneurs/SMEs remained constant between 2006 and 2016. The four significant factors (credit access, interest rate affordability, savings culture, and financial sector regulation) also had a confirming link with the increased (growth) rate of entrepreneurs/SMEs.

Literature Gap: According to a survey of related literature, the majority of these researches have focused on the impact of FD on the growth of the Nigerian economy. Other research focused on the impact of a specific dependent variable, FD, on EG in Nigeria. Only John and Ibenta (2017), and more recently Nwajiaku, Ananwude & Obi-Nwosu (2020) and Okere, Uzokwe & Ekujereonye (2021), have specifically investigated the impact of FD on EG in Nigeria. According to a study of the literature, studies addressing the influence of FD on EG in Nigeria are scarce; consequently, this research aims to fill these gaps in the literature.

3. METHODOLOGY

The Ex-post facto research design was used in this study. Ex-post facto research entails determining the impact of past factor(s) on current happenings or events. The ex-post-facto research design is a quasi-experimental study that investigates how independent variables existent previous to the investigation affect the dependent variable.

The secondary data source (time series data) used in this study was the CBN Statistical Bulletin and World Bank Development Indicators for the period 1986-2021. Data processing methods Analysis is essentially the procedure used to analyse the data obtained for the study project. The stationary and unit root tests were performed using the Augmented Dicker-Test, Fuller's Johansen Cointegration Test, and multicollinearity test in order to test the stationary and normality of the data set, as they are time series data, to allow the researcher to determine if the data set will give accurate regression results. Other data analysis approaches used in the study were descriptive statistics and a multiple regression tool of analysis.

The study's model was inspired by the work of Andabai and Igbodika (2018). This model was updated to fit the variables of this investigation. Hence, the functional form of the model definition is stated in this study as follows:

SMSEO = f(M$_2$/GDP, PSC/GDP, MCAP/GDP, LSME/GDP).

Therefore, the re-modified model for this study is stated as:

SMSEO = a + b$_1$ M$_2$/GDP + b$_2$ PSC/GDP + b$_3$ MCAP/GDP + b$_4$ LSME/GDP + u.

Where;

SMSEO = Small and Medium Scale Enterprises Output

(M$_2$/GDP) = Ratio of Broad Money Supply to Gross Domestic Product

(PSC/GDP) = Ratio of Private Sector Credit to Gross Domestic Product

(MCAP/GDP) = Ratio of Market Capitalization to Gross Domestic Product

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(LSME/GDP)= Ratio of Loans to Small and Medium Scale Enterprises to Gross Domestic Product
u = Error Term
$\beta_0 - \beta_4$ = the Parameters
A prior Expectation = $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

4. RESULT AND DISCUSSION
4.1 Data Descriptions

Table 4.1.1: Descriptive Statistics

	SMSEO	M2_GDP	PSC_GDP	MCAP_GDP	LSMSE_GDP
Mean	12.02765	16.00350	12.09036	12.34130	0.968949
Median	11.97273	13.12265	8.637345	10.84118	0.467013
Maximum	22.24471	24.89526	22.75484	38.01393	4.288185
Minimum	6.237128	8.464230	5.806165	3.085372	0.009354
Std. Dev.	4.369631	5.461235	5.629879	8.497856	1.317488
Skewness	0.501749	0.332269	0.484761	0.814655	1.427904
Kurtosis	2.266030	1.447992	1.482955	3.325231	3.696723
Jarque-Bera	2.254177	4.275512	4.862099	4.140642	12.96159
Probability	0.323975	0.117919	0.087944	0.126145	0.001533
Sum	420.9676	576.1260	435.2529	444.2870	34.88217
Sum Sq. Dev.	649.1848	1043.878	1109.344	2527.474	60.75210
Observations	36	36	36	36	36

Source: Computed from E-Views 9.0 (2022)

Table 4.1.1 above is the presentation of the descriptive statistics. The SMSEO recorded a mean value of 12.0277 with a standard deviation of 4.3696 over the thirty-six year period. Also, M_2/GDP recorded a mean of 16.0035 and standard deviation of 5.4612, PSC/GDP recorded a mean of 12.0904 with a standard deviation of 5.5630, MCAP/GDP recorded a mean of 12.3413 with a standard deviation of 8.4979, while LSMSE/GDP recorded an average value of 0.9689 with a standard deviation of 1.3175.

