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Leveraging Taxation for the Sustainable Development of Micro, Small and Medium Enterprises (MSMEs) in Nigeria

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) are vital for Nigeria's long-term economic growth, driving creativity, job creation, and poverty alleviation. However, heavy taxation and limited access to financing significantly hinder their expansion and sustainability. This study examines the role of taxation, particularly Value-Added Tax (VAT), in the development of MSMEs in Nigeria, using government grants and commercial bank loans as additional variables. Data from the CBN Statistical Bulletin (2022) covering 1994–2022 was analyzed using ARDL estimation. The findings reveal that while financing positively impacts MSME growth, high taxes negatively affect their development. Consequently, the study advocates for effective tax policies, particularly regarding VAT, to foster MSME growth. Policies should prioritize access to finance through targeted loan programs and financial support to enhance the sustainability of MSMEs.

Keywords: Commercial Bank Loans, Economic Growth, Financing, Government Grants, Job Creation, MSMEs, Poverty Alleviation, Sustainable Development, Taxation, Value-Added Tax

1.0. Introduction

Taxation is a crucial part of Nigeria's current economic growth strategy. It offers a reliable source of income to help achieve growth objectives such as improving infrastructure. Taxation is also important for overseeing and balancing the overall economy. The tax policy plays a significant role in shaping the environment for local businesses and investments. Finding the right balance in the tax system is a big challenge for Nigeria. It needs to be efficient for businesses and investments, while also bringing in enough money to support public services and make the country more attractive economically. Taxes are important for a country's development, helping to formalize the economy, promote good governance, and boost growth and exports. They provide the government with the funds needed to build infrastructure, shape government actions, create a business-friendly environment, and mobilize domestic resources. (NEPAD & OECD, 2009).

By creating a corporate environment that is tax-friendly, taxes may be a powerful weapon for economic growth and development. Economic growth and development may benefit from a tax-friendly business climate that encourages steady taxable income. In many nations, small and medium-sized businesses (SMEs) are frequently the primary forces behind innovation, job creation, and wealth accumulation. Governments promote investment and skill development through fiscal policy and taxation. For example, Cho and Yoon (2023) examined South Korea, Aryeetey and Ahene (2022) examined Ghana, and Myslimi and Kacani (2021) examined government programs to encourage the expansion of SMEs in Albania.

Micro, Small, and Medium-Sized Enterprises (MSMEs) are essential to the modern global economy because they stimulate innovation, provide jobs, and propel economic progress. MSMEs are companies that make a substantial contribution to the economy while having little assets and workers. In Nigeria, MSMEs are considered the backbone of the economy, as they account for a substantial portion of employment and GDP. The significance of MSMEs to economic growth and development cannot be overstated. These small businesses contribute to the creation of jobs, poverty reduction, and the overall well-being of individuals and communities. They also promote entrepreneurship and innovation, which are essential for a thriving economy. However, despite their significance, MSMEs in Nigeria face several challenges that hinder their development.

1.1. Problem Statement

MSMEs, or micro, small, and medium-sized businesses, are vital to Nigeria's economy. They have a major impact on economic development, creativity, and the creation of employment. Nevertheless, these companies frequently encounter difficulties, such as restricted financial resources and unfavorable tax laws (Ovat 2013). Lack of access to financing is one of the biggest challenges MSMEs in Nigeria confront. The inability of many small enterprises to secure loans or investment capital restricts their capacity to grow, make investments in new technology, and recruit more employees. MSMEs struggle to compete with larger businesses and reach their full potential in the absence of sufficient capital. According to Afolabi (2013), financial constraints are the scourge of SMEs in Nigeria.

Another challenge that hampers the development of MSMEs in Nigeria is the burden of multiple taxation. Taxation is an essential source of government revenue, but when it becomes excessive or

complex, it can stifle the growth of small businesses. MSMEs often find themselves burdened with different taxes like value-added tax and other levies. This can create a significant financial strain, making it challenging for MSMEs to invest in their businesses and remain competitive. Thus, this article explores how taxation can be leveraged to support the sustainable development of MSMEs in Nigeria.

1.2. Research Questions

1. Is there a significant correlation between taxation policies and the sustainability of MSMEs in Nigeria?
2. Does access to financing have a significant correlation with the sustainability of MSMEs in Nigeria?

1.3. Research Objectives

This study examined leveraging taxation for the sustainable development of MSMEs in Nigeria. The specific objectives are to:

1. Analyze the correlation between taxation policies and the sustainability of MSMEs in Nigeria.
2. Evaluate the impact of access to financing on the sustainability of MSMEs in Nigeria.

