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ENTREPRENEURSHIP AND THE NIGERIAN ECONOMY

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Abstract. Entrepreneurship is widely recognized as a key driver of economic growth, wealth creation, and improved living standards in modern economies. However, in Nigeria, its potential to drive development has not been fully realized. This study investigates the impact of entrepreneurship on economic development in Nigeria using annual time series data from 1992 to 2022 and employing ARDL techniques. Self-employment rates were used as a proxy for entrepreneurship, while the contribution of SMEs, private sector credit, and inflation rate were also considered in the model, with the human development index representing economic development. The findings suggest that while the short-term impact of self-employment rates on economic development is positive yet insignificant, its long-term impact is significant. Similarly, the contributions of SMEs and private sector credit are positive but insignificant in the long run, while the inflation rate shows an inverse relationship. These results underscore the need for governments and monetary authorities to formulate and implement effective economic policies that promote entrepreneurship, taking into account macroeconomic variables. Financial institutions, particularly deposit money banks, should also support entrepreneurship by providing start-up funds at reduced or concessionary rates.
Key words: Entrepreneurship, SMEs, economic development, Self-Employment Rate, economic growth.

Introduction

In today's globalized and rapidly evolving economies, characterized by technological advancements, corporate restructuring, and outsourcing practices, entrepreneurship is a crucial and indispensable element. Its importance lies in its contribution to economic growth and development, serving as a catalyst for sustainable long-term growth, wealth creation, job opportunities, and the overall economic progress of many nations (Juliana et al., 2021). Asogwa and Arinze (2017) emphasize that entrepreneurship has become a focal point for governments, policymakers, and researchers in the field of finance, both in developed and developing countries, due to its significant impact on the economy.

Entrepreneurship is the process of identifying or developing a novel idea with the aim of generating profit. It plays a vital role in driving economic development by introducing and implementing changes in business structures within society. These changes typically result in increased productivity, leading to greater wealth creation for all involved. According to Omoruyi et al. (2017), the drive for financial independence and the desire to be self-employed motivate individuals to pursue entrepreneurship, transforming their passions into profitable business ventures. An entrepreneur is someone who identifies a unique opportunity, carefully assesses the associated risks and rewards, and utilizes available resources to create economic value, such as generating profits.

Conversely, economic development occurs when a country undergoes a prolonged and consistent increase in the production of goods and services, accompanied by positive changes in its social, economic, and political systems. This is evidenced by a continual rise in real income per capita while maintaining minimal levels of poverty (Uma et al., 2015). According to Chigbu (2006), economic development is characterized by equitable income distribution, improved health outcomes, and sustainable environmental practices. Therefore, for developing nations like Nigeria to achieve sustainable economic development, the significance of entrepreneurship cannot be overlooked. In today's dynamic economic landscape, characterized by rapid change, individuals with entrepreneurial skills are essential for fostering creative thinking that can

drive economic growth and development. Hence, entrepreneurship is a crucial factor in explaining and predicting the economic advancement and development of a nation.

Entrepreneurship is considered a crucial element in modern economies, contributing to wealth creation, enhancing living standards, and playing a vital role in economic development. However, despite its recognized importance, its impact on Nigeria's economy in achieving the desired development goals has not been fully realized. This may be attributed to ongoing uncertainties stemming from political unrest, social disruptions, and incidents of kidnapping in the country. Furthermore, various government and non-governmental programs aimed at supporting enterprises at various levels have not yielded the expected results (Juliana et al., 2021).