Since the standard deviations for all the variables are smaller than respective means, except for LSMSE/GDP, it shows that the data is not widely dispersed. The normal distribution has a kurtosis of 3, which indicates that the distribution has neither fat nor thin tails. Consequently, if an observed distribution has a kurtosis greater than 3, the distribution has heavy tails when compared to the normal distribution. Since all the kurtosis coefficients in Table 4.1 are less than 3, the data have thin tails when compared to the normal distribution.

Table 4.1.2: Correlation Matrix

	SMSEO	M2_GDP	PSC_GDP	MCAP_GDP	LSMSE_GDP
SMSEO	1.000000				
M2_GDP	0.538131	1.000000			
PSC_GDP	0.637624	0.964329	1.000000		
MCAP_GDP	0.381176	0.717883	0.699484	1.000000	
LSMSE_GDP	0.082045	-0.597062	-0.568044	-0.681641	1.000000

Source: Computed from E-Views 9.0 (2022)

The Pearson correlation test is presented in Table 4.1.2 and it shows the absence of multi-co linearity among the variables since the correlation values are less than 0.7. Furthermore, the result shows the explanatory variables; M_2/GDP, PSC/GDP, MCAP/GDP have positive correlation with the SMSEO.

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Table 4.1.3: Multi-collinearity Test

Variables	Variance Inflation Factor	Tolerance Value
M_2/GDP	0.071864	5.134434
PSC/GDP	0.064113	3.134645
MCAP/GDP	0.005139	2.606470
LSMSE/GDP)	0.171400	1.962570

Source: Econometric Views Version 9.0 Output (2022)

From the above table 4.1.3, the tolerance level of M_2/GDP is 0.071864 that of PSC/GDP is 0.0641; MCAP/GDP is 0.0051, LSMSE/GDP) for 0.1714; which indicates that about 7.19%, 6.41%, 0.51% and 17.14% variance in the predictor variables is not predicted by other predictors' variable. This is because their tolerance values are higher than 0.10 meanwhile the Variance inflation factor are less than 10. This shows the absence of multi-collinearity problem.

DATA VALIDITY TEST

Since the data are time series data, spanning for 1997-2020 (24years), the validity test was carried out using the LM test, Heteroskedasticity Test and Normality Test in order to ascertain the validity of the data for the analysis. This is presented in Table 4.5.1 below;

 Table 4.1.3 a: Data Validity Test

Table 4.1.3 a:Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.771717	Prob. F(2,28)	0.4718
Obs*R-squared	1.828501	Prob. Chi-Square(2)	0.4008

Source: E-VIEW, 9.0 Outputs, 2022.

Prior to estimating the models, residuals of the variables were ascertained to check for the presence of serial correlation. This was done using the serial correlation LM test. The serial correlation LM test in Table 4.1.3a details that there is no element of serial correlation in the models owing to the fact that the p-values of the f-statistics are insignificant at 5% level of significance.
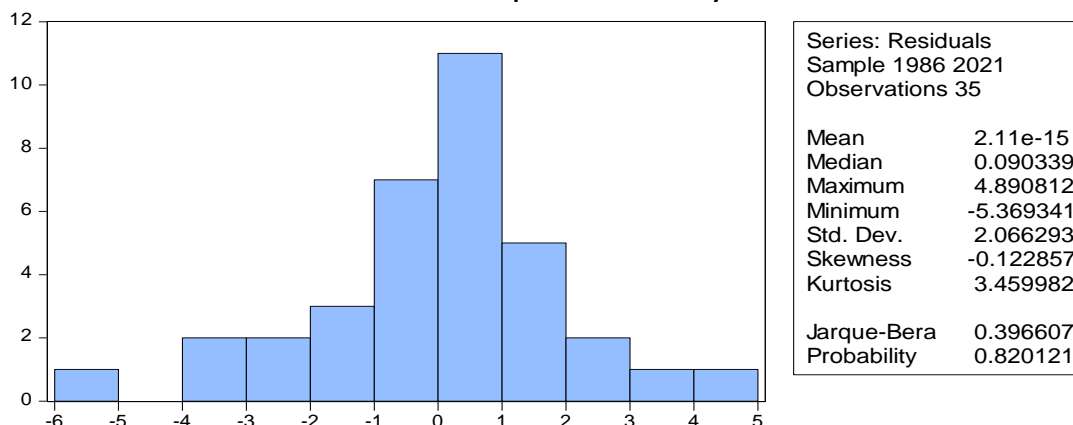
Table 4.1.3 b:Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.003537	Prob. F(4,30)	0.4212
Obs*R-squared	4.130493	Prob. Chi-Square(4)	0.3886
Scaled explained SS	3.732589	Prob. Chi-Square(4)	0.4434