1.4. Research Hypotheses

H₀₁: There is no significant correlation between taxation policies and the sustainability of MSMEs in Nigeria.

H₀₂: There is no significant correlation between access to financing and the sustainability of MSMEs in Nigeria.

1.5. Significant of the Study

This study is apt as it provides insights into how taxation can be a tool for the sustainable expansion of MSMEs in Nigeria. By understanding the relationship between taxation and MSME growth, policymakers can create more favourable environments for these businesses, leading to increased economic development and job creation.

2.0. Literature Review

2.1. MSMEs in Nigeria

To promote commerce and industrialization in developed countries, the idea of small and medium-sized businesses (SMEs) was first proposed in the late 1940s. According to their economic function and the policies of certain organizations or agencies that assist them, SMEs are defined differently in each nation. For instance, a small corporation in the USA, Japan, or Germany may be seen as medium-sized or huge in a developing nation like Nigeria. Furthermore, the definition of SMEs may evolve based on the priorities of various organizations or agencies (Etuk, et al. 2014).

Therefore, different countries have different definitions of SMEs (Gunasekaran, et al. 2000). Nonetheless, it seems that the quantity of workers is a common issue (Adams & Hall, 1993). Assets, sales turnover, and/or capital utilized are further classification criteria for businesses. A small-scale business in Nigeria is defined as one that has between 11 and 100 employees or capital of little more than N50 million, including working capital but excluding land costs. On the other hand, a medium-sized business has 101–300 employees or capital of at least N50 million but not more than N200 million, including working capital but not counting land costs. The Central Bank of Nigeria (2010) defines SMEs based on the number of employees and asset value. According to their definition, companies with assets ranging from N5 million to N500 million are considered SMEs.

According to Ikpor, et al. (2017), SMEs are a variety of companies that operate throughout the nation in a range of industries. These include highway mechanics, iron makers, small transport businesses, online cafes, tiny design or software companies, medium-sized car parts producers, coffeehouse and tailoring shop operators, and craftsmen who create regional agricultural implements. While some SMEs pursue international markets, others serve home consumers. Their owners may come from a variety of economic backgrounds, and they may be found in rural, urban, regional, national, or international locations. In Nigeria, micro, small, and medium-sized businesses (MSMEs) are classified according to their yearly sales, asset value, and workforce size. Small businesses have between 10 and 49 employees and assets between ₦5 million and ₦50 million, while medium-sized businesses have between 50 and 199 employees and assets between ₦50 million and ₦500 million, according to the National Policy on MSMEs. Micro-enterprises have fewer than 10 employees and assets valued at less than ₦5 million (National Council of Industry, 2001). MSMEs in Nigeria have a momentous role in the economy. They contribute to employment generation, poverty reduction, and income redistribution. These enterprises are often labor-intensive, providing opportunities for individuals to earn a livelihood and improve their living standards (Mba 2014)

Taxation

The practice of imposing and collecting taxes on people and companies to pay for public spending is known as taxation. Public goods and services including infrastructure, healthcare, education, and security cannot be provided without taxes. The process by which authorities levy taxes on citizens and corporations to finance public services is known as taxation. In Nigeria, the tax system can be complicated, and many small businesses find it challenging to navigate. Tax policies can either support or hinder business growth, making it essential to understand their impact on MSMEs (Igbinovia and Okoye 2017). In Nigeria, there are various types of taxes imposed on individuals and businesses. These include income tax, value-added tax (VAT), business income tax, capital gains tax, and customs duties, among others. Each tax serves a specific purpose and contributes to the overall revenue of the government.

Tax Policy and MSMEs in Nigeria

The way the government handles taxes, particularly the rates, deductions, and benefits offered to taxpayers, is referred to as tax policy. By creating a favorable business climate, a well-crafted tax policy may aid in the expansion and advancement of MSMEs. Nigeria's government has put in place some tax laws to encourage the growth of MSMEs since it understands how important they are. To promote investment and entrepreneurship, these policies offer financial benefits such as tax vacations and lowered tax rates. To streamline the tax code and lessen the burden on MSMEs, more reforms are still required (Ojeka 2021). The Nigerian National Tax Policy is aimed at providing fundamental guidelines for a way laid out guidelines for the development of the Nigeria Tax System, among which are:

- i. Guiding the mode of operations and subsequent review of the tax system
- ii. To provide the various functions for the corresponding stakeholders
- iii. To be the reference point of all Stakeholders
- iv. To provide the basis for other Tax Legislation that will come up in the future.

