



Government Expenditure and Performance of Small and Medium Scale Enterprises in Nigeria

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ABSTRACT

Government expenditures refers to expenses incurred by the government for the maintenance of itself and provision of public goods, services and works needed to foster or promote economic growth and improve the welfare of people in the society.. The main objective of the study is to investigate the effects of government expenditure on small and medium scale enterprises in Nigeria. The specific objectives include to: Examine the effect of capital expenditure on road on small and medium scale enterprises in Nigeria; Assess the effect of capital expenditure on agriculture on small and medium scale enterprises in Nigeria; Investigate the effect of capital expenditure on education on small and medium scale enterprises in Nigeria; Determine the effect of recurrent expenditure on small and medium scale enterprises in Nigeria. Econometric techniques, including Unit Root Test, Granger Causality Test, and the Ordinary Least Square Regressions were used for the data analysis. The result of the study indicates that capital expenditure on roads, capital expenditure on agriculture, capital expenditure on education, recurrent expenditure have positive and significant effect on small and medium scale enterprises in Nigeria while government borrowing has negative and insignificant effect on small and medium scale enterprises in Nigeria. The study thus concludes that government expenditure have positive effect on small and medium scale enterprises in Nigeria and has helped to improve economic growth and development in Nigeria. Amongst the recommendations is that government should use an expansionary fiscal policy to encourage increase in investment on small and medium scale enterprises in Nigeria. Government spending should be channeled to capital projects and social overhead capital that will encourage investment, such as constant electricity supply and good road networks that will enhance the performance of small and medium scale enterprises in Nigeria.

Keywords: Government Expenditure, Small and Medium Scale Enterprises, Nigeria

INTRODUCTION

Early development theories stressed the need for the state to create adequate physical infrastructure as well as institutions and social conditions for development. Some called for implementing large-scale public investment programmes, economic planning and the formulation of policies to accelerate economic growth and development. These must have given governments in Nigeria and other developing countries,

where market failures and other socially unwarranted vices are rife, the impetus to exercise greater controls and discretion over their economies. They do this through periodic planning for the allocation of resources and productive spending in critical areas of need. (Joseph, M-epbari, Nwikiabeh & Nordum, 2019)

Thus, public spending has become an important factor for self – sustaining productivity improvements and long-term growth. For instance, government expenditure can contribute to agricultural growth and the latter can indirectly, through creating rural non – farm jobs and increased wages, generate economic growth. That way public expenditure policy has become critical, and equally so, the sectoral distribution of these expenditures (Friday, Fiddles, Udemé & Ayodele 2016).

Economic growth is fundamental although not a sufficient condition for sustainable development. Economic growth and development is mainly enhanced by the expansion of infrastructural facilities, the improvement of education and health service, the encouragement of foreign local investments, low cost housing, environmental restoration, and the strengthening of the agricultural sector.

Dealing with these issues will result in a great amount of money spending by the government and certainly lead to increased public expenditure. Public expenditure is the most powerful economic agent in all modern societies (Balam., & Tonye, 2021).

The size and structure of government expenditure will determine the pattern and form of growth in output of the economy. The structure of Nigerian government expenditure can be broadly categorized into capital and recurrent expenditure.

Recurrent expenditure is referred to as government expenses on administration such as wages, salaries, interest on loans maintenance. Whereas expenses on capital project like roads, airports, education, telecommunication and electricity generation etc., are referred to as capital expenditures.

Government expenditure in Nigeria can also be categorized into exhaustive expenditure and transfer expenditure. Exhaustive expenditure is incurred when government actually consumes and makes purchases of factor inputs while transfer expenditure does not involve purchases of factor inputs by the government.

One of the main purposes of government spending is to provide infrastructural facilities and the provision and maintenance of these facilities require a substantial amount of spending. Expenditure on infrastructural investment and productive activities (in state owned enterprises) ought to contribute positively to growth, whereas government consumption spending is anticipated to be growth retarding).

While numerous studies have been conducted, no consistent evidence exists for a significance relationship between public spending and standards of living, in a positive or a negative direction. Results and evidence differ by countries; analytically, what is at stake here is how a government should allocate public spending across various sectors of an economy in order to maximize prospects of achieving its growth and development objectives. Given the lack of consensus among researchers concerning the effects of public expenditure on standards of living, a preponderance of cross-country studies and a relatively insignificant number of country-specific studies in this direction, our paper represents an attempt to re-examine the issues in the light of the Nigerian experience. Specifically, it is concerned with determining the relative contributions of government capital expenditures on agriculture, education, health and infrastructures to standards of living which is a subset of economic development in Nigeria. The importance of disaggregating government expenditure for proper appreciation of the role of the state in the Nigerian economy is being underscored in this study (Alabi, David & Aderinto 2019).

Review of Related Literature

Government Expenditures

Government expenditures refers to expenses incurred by the government for the maintenance of itself and provision of public goods, services and works needed to foster or promote economic growth and improve the welfare of people in the society. Government (public) expenditures are generally categorized into expenditures on administration, defense, internal securities, health, education, foreign affairs and have both capital and recurrent components.

Capital expenditure refers to the amount spent in the acquisition of fixed (productive) assets (whose useful life extends beyond the accounting or fiscal year), as well as expenditure incurred in the upgrade/improvement of existing fixed assets such as lands, building, roads, machines and equipment, etc., including intangible assets.

Capital expenditure is usually seen as expenditure creating future benefits, as there could be some lags between when it is incurred and when it takes effect on the economy. Recurrent expenditure on the other hand refers to expenditure on purchase of goods and services, wages and salaries, operations as well as current grants and subsidies (usually classified as transfer payments). Recurrent expenditure, excluding transfer payments, is also referred to as government final consumption expenditure. The annual budget spells out the direction of the expected expenditure, as it contains details of the proposed expenditure for each year, though the actual expenditures may differ from the budget figures due, for example, to extra-budgetary expenditures or allocations during the course of the fiscal year. Government expenditure is a major component of national income as seen in the expenditure approach to measuring national income: $(Y = C+I+G +(X - M))$. This implies that government expenditure is one of the key determinants of standards of living

However, it could act as a two-edged sword: It could significantly boost aggregate output, especially in developing countries where there are massive market failures and poverty traps, and it could also have adverse consequences such as unintended inflation and boom-bust cycles (Wang & Wen, 2013).

Capital Expenditure on Roads

Capital expenditure on roads refers to the amount spent in the construction of roads whose useful life extends beyond the accounting or fiscal year, as well as expenditure incurred in the upgrading and improvement of existing roads

Capital expenditure on road is usually seen as expenditure creating future benefits, as there could be some lags between when it is incurred and when it takes effect on the economy.

Capital expenditure on roads is one of the key determinants of the size of the economy and of economic growth. However, it could act as a two-edged sword: It could significantly boost aggregate output, especially in developing countries where there are massive market failures and poverty traps, and it could also have adverse consequences such as unintended inflation and boom-bust cycles (Wang and Wen, 2013). The effectiveness of capital expenditure on roads in expanding the economy and fostering rapid standard of living depends on whether it is productive or unproductive. All things being equal, productive capital expenditure on roads would have positive effect on the economy, while unproductive expenditure would have the reverse effect

Capital Expenditure on Agriculture

The study of economic history provides us with ample evidence that capital expenditure on Agriculture is a fundamental pre-condition for sustainable standard of living in Nigeria. Agriculture involves the cultivation of land, raising and rearing of animals for the purpose of production of food for man, feed for animals and raw materials for industries. It involves cropping, livestock, and forestry, fishing, processing and marketing of these agricultural products. Essentially it is composed of crop production, livestock, forestry and fishing

Government expenditures on agriculture refers to the expenses incurred by the government for the provision and maintenance of modern agricultural facilities needed to promote economic development and improve the standard of living in the society (Frank, 2015)

The agricultural sector has the potential to be the industrial and economic springboard from which a country's development can take off. Nigeria, which spans an area of 924,000 km², is bordered by the Gulf of Guinea, Cameroon, Benin, Niger, and Chad. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north (NPC, 2004).

Capital Expenditure on Education

The importance of education is reminiscent in its role as a means of understanding, controlling, altering and redesigning of human environment (CBN, 2000). Education also improves health, productivity and access to paid employment (Anyanwu et al., 1999). Education has a link with sustainable standard of

living. In explaining some significant roles of education in nation building, Enueme (1999) opined that formal education position farmers in developing countries to appreciate and accept boosters of agricultural production through mechanized farming use of fertilizers, crop rotation etc rather than belief in the gods of harvest. According to her, education also attracts direct financial returns in form of earning differentials among graduates relatively to others with lesser educational qualifications. This is mostly found in the organized private and public institutions.

Education also contributes immensely to technological development both in terms of acquisition, adaptation, and capital widening and deepening. An educated man is more efficient with a high degree of productive capacity and minimal waste (Kanayo & Terfa, 2012).