Furthermore, various studies such as Faajir (2019), Omoruyi et al. (2017), Uma et al. (2015), Dau and Cuervo-Cazurra (2014), Okechukwu and Nwekwo (2020), Olaniyan and Ayangbekun (2017), among others, have explored the relationship between entrepreneurship and economic development. These studies have yielded conflicting results, with some indicating a positive relationship (Juliana et al., 2021; Faajir, 2019; Omoruyi et al., 2017; Uma et al., 2015; Dau and Cuervo-Cazurra, 2014), others suggesting a negative relationship (Okoye and Nwisienyi, 2019). The divergence in findings may be attributed to each country's specific institutional factors, such as economic, political, human capital development, or environmental factors, which influence entrepreneurial initiatives and, consequently, economic development. Given these conflicting results, there is a need to clarify the true nature of the relationship between entrepreneurship and economic development, with a specific focus on Ekiti State, Nigeria.

The importance of this study cannot be overstated, as it will help entrepreneurs understand the vital role of entrepreneurship skills in the economic development of the nation. This includes the creation of employment opportunities, improvement of living standards, generation of economic and social value, and the overall development it can bring to the state and the economy as a whole.

Literature review

Economic Development

The terms "economic growth" and "economic development" have been widely discussed in literature, often used interchangeably without considering their distinct meanings. It is possible for a nation to experience economic growth without achieving corresponding economic development. This raises questions about why researchers and policymakers emphasize these two concepts. Economic growth is expected to facilitate economic development. Looking closely at the concept of economic growth, it can be described as the result of the quality of output determined by the quality of input. On the other hand, economic development involves a continuous enhancement of the economic well-being and quality of life of people in a specific country, aligned with targeted goals and objectives (Omoruyi et al., 2017; Uma et al., 2015). Economic development is characterized by improvements in life expectancy and overall economic well-being over time. While previous studies often used gross domestic product (GDP) to measure economic development, a more comprehensive measure, the human development index, has been employed as a proxy for economic development.

Entrepreneurship

Omoruyi et al. (2017) defined entrepreneurship as the capacity of an individual or group within an organization to identify new opportunities in society, aiming to gain economic benefits such as profit, leading to success for the initiator or the organization. Dau and Cuervo-Cazurra (2014) described entrepreneurship as the creation of new businesses involving coordinated efforts of individuals or groups in society to generate new economic value. Uma et al. (2015) characterized entrepreneurship as the application of resourcefulness to adapt to a business situation and transform it into a new endeavor. This can involve diversifying existing businesses into new areas to increase profit potential.

Various measures of entrepreneurship have been developed in the literature, including the World Bank entrepreneurship index, total entrepreneurship activities, self-employment rate, and the global innovation index. However, due to data limitations, this study adopts the self-employment rate, as utilized by Okoye and Nwisienyi (2019). According to Okoye and Nwisienyi (2019), a self-employed individual works independently or with partners. Okechukwu and Nwekwo (2020) define self-employment as a situation where the owner's income depends on the profit generated by the enterprise.

Empirical Review

Asogwa and Arinze (2017) conducted a study in Enugu State to explore how entrepreneurship has

contributed to economic growth. They distributed a questionnaire to respondents and analyzed the data using Chi-square. The study concluded that entrepreneurship plays a crucial role in Nigeria's economic growth and recommended restructuring macro credit facilities for businesses in the country.

Faajir (2019) assessed the impact of entrepreneurship on Nigeria's economy by surveying SME owners in Benue State. Using a structured questionnaire, the study employed descriptive and simple regression analysis, finding a significant positive relationship between entrepreneurship and the Nigerian economy.

Juliana et al. (2021) conducted a study on innovative and creative ideas for developing entrepreneurship in Nigeria. They used Ordinary Least Squares and ANOVA tests to test their hypotheses. The study found that technological advancement and creative thinking are incentives for entrepreneurship development in Nigeria.

Olaniyan and Ayangbekun (2017) studied how peace and progress can be sustained through entrepreneurship to aid economic development in Nigeria. They conducted a content analysis of past studies and found that corruption, kidnapping, and militant activities in Nigeria have reduced the effectiveness of enterprises. They suggest empowering youths to reduce these social vices and enhance economic development.