Source: E-VIEW, 9.0 Outputs, 2022.

The situation in which the variability of a variable is unequal across the range of values of a second variable that predicts it leads to problem of heteroskedasticity. To ensure that there is homoscedasticity in the model estimation, the heteroskedasticity test via the Breusch-Pagan-Godfrey was performed. With the result there is no problem of heteroskedasticity in the models as the p-values of the f-statistics are insignificant at 5% significance level.

Table 4.1.3 c: Jarque-Bera Normality Test

Series: Residuals Sample 1986 2021 Observations 35	
Mean	2.11e-15
Median	0.090339
Maximum	4.890812
Minimum	-5.369341
Std. Dev.	2.066293
Skewness	-0.122857
Kurtosis	3.459982
Jarque-Bera	0.396607
Probability	0.820121

Source: E-VIEW, 9.0 Outputs, 2022

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From the Table 4.1.3c above, it confirms that the Jarque-Bera Normality Test for the data set is normally distributed since the Jarque-Bera of 0.8201 is greater than 0.05 acceptable level, it then indicated that the variables for the study is normally distributed.

Augmented Dickey-Fuller (Adf) Stationary Test

The study performed the ADF (1979) test as it is the most commonly used and accepted strategy for testing time series stationary property. The rationale behind this test is to avoid the problem of spurious regression which is commonly associated with time series data. The presence of a unit root implies that the time-series data under investigation is non-stationary; while the absence of a unit root shows that the stochastic process is stationary.

Table 4.1.4 Summary of Augmented Dickey-Fuller (ADF) Test

ADF TEST @ LEVEL					
Test Variables	ADF Test Statistic Value	Mackinnon Critical Value @ 5%	Order of Integration	P-Value	Decision
SMSEO	-2.664547	-2.960411	1(0)	0.0916	**Non Stationary**
M_2/GDP	-0.773235	-2.948404	1(0)	0.8143	**Non Stationary**
PSC/GDP	-0.759231	-2.954021	1(0)	0.8174	**Non Stationary**
MCAP/GDP	-1.686636	-2.948404	1(0)	0.4290	**Non Stationary**
LSMSE/GDP)	-1.289402	-2.948404	1(0)	0.6235	**Non Stationary**
ADF TEST @ 1ST DIFFERENCE					
Test Variables	ADF Test Statistic Value	Mackinnon Critical Value @ 5%	Order of Integration	P-Value	Decision
SMSEO	-7.278091	-2.960411	1(1)	0.0000	**Stationary**
M_2/GDP	-5.389382	-2.951125	1(1)	0.0001	**Stationary**
PSC/GDP	-5.409932	-2.954021	1(1)	0.0001	**Stationary**
MCAP/GDP	-6.611665	-2.951125	1(1)	0.0000	**Stationary**
LSMSE/GDP)	-3.043937	-2.951125	1(1)	0.0408	**Stationary**

Source: E-VIEW 9.0 Arranged Result, (2022).

According to the summary of the ADF unit root test output in Table 4.1.4, all of the variables under examination contained unit root tests at their first difference 1(1), implying that the series are non-stationary at level but stationary at first difference. The value of their respective ADF statistics, which is more than the threshold value of 5%, is evidence of this. Furthermore, the p-value for all variables, which is less than 5% level of significance greater than 95 percent confidence level, provides additional proof of stationary series. At the first difference, i.e. at order one, they all achieved stationarity. We can use the Johansen cointegration test because all of the variables are integrated at order one.