Access to Finance for MSMEs in Nigeria

The expansion and viability of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Nigeria depend heavily on their capacity to obtain financing. Understanding the role MSMEs play in promoting economic expansion, job development, and poverty reduction, the Nigerian government has taken some steps to improve their access to credit facilities. According to recent studies, many MSMEs still face substantial obstacles when it comes to financing, which restricts their capacity to innovate, invest, and grow (Ajayi et al., 2021). To assist MSMEs, the Federal Government of Nigeria has made several financing programmes easier to obtain. Among the most notable of these are:

1. World Bank SME Loans: To assist SMEs in Nigeria, the World Bank has launched financial initiatives. These loans are intended to help MSMEs improve their operations and grow their enterprises by offering long-term financing options (World Bank, 2023).
2. African Development Bank Export Scheme: To help MSMEs obtain capital for foreign trade, the African Development Bank has set up export financing programmes. In order for Nigerian MSMEs to compete in international markets, this programme is essential for encouraging export-oriented growth (African Development Bank, 2023).
3. Commercial Banks: Conventional commercial banks are essential in helping MSMEs obtain credit, but access is sometimes impeded by strict lending requirements and exorbitant interest rates. According to recent studies, banks must create customized financial solutions to cater to the unique requirements of MSMEs (Awoyemi & Makanju 2020).
4. Cooperative Thrift Societies: These neighborhood-based financial organizations have become a vital source of funding for MSMEs since they make it simpler for members to obtain loans without the stringent collateral requirements that are common in commercial banks. Cooperative societies promote small enterprises by offering loan facilities and encouraging members to save money (Ayoola 2021).

Notwithstanding these initiatives, obstacles like low financial literacy, subpar infrastructure, and regulatory restrictions still make it difficult for these lending facilities to effectively support the expansion of MSMEs (Gumel & Bardai 2021). For MSMEs in Nigeria to have better access to financing and be more sustainable, these obstacles must be removed.

Challenges of Multiple Taxation in Nigeria

For enterprises in Nigeria, especially Micro, Small, and Medium-Sized Enterprises (MSMEs), multiple taxation poses serious obstacles. These difficulties discourage investment, slow growth, and lower profitability, all of which have an impact on the economy as a whole. Recent scholarly and policy debates have focused a great deal of attention on the intricacies of Nigeria's tax structure.

1. Increased Financial Burden on Businesses

The increased financial burden on businesses is one of the most significant issues that multiple taxes present. MSMEs frequently find it difficult to control their tax obligations, which can account for a sizable amount of their income. A study by Udeh et al. (2022) claims that the combined impact of many taxes, from local

government fees to Value Added Tax (VAT), puts MSMEs under an excessive amount of financial strain and has a major negative impact on their operational sustainability. According to the survey, many small businesses frequently cannot afford these expenses, which discourages them from making as much investment in expansion and innovation.

2. Complexity and Administrative Burdens

Nigeria's tax structure is complicated, which makes the regulatory environment onerous. Business owners are confused by the wide variety of tax forms and differing tax rates at various governmental levels. According to a paper by Ajibade et al. (2020), many MSME owners are uninformed of their tax requirements, which makes compliance difficult due to unclear tax legislation. This intricacy boosts the possibility of non-compliance, which can lead to harsh penalties, in addition to increasing administrative expenses.

3. Deterrent to Investment

In Nigeria, multiple taxation discourages both foreign and domestic investment. The complicated and unpredictable tax system sometimes deters investors. According to a recent study by Goodwill et al. (2020), investment decisions are heavily influenced by regulatory discrepancies and the fear of excessive taxation. This unwillingness to invest stifles economic growth and job creation, exacerbating the difficulties MSMEs already confront (Izevbekhai, 2022).

4. Inequitable Taxation and Informality

The prevalence of unfair taxes is another important problem linked to multiple taxation. Smaller companies may suffer more severe consequences because of their restricted ability to comply with tax laws, while larger enterprises frequently possess the resources necessary to handle the complicated tax environment. Many MSMEs may be forced into the informal sector by this discrepancy, where they conduct business without official registration and completely avoid paying taxes. As Ilemona et al. (2019) point out, this informality causes a vicious cycle that further marginalizes MSMEs by denying the government vital tax revenues.

5. Lack of Tax Incentives and Support

Effective tax incentives to promote MSMEs in Nigeria are conspicuously lacking, despite the difficulties posed by multiple taxation. The existing tax laws do not go far enough in promoting expansion or offering assistance to small enterprises that are burdened with numerous tax liabilities. Ojochogwu et al. (2012) state that to create a more favorable atmosphere for MSMEs' expansion, policymakers should think about enacting tax breaks and a streamlined tax system designed especially for them.

As a result, multiple taxation in Nigeria presents significant and varied issues that affect both the long-term viability of MSMEs and the economy as a whole. To overcome these obstