Does Access to SME Credit enhance Employment Generation in Developing Countries? A New Evidence from Nigeria

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Abstract

Developing countries have been faced with different economic constraints that have impeded their growth and development potentials. In Nigeria, the reduction in formal sector employment and the high unemployment rate, which pose severe economic and social challenges, have become matters of urgent national concern. This study uses secondary data collected from 1991Q1–2020Q4 to examine the Impact of SME credit access on employment generation in Nigeria. It utilizes the Autoregressive Distributed Lag (ARDL) estimation technique. The results show both the short and long-term effects of SME credit access on employment generation in Nigeria. The outcome also showed that access to SME credit has a positive and statistically significant impact on creating employment. Therefore, the study recommends that banks should be obliged to offer much-needed funds to SMEs with little or affordable collateral. The government should take regulatory measures to keep commercial banking loan rates competitive and not unnecessarily exorbitant. Furthermore, the government should implement effective monitoring and evaluation mechanism to ensure that development financial institutions meet their mandates and objectives. In addition, the government, chambers of commerce and industry, and other non-governmental organizations should hold regular seminars for potential and existing small and medium-sized firm operators on how to plan, organize, direct, and control their operations to make them more productive as job creators.

Keywords: credit accessibility; informal sector; Job creation; Small business finance; and employment

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1. Introduction

In many developed and developing countries, the issue of assess to credit and employment generation have become very fundamental in achieving certain goals of national interest. Thus, employment generation is a critical component of every macroeconomic economic goal and recovery strategy globally (Orji, et al 2018). Politically, employment opportunities give young people an alternative to violence and an interest in the peace process. Employment supports the economy's growth as a whole, offers low-income individuals a source of income, and boosts domestic demand for goods and services. Engagement in productive employment can promote social welfare through increased income and poverty reduction (Ojonta, et al, 2021). Undeniably, a dearth of formal sector employment and the current unemployment rate pose social, economic, and political issues for the society. For example, a loss of income lowers people's living standards, leads to poverty, deteriorates physical and mental health, increases crime, and increases the government's costs for providing benefits like Medicaid, food assistance, and unemployment insurance. (Taiwo, 2019).

As a remedy, numerous academics frequently contend that Small and Medium Scale Enterprises (SME)s' ability to access financing increases their production and capability to create jobs. Most businesses worldwide are SMEs, crucial in creating jobs and advancing the global economy. Over 50% of all occupations worldwide are held by SMEs, making up about 90% of businesses (Kumar, 2017; Taiwo, 2019; World Bank