Table 4.1.5 Johansen Cointegration Test

Date: 08/31/22 Time: 08:32

Sample (adjusted): 1988 2021

Included observations: 31 after adjustments

Trend assumption: Linear deterministic trend

Series: SMSEO M2_GDP PSC_GDP MCAP_GDP LSMSE

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.817586	79.21762	69.81889	0.0074	52.74573	33.87687	0.0001
At most 1	0.331080	56.47188	47.85613	0.0085	32.46483	27.58434	0.0124
At most 2	0.253484	34.00705	29.79707	0.0402	29.62470	21.13162	0.0274
At most 3	0.091553	24.44580	15.49471	0.0147	20.76569	14.26460	0.0483

Source: E-VIEW 9.0 Arranged Result, 2022.

The results of the multivariate cointegration test by Johansen and Juselius cointegration technique show that both the trace statistic and the Maximum Eigenvalue statistic show evidence of two cointegration relationships (at None and at most 1), where

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the values of the trace statistic and the Maximum Eigenvalue statistic are greater than their respective critical values at the 5% level of significance. This finding supports the presence of a long-term association between FD and EG in Nigeria.

Table 4.1.6: Multiple Regression Result

4/08Dependent Variable: SMSEO
Method: Least Squares
Date: 08/31/22   Time: 08:12
Sample: 1986 2021
Included observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.563199	1.920118	1.334918	0.1919
M2_GDP	-0.626044	0.268075	-2.335330	0.0264
PSC_GDP	1.219374	0.253206	4.815747	0.0000
MCAP_GDP	0.183355	0.071684	2.557831	0.0158
LSMSEO_GDP	2.560618	0.414005	6.184989	0.0000

R-squared	0.776388	Mean dependent var		12.02765
Adjusted R-squared	0.746573	S.D. dependent var		4.369631
S.E. of regression	2.199737	Akaike info criterion		4.546116
Sum squared resid	145.1653	Schwarz criterion		4.768309
Log likelihood	-74.55704	Hannan-Quinn criter.		4.622817
F-statistic	26.04029	Durbin-Watson stat		1.502380
Prob(F-statistic)	0.000000			

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From Table 4.8 above, the p-value of M_2/GDP is 0.0264, which is lesser than the significance value of 0.05 and the t-ratio value of -2.3353 greater than 2, which indicates the extent of significance to which M_2/GDP affects SMSEO in Nigeria. The coefficient of M_2/GDP of -0.6260, implies that M_2/GDP have a negative effect on SMSEO in Nigeria. The implication is that a one percent (1%) increase in M_2/GDP would lead to 62.60% decrease in SMSEO in Nigeria. This is in tandem with Okere, Uzokwe and Ekujereonye (2021) and Nwajiaku, Ananwude and Obi-Nwosu (2020) but contradicts the results of Eke, Okoye and Evbuomwan (2020) and John and Ibenta (2017). .

The p-value of the PSC/GDP is 0.0000, which is lesser than the significance value of 0.05 and the t-ratio value of 4.8157 greater than 2, which indicates the extent of significance to which PSC/GDP affects SMSEO in Nigeria. The coefficient of the PSC/GDP of 1.2194, this implies that PSC/GDP have a positive effect on SMSEO in Nigeria. The implication is that a one percent (1%) increase in the PSC/GDP would lead to 121.94% increase in SMSEO in Nigeria. This is in line Okere, Uzokwe and Ekujereonye (2021) and Nwajiaku, Ananwude and Obi-Nwosu (2020) but contradicts the results of Eke, Okoye and Evbuomwan (2020) and John and Ibenta (2017).

The p-value of MCAP/GDP is 0.0158 which is less than the significance value of 0.05 and the t-ratio value of 2.5578 greater than 2, which indicates the extent of significance to which MCAP/GDP affects SMSEO in Nigeria. The coefficient of MCAP/GDP of 0.1834, this implies that Ratio of MCAP/GDP have a positive effect on SMSEO in Nigeria. The implication is that a one percent (1%) increase in MCAP/GDP would lead to 18.34% increase in SMSEO in Nigeria. This is in line with the results of Okere, Uzokwe and Ekujereonye (2021) and Nwajiaku, Ananwude and Obi-Nwosu (2020) but contradicts the results of Eke, Okoye and Evbuomwan (2020) and John and Ibenta (2017).