Okechukwu and Nwekwo (2020) investigated how entrepreneurial development could address security challenges for unemployed youth in Nigeria. The study used descriptive statistics such as mean, median, standard deviation, frequency counts, and percentages. Additionally, Z-test was employed to test the formulated hypotheses. The findings indicated that security challenges in Nigeria are exacerbated by high unemployment rates and widespread corruption among leaders.

Okoye and Nwisienyi (2019) investigated the role of entrepreneurship in improving economic growth in Nigeria. Analyzing data from 1996 to 2018 using ARDL techniques, they found no positive relationship between entrepreneurship and economic growth. However, they observed a significant direct impact of private sector credit on Nigeria's economic growth.

Omoruyi et al. (2017) investigated whether entrepreneurship contributes to economic growth in Africa. They conducted a content analysis of past studies and employed descriptive research. The study found that entrepreneurship positively influences economic growth by creating employment, which in turn reduces poverty in African nations. The findings suggest the need to include vocational training and entrepreneurship in the educational system.

Onileowo and Anifowose (2020) studied entrepreneurship as a fundamental element for economic growth in Nigeria. Drawing on previous research, the study revealed that entrepreneurship is a key instrument for achieving sustainable economic development in Nigeria. Furthermore, it demonstrated that through the job creation ability of entrepreneurs, economic growth can be realized.

Vatavu et al. (2021) studied entrepreneurship in relation to economic development, focusing on government-initiated policies in eight developed countries from 2001 to 2018. They used correlation and OLS estimation techniques and found that social norms, early-stage entrepreneurial involvement, cultural values, and infrastructure positively impact economic development in these countries. However, anxiety about business failure negatively influences economic development.

Methodology

The analysis of the impact of entrepreneurship on economic development in Nigeria utilized annual data spanning from 1992 to 2022. Data for the study were sourced from the CBN bulletin and the World Development Indicator. Given the nature of the data as a time series, a unit root test was conducted initially to determine the series' stationarity. The results of the test guided the application of Autoregressive Distributed Lag (ARDL) techniques.

Model Specification

The model employed in this study is based on the model used by Okoye and Nwisienyi (2019) to assess how entrepreneurship contributes to improving economic growth in Nigeria. Okoye and Nwisienyi (2019) used gross domestic product (GDP) as the dependent variable, with the self-employment rate, credit to the private sector, and inflation rate as independent variables. In contrast, this study replaces GDP with the human development index (HDI) to not only reflect the aggregate output but also account for the economic well-being of the population over time. Furthermore, considering that many entrepreneurs establish small and medium enterprises, this study deems it necessary to include the proportion of contributions from these enterprises. As a result, the model for this study is formulated as follows:

$$ECD = f(SER, CSME, CPS, INFR) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots. \quad 1$$

In a detailed form, equation 1 can be expressed as:

$$ECD = f(\beta_0 + \beta_1 SER + \beta_2 CSME + \beta_3 CPS + \beta_4 INFR + \mu) \ldots \quad 2$$

Where:

ECD = Economic Development
SER = Self-employment Rate
CSME = Contribution of Small and Medium Enterprises in the economy
CPS = Credit to Private Sector
INFR = Inflation Rate
μ = Error term
$\beta_0, \beta_1, \beta_2, \beta_3$ and β_4 = Coefficients of the Estimates

Table 1 – Variables Expected Relationship in line with literature

Dependent Variable	Independent Variables (Macroeconomic Variables)	Expected Relationship
Economic Development (ECD)	Self-employment Rate (SER)	+
	Contribution of SMEs in the economy (CSME)	+
	Credit to the Private Sector (CPS)	+
	Inflation Rate (INFR)	-

Source: Author's Computation

Results and Discussion

Results of Analysis

Table 2 – Augmented Dickey Fuller (ADF) Unit Root Test

Variables	ADF			Integration Order
	Critical values	t- stat.	Prob.	
ECD	-2.967767	-6.752711	0.0000	I(1)
SER	-2.967767	-5.072936	0.0003	I(1)
CSME	-2.967767	-4.897183	0.0005	I(1)
CPS	-2.967767	-5.011934	0.0003	I(1)
INFR	-2.967767	-3.115867	0.0364	I(0)