Recurrent Expenditure

Recurrent expenditure on the other hand refers to expenditure on purchase of goods and services, wages and salaries, operations as well as current grants and subsidies (usually classified as transfer payments). Recurrent expenditure, excluding transfer payments, is also referred to as government final consumption expenditure. Recurrent expenditures are those incurred on either day to day basis, or weekly, monthly, or even yearly basis and they include administration, internal security expenses, wages and salaries of public workers.

Recurrent expenditures associated with a public investment project are those operations and maintenance expenditures needed to run the project at a level consistent with its expected use, and to maintain the capacity of the investment during its expected lifetime. For example recurrent expenditures in the case of a new school serving an expanded student population would include the teachers' salaries and additional textbooks and teaching materials required to operate the new facility. They would also include electricity, heating and other costs needed to operate the facility, and the regular and periodic maintenance needed to maintain the facility. Importantly, recurrent expenditures should reflect full capacity utilization of the facility that is, the recurrent expenditures expected when the investment is being used as designed.

Recurrent expenditures will be both direct and indirect. Clearly, increasing the number of teachers to staff additional classrooms is a direct cost of investment in improved access to education. Teacher training to supply the necessary teachers may be an indirect cost – unless explicitly provided for as part of the investment project. If possible, indirect recurrent expenditures should be referenced in public investment proposals.

Small and Medium Scale Enterprise

Small medium businesses have provided the mechanism for stimulating national development increased employment opportunities likewise aiding development of local technology (Stella Mbah 2011). Small and medium scale enterprises form the bulk of business in Nigeria. Small and medium business follow a common pattern, it is an independently owned and managed business that serves a limited geographic area. Small and medium enterprises are non subsidiary and independent that employs fewer numbers of workers in Nigeria. Small and medium enterprises register under part B of CAMA. Their contribution to the growth of Nigerian economy cannot be underestimated as they drive the economy and industrial transformation of the country. Different author and scholars have defined small business in different forms, there seems to be no specific definition some determine small business from capital outlay, number of employees, sales turnover available plant and machinery market share and the number of development these features equally vary from one country, to another. (Carpenter 2009) In United State of America medium scale business has less than 500 employees, small business administration establishes small business size standard on industry by industry basis, but generally a small business have fewer than 250 employees for manufacturing businesses and less than 7 million in annual receipts for most non manufacturing businesses. Definition can vary by circumstance for example a small business having fewer than 25 fulltime employees with average annual wages below \$50,000 qualifies for a tax credit under the health care reform bill patient protection and affordable care act (Steve Kaplan 2014). European union generally defines small business as one that has fewer than 50 employees, in Australia, a small business is defined by the fair work act 2009 as one with fewer than 15 employees and medium business as one that has fewer than 200 employees.

Small scale business, small scale industry and small scale entrepreneurship are used interchangeably to mean a small scale business, its deliberation was to refer to the operation definition in Nigeria. The definitions are below: from Universal journal of management and social sciences (2011) Vol. 1 No 1

- a. The third development plan by (Smedan 2007) defined a small scale business as a manufacturing establishment employing less than ten people or whose investment in machinery and equipment does not exceed six hundred thousand naira.
- b. The Central Bank of Nigeria in its credit guideline classified small scale business as those business with an annual income/asset of less than half a million naira (N500,000)
- c. The Federal Government Small Scale Industry Development plan in 1980 defined a small scale business in Nigeria as any manufacturing process or service industry, with a capital not exceeding N150,000 in manufacturing and equipment alone.
- d. The Small Scale Industries Association of Nigeria (1973) defined small scale business as those having investment (i.e capital, land building and equipment of up to N60,000 pre SAP value) and employing not more than fifty persons.

Theoretical Framework

This study will be anchored on Wagner's law of increasing activities; Wagner's law stated that an increase in government expenditure will improve the standard of living of an average citizen in the economy. As held by Wagner (1935), there are inherent tendencies for the activities of different layers of a government (such as central and state governments) to increase government expenditure on standard of living. There is a functional relationship between the standard of living in an economy and government expenditure. From the original version of this theory, it is not clear whether Wagner was referring to an increase in: Absolute level of public expenditure; the ratio of government expenditure to standard of living and proportion of public sector in the total economy.

Empirical Review

Joseph, M-epbari. Nwikiabeh and Nordum, (2020) examines the impact of public expenditure on the output and productivity of small and medium scale enterprises in Nigeria using annual time series data for the period of 1970-2015. The used ADF, PP and the KPSS test statistics, also, the Johansen's cointegration test procedure as well as the autoregressive distributed lag (ARDL) bounds testing approach were employed. Result of the study revealed that: all the variables were found to be stationary at their first differences, except government expenditure which was stationary at level. The result also shows a long-run unidirectional causality from SMEs output and productivity to public expenditure. However, in other instances, there was bidirectional causality between SMEs output and productivity and public expenditure. Indeed, it was found that while causality runs from SMEs output and productivity to public expenditure in the long-run, short-run changes in SMEs output and productivity was caused by changes in public expenditure.

Balam and Tonye, (2021) empirically examined Nigerian context of loanable funds impact on performance of small and medium scale enterprises (SMEs) within a study range of 2001-2018. The study employed time series data sourced from Central Bank of Nigeria (CBN) annual statistical bulletin, 2018. The error correction mechanism (ECM) was used to analyze data set after determining their individual stationarity with the presence of long-run cointegrating relationship among variables employed in the study. The study found that, credit to the private sector and interest rate ceiling have both linear and non-linear significant impact on the performance of small and medium scale enterprises (SMEs) in Nigeria.

Alabi, David and Aderinto (2019) evaluate the impact of government policies on business growth of small and medium enterprises that operates in six states that made up the South-west geopolitical zone of Nigeria. The study adopted descriptive ex-post facto type and involved both primary and secondary data. The researcher used stratified sampling technique for determination of exact sample population to use for the study. Structured questionnaires were used as the main tools data collection. Both the descriptive and inferential analytical techniques of the SPSS packaged were used to analyze the data obtained from the

respondents. The result of this research shows that there is a significant relationship between government policy and business growth of Small and Medium Enterprises (SMEs) in South Western Nigeria. These results indicate the need for the Nigeria government to formulate and implement policies that will help ensure the optimal performance and subsequent survival of small scale businesses in the country. Furthermore, the country's monetary policies and macroeconomic indicators ought to be modified, to become more suitable for SMEs operating in the country. It is also important for the various levels of government in the country to embark on the massive infrastructural development

Agbonkhese, and Asekome, (2014) examined the impact of government expenditure on standards of living in Nigerian, and ascertain whether there is a relationship between standards of living and government expenditure in Nigeria. Using the Ordinary Least Square (OLS) method. The result of the study indicates that positive relationship exists between the dependent and independent variables.

Muas (2015) investigated the impact of federal government expenditure on standards of living in Nigerian. The main objective of the study was to ascertain whether there is a relationship between federal government expenditure and standards of living in Nigerian. The study adopted the Ordinary Least Square estimation technique to estimate the model specified using time series data for the period 1981-2013. Standards of living in Nigerian were used as the dependent variable while federal government capital and recurrent expenditures were used as the independent variables. The result from the regression analysis shows that federal government capital and recurrent expenditures have a positive effect on standards of living in Nigerian.

Uchenna, (2014) studied the effect of government expenditure on standards of living in Nigerian between the periods of 1961 to 2013 and concluded that there is significant relationship between federal government expenditure and standards of living in Nigerian. Their study recommended that government should continuously increase expenditures that accelerate standards of living in Nigerian

Oni, Aninkan and Akinsanya (2014) investigates the joint effects of capital and recurrent expenditures of government on the economic growth of Nigeria using the ordinary least square method for estimating multiple regression models covering 1980-2011 time periods

The regression results showed that both capital and recurrent expenditures impacted positively on economic growth during the period of study.

Al-Shatti (2014) examined the impact of public expenditure on development in Jordan between 1993 and 2013. The tool of analysis was ordinary least square multiple regression model. The study examined the contribution of each one of the capital and recurrent expenditure on education, health, economic affairs and housing and community utilities in the total expenditure; and then identifies the impact each one of them has on economic development in Jordan. Results indicated that there is a statistically significant impact of recurrent expenditure on health, economic affairs and housing and community utilities and capital expenditure on health and economic affairs on economic development. There is no statistical significant impact of recurrent expenditure on education and of the capital expenditure on education, housing and community facilities on economic development in Jordan. The joint effect of these components of (capital and current) public expenditure on economic development is statistically significant as indicated by the computed F-statistics and its probability.

Abula and Ben (2016) investigated the impact of government agricultural expenditure on agricultural output in Nigeria for the period 1981 to 2014 with time series data obtained from the Statistical Bulletin and Annual Reports of the Central Bank of Nigeria, 2014.