Finally, the p-value of LSMSE/GDP is 0.0000 which is less than the significance value of 0.05 and the t-ratio value of 6.1850 greater than 2, which indicates the extent of significance to which LSMSE/GDP affects SMSEO in Nigeria. The coefficient of LSMSE/GDP is 2.5606; this implies that LSMSE/GDP have a positive effect on SMSEO in Nigeria. The implication is that a one percent (1%) increase in LSMSE/GDP would lead to 256.06% increase in SMSEO in Nigeria. This is in tandem with Okere, Uzokwe and Ekujereonye (2021) and Nwajiaku, Ananwude and Obi-Nwosu (2020) but contradicts the findings of Eke, Okoye and Evbuomwan (2020) and John and Ibenta (2017).

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Summary of Findings

Based on the discussion of results, the findings revealed that;

a) M_2/GDP has negative significant effects on SMSEO in Nigeria.

b) PSC/GDP has positive significant effects on SMSEO in Nigeria.

c) MCAP/GDP has positive significant effects on SMSEO in Nigeria.

d) LSMSE/GDP has positive significant effects on SMSEO in Nigeria.

5. CONCLUSION

The study examined the relationship between financial deepening and entrepreneurial growth in Nigeria for the period of 1986-2021 (36years). This was done in respect to the measures of financial deepening, namely; Ratio of Broad Money Supply to Gross Domestic Product (M_2/GDP), Ratio of Private Sector Credit to Gross Domestic Product (PSC/GDP), Ratio of Market Capitalization to Gross Domestic Product (MCAP/GDP) and Ratio of Loans to Small and Medium Scale Enterprises to Gross Domestic Product (LSMSE/GDP) in relation to entrepreneurial growth was proxied by Small and Medium Scale Enterprises Output (SMSEO) in Nigeria. The data for the study was sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Development Indicators. Then, the stationary and normality tests was carried out, followed by the descriptive statistics, correlation and multiple regression tool of analysis with the aid of E-VIEW 9.0 statistical package. The findings revealed that M_2/GDP, PSC/GDP, MCAP/GDP and LSMSE/GDP have positive and negative significant effect on entrepreneurial growth was proxied by SMSEO in Nigeria. Thus, the study concluded that financial deepening significant effects on entrepreneurial growth in Nigeria.

6. RECOMMENDATIONS

Based on the findings, the following recommendations were made, this is enumerated below;

i) According to this study, M2/GDP has adverse, considerable effects on the expansion of the entrepreneurial sector in Nigeria. Therefore, government policy should be focused on purposefully raising the money supply in order to enhance overall economic efficiency, generate and increase liquidity, mobilise savings, stimulate capital accumulation, and reallocate resources from traditional to growth-inducing industries (such as manufacturing and industry, agriculture and services sectors),

ii) Second, the credit-to-private-sector ratio significantly influences entrepreneurial growth; as a result, the private sector should be given proper consideration rather than the government.

iii) Third, MCAP/GDP significantly influences entrepreneurial growth in Nigeria. Thus, the government should encourage the development of a successful capital market that enhances overall economic efficiency, generates and expands liquidity, mobilises savings, boosts capital accumulation, and encourages skilled entrepreneurial activity across a variety of economic sectors.

iv) Finally, the CBN should continue to pressure deposit money institutions to increase the loan facilities they offer to private sector entrepreneurs, notably young graduates and new business owners without collaterals, to enable them to participate in viable ventures. Additionally, venture capital businesses should be developed to support entrepreneurship development and the subsequent income and value creation.

7. CONTRIBUTION TO KNOWLEDGE

This study has provided evidence on the relationship between FD and EG in Nigeria. The review of similar literature, it shows that majority of these studies have centered on the influence of FD on economic growth and manufacturing sector output, thereby neglecting EG in Nigeria, which is the yardstick for economic growth and development of any country. This is a significant gap in literature that has been filled, hence, contributing to knowledge on the subject matter.

8. SUGGESTED AREAS FOR FURTHER STUDY

FD is a very broad area that affects all aspects of the economy, and so, it will be a significant addition to knowledge if further studies investigate the relationship between FD and poverty alleviation in Nigeria. Also, further studies can also investigate the relationship between FD and private sector development in Nigeria.

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