Source: Author's Computation, 2024

The results of the Augmented Dickey-Fuller (ADF) unit root test are presented in Table 2. The test indicated that economic development, the self-employment rate, the contribution of SMEs in the economy, and credit to the private sector exhibited a unit root, suggesting they are integrated of order one (I(1)), while the inflation rate showed no presence of a unit root. However, series such as ECD, SER, CSME, and CPS, which were not stationary, became stationary after being differenced once. Given the mixed integration levels, the Autoregressive Distributed Lag (ARDL) approach was employed. To determine the appropriate lag length for the ARDL model, a Vector Autoregression (VAR) lag length selection was conducted, with the results suggesting a lag order of one, as shown in Table 3.

Table 3 – Lag Selection for ARDL Model

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-33.48469	NA	9.78e-06	2.654117	2.889857	2.727948
1	84.58180	187.2779*	1.64e-08*	-3.764262*	-2.349818*	-3.321276*
2	100.5111	19.77425	3.64e-08	-3.138693	-0.545546	-2.326552

Sources: Authors' Computation, (2024)

Test for Co-integration

Table 4 – ECD Unrestricted Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
C	-1439.833	447.7992	-3.215354	0.0040
ECD(-1)	0.401550	0.139044	2.887930	0.0085
SER	-25.88968	102.5066	-0.252566	0.8029
SER(-1)	344.5111	102.9173	3.347454	0.0029
CSME	0.513039	2.850179	0.180003	0.8588
CPS	3.347285	3.407476	0.982336	0.3366
INFR	-0.428956	1.132168	-0.378880	0.7084
INFR(-1)	2.058009	1.192475	1.725831	0.0984

Source: Author's Computation, (2024)

R^2 = 0.712204;
Adjusted = 0.620633;
F-stat. = 7.777586;
Prob. (F-stat.) = 0.000091

This test preceded the ARDL bound test which provides insight as to whether long-run interconnection among variables is upheld.

The bound test for the impact of entrepreneurship on economic development is presented in Table 5. The results indicate that there is a long-run relationship among the variables, as the F-statistic value of 4.320992 exceeds the upper bound threshold of 3.49. This validates the rejection of the null hypothesis, which suggests no long-run relationship.

Table 5 – ECD Bound Test (Co-integration Approach)

F- Statistic		4.320992
Significance	**I0 Bound**	**I1 Bound**
5%	2.56	3.49

Source: Authors' Computation, (2024)

Table 6 – ARDL Short and Long-run result for ECD Model

Variables	Coefficient	Prob.
LR C	24.936970	0.0100**
SER	53.411079	0.0099**
CSME	0.857280	0.8571

Table continuation

Variables	Coefficient	Prob.
CPS	5.593258	0.3680
INFR	-2.722121	0.1846
SR D(SER)	11.391285	0.8836
D(CSME)	-2.142712	0.3410
D(CPS)	6.539246	0.0209**
D(INFR)	-0.808839	0.3949
CointEq(-1)	-0.617039	0.0000***

Source: Author's Computation, (2024)
***, denotes 1% level of significant and ** means 5%.

Table 6 reveals the short and long-term relationships among the variables used to analyze the impact of entrepreneurship on economic development. The Error Correction Model (ECM) coefficient of -0.617039 with a p-value of 0.0000 indicates a moderate deviation from the short to the long run, suggesting that about 62% of correction occurs before reaching the long-run equilibrium.

Regarding the parameter coefficients, the self-employment rate shows an insignificant direct impact in the short run but becomes significant in the long run, with a coefficient of 53.411079 units. This suggests that a 1% increase in the self-employment rate corresponds to a 53.4% rise in economic development. The contribution of SMEs has an insignificant negative impact in the short run but has a positive impact in the long run, with a coefficient of 0.857280 units, indicating that a unit increase in SME contribution results in an 86% increase in the long run.