The Augmented Dickey-Fuller test, Johansen Cointegration test, Error Correction Method (ECM) and Granger Causality test were employed as analytical tools in the course of the study. The results of the parsimonious ECM model showed that public agricultural expenditure has a significant negative impact on agricultural output while commercial bank loans to the agricultural sector and interest rate have insignificant positive impacts on agricultural output in Nigeria.

Kareem , et al (2015) examined the nexus between federal government's expenditure on agricultural sector, agricultural output and standards of living in Nigeria. The objectives are: to describe the trend of expenditure on agricultural sector over the years, determine the relationship between government

expenditure and standards of living in Nigeria, determine the relationship between government expenditure and agricultural output. Secondary source of data was obtained from the Central Bank of Nigeria (CBN) statistical bulletin, 2014 edition to analyze the stated objectives. The time series data covered 35 years, ranging from 1979-2013. The results revealed that there is a fluctuating trend in government expenditure in agriculture over the years under review. The regression results show about 16% of total variation in the dependent variable has been explained by the explanatory variable while about 21% of total variation in the dependent variable (Agricultural output) has been explained by the explanatory variable. Results also revealed a negative relationship between the public sector spending on agriculture agricultural output and standards of living in Nigeria.

METHODOLOGY

Research Design

The study adopted an *ex-post facto* research design because were secondary sources from Central Bank of Nigeria (CBN), Statistical Bulletin and Statement of Accounts for the period under study

Model Specification

The study modified the work of Garry and James (2015), who examined the effect of government expenditure on small and medium scale enterprises in Nigeria

The model is stated thus:

$$SME = f(CER, CEA \text{ and } REE)$$

Where,

SME= Small and Medium Scale Enterprises in Nigeria

CER= Capital Expenditure on Road

CEA = Capital Expenditure on Agriculture

CEA = Capital Expenditure on Education

U₂ (error term).

The model was adopted and modified as follows.

$$SME = f (CER, CEA, CEE \text{ and } RCE)$$

The model is put in econometric equation as

$$SME = \beta_0 + \beta_1 CER + \beta_2 CEA + \beta_3 CEE + \beta_4 RCE + \mu \text{ ----- -1}$$

Where:

SME= Small and Medium Scale Enterprises in Nigeria

CER = Capital Expenditure on Roads

CEA = Capital Expenditure on Agriculture

CEE=Capital Expenditure on Education

RCE = Recurrent Expenditure

Where:

β_0 and μ are the constant and error term respectively while $\beta_1, \beta_2, \beta_3$ and $+\beta_4$ are the coefficient of capital expenditure road, capital expenditure on agriculture, capital, Capital Expenditure on Education and Recurrent Expenditure respectively.

Method of Analyses

The data will be analyzed with econometric techniques involving descriptive statistics, Augmented Dickey Fuller tests for unit roots, Granger Causality Test and the Ordinary Least Square (OLS).

DATA PRESENTATION AND ANALYSIS

Descriptive Statistics

Unit Root Test

Table 1: Summary of the Unit Root Result

Variables	T-statistics	Probability	Order of Integration
SME	-6.088595	0.0000	1(0)
CER	-3.867397	0.0053	1(0)
CEA	-4.619034	0.0010	1(0)
CEE	-5.531824	0.0031	1(0)
RCE	-9.281478	0.0020	1(0)

Source: E-view Version 9.0

The table above shows that small and medium scale enterprises, capital expenditure on roads, capital expenditure on agriculture, recurrent expenditure, capital expenditure on education and recurrent expenditure assume stationarity at levels. This is indicated by the probability value of the test which is below 0.05 levels of significance.

Causality Test

We proceed to conduct a causality test aimed at establishing the direction of causality among the variables of interest. Here, Granger Causality test is adopted and is presented in table 2 below.

Table 2 Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
D(CER) does not Granger Cause D(SME)	31	1.03432	0.3696
D(SME) does not Granger Cause D(CER)		0.16414	0.8495
D(CEA) does not Granger Cause D(SME)	31	0.63806	0.5364
D(SME) does not Granger Cause D(CEA)		0.05714	0.9446
D(CEE) does not Granger Cause D(SME)	31	0.64965	0.5305
D(SME) does not Granger Cause D(CEE)		0.20311	0.8175
D(RCE) does not Granger Cause D(SME)	31	0.81553	0.4534
D(SME) does not Granger Cause (RCE)		0.04925	0.9520

Sources: E-view 9.0

The results of the granger causality test showed that there is no directional relationship between small and medium scale enterprises and capital expenditure on roads, between small and medium scale enterprises and capital expenditure on agriculture, between small and medium scale enterprises and capital expenditure on education and between small and medium scale enterprises and recurrent expenditure

Table 3. The Ordinary Least Square Regressions

In this section, we provide the benchmark test of the significance of the independent variables in explaining the effect of government expenditure on small and medium scale enterprises in Nigeria

Dependent Variable: SME

Method: Least Squares

Date: 06/25/21 Time: 12:07

Sample: 1988 2020

Included observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.332806.	1638155.	2.034488	0.0051
CER	2.660510	9.234924	2.880923	0.0047
CEA	1.832566	6.905754	2.653680	0.0002
CEE	-0.301044	9.365032	-1.204520	0.7325
RCE	1.342700	0.099069	2.339468	0.0013
R-squared	0.748027	Mean dependent var		16568137
Adjusted R-squared	0.722253	S.D. dependent var		26065603
S.E. of regression	6263745.	Akaike info criterion		34.25837
Log likelihood	-527.0047	Hannan-Quinn criter.		34.31868
F-statistic	164.1679	Durbin-Watson stat		2.173199
Prob(F-statistic)	0.000340			

Source: E-View 9.0

From the above regression coefficients, we can express the model as follows:

$$SME = 3.332806, CER= 2.660510, CEA= 1.832566, CEE= -0.301044, RCE=1.342700+ u$$

From the results of the OLS, the constant parameter is positive at 3.332806. This means that if all the independent variables are held constant, small and medium scale enterprises in Nigeria as a dependent variable will grow by 3.332806

Capital Expenditure on Road: For capital expenditure road, the coefficient of (CER) is positive at 2.660510 with t-Statistic of 2.880923 and probability value of 0.0047 which means that capital expenditure on road has positive and significant effect on small and medium scale enterprises, a unit increase in capital expenditure road will cause small and medium scale enterprises to increase by 2.660510 units.

Capital Expenditure on Agriculture (CEA): The coefficient of capital expenditure on agriculture is positive at 1.832566 with t-Statistic of 2.653680 and probability value of 0.0002 which means that, capital expenditure on agriculture has positive and insignificant effect on small and medium scale enterprises. A unit increase in capital expenditure on agriculture will lead to a unit increase in small and medium scale enterprises by 1.832566

Capital Expenditure on Education (CEE): The coefficient of capital expenditure on education is positive at 30.01044 with t-Statistic of 2.204520 and probability value of 0.0325 indicating that capital expenditure on education has positive and significant effect on small and medium scale enterprises. A unit increase in capital expenditure on education will cause small and medium scale enterprises to decrease by 0.301044 units.

Recurrent Expenditure (RCE): The coefficient of recurrent expenditure is positive at 1.342700 with t-Statistic of 2.339468 and probability value of 0.0002 showing that, recurrent expenditure has positive and significant effect on small and medium scale enterprises. A unit increase in recurrent expenditure will cause small and medium scale enterprises to increase by 1.342700 units

Above all, the Adjusted R-squared is 0.722253 which means that 72% of total variation in small and medium scale enterprises can be explained by the variables, namely CER, CEA, CEE and RCE while the remaining 28% is due to other stochastic variables. The Durbin-Watson statistics at (2.173199) showing

that the model is free from autocorrelation. The F-statistic is 0.000340 which means that all the explanatory variables in the study have significant effect on gross domestic product within the period under study

CONCLUSION

The result of the study indicates that capital expenditure on roads, capital expenditure on agriculture, capital expenditure on education, recurrent expenditure have positive and significant effect on gross domestic product while government borrowing has negative and insignificant effect on small and medium scale enterprises in Nigeria. The study thus concludes that government expenditure have positive effect on medium scale enterprises in Nigeria in Nigeria and has helped to improve economic growth and development in Nigeria within the period covered by the study

RECOMMENDATIONS

The study made the following recommendations

1. Government should use an expansionary fiscal policy to encourage increase in investment in Nigeria.
2. Government spending should be channeled to capital projects and social overhead capital that will encourage investment, such as constant electricity supply and good road networks.
3. Government should rely more on taxation that have greater effects on investment than borrowing. Borrowing should be contemplated only if it is designed to deepen the economy and the amount of debt to borrow should be sustainable to reduce the pressure exerted by its servicing requirements so as to improve gross domestic product in Nigeria.
4. Borrowing should be contracted solely for economic reasons and not for social or political reasons. To avoid accumulation the incidence of debt-trap and debt unsustainability

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