Similarly, private sector credit has a significant direct impact on economic development in the short run but is not significant in the long run, though it still has a direct impact of 5.593258 units. This implies that a 1% increase in credit to the private sector leads to a corresponding 5.6% increase in economic development.

Lastly, the inflation rate is negatively related to economic growth in both the short and long run. This suggests that a unit increase in the inflation rate results in a corresponding decrease of 2.7% in economic development in the long run.

Diagnostic Tests

Table 7 – ARDL Diagnostic Estimations

Normality Test		
Stat.	Values	Prob.
Jarque-Bera	0.606941	0.738252
LM Correlation Test		
Stat.	Values	Prob.
Obs*R^2	0.3657	0.2380
Heteroskedasticity Test		
Stat.	Values	Prob.
Obs* R^2	2.557973	0.9227

Source: Author's Computation, (2024)

Table 7 illustrates the model's robustness outcome. It revealed the normality of the residual, the absence of an LM correlation problem, and the homoskedasticity of the residual P-value of all tests exceeding 5%.

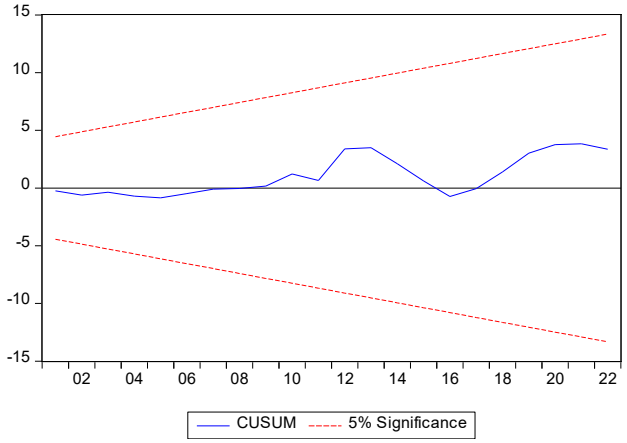

Figure 1 – Cumulative Sum (CUSUM) Stability Test

The Cumulative Sum (CUSUM) stability test was conducted to assess the suitability of the entrepreneurship and economic growth model. The plotted CUSUM graph falls within the 5% significance level, indicating that the coefficients of the estimated model are accepted.

Results and Discussion

To investigate the impact of entrepreneurship on economic development in Nigeria, researchers used annual data from the CBN bulletin and the World Development Indicator. The analysis revealed a long-run relationship among the variables, and the ARDL results showed that self-employment rates have a direct and significant impact on economic development in the long run. This finding is consistent with the findings of several other studies. It suggests that for Nigeria to achieve economic development, entrepreneurship must be a cornerstone of its economy, potentially reducing reliance on imported goods.

However, some studies have found a lack of positive relationship between entrepreneurship and economic growth in Nigeria, attributing this to poor support from the government and financial institutions. Additionally, while SMEs and credit to the private sector have a positive impact, it is not statistically significant. This indicates the level of support provided by deposit money banks to SMEs and private businesses in the country.

Contrary to some studies, it was also found that inflation rates negatively affect economic development in Nigeria.

Conclusion

The study on entrepreneurship and economic development in Nigeria analyzed annual time series data from 1992 to 2022 using ARDL techniques. It found a long-run relationship among the variables. In the short run, the self-employment rate was positive but not significant, while its impact on economic development was significant in the long run. Similarly, the contribution of SMEs and credit to the private sector was positive but not significant in the long run, and inflation rate was inversely related to economic development.

The findings suggest that the government, in collaboration with monetary authorities, should develop and implement effective economic policies that promote entrepreneurship, taking into account macroeconomic variables. It is also crucial for financial institutions, especially deposit money banks, to support entrepreneurship by providing startup funds at reduced or concessionary rates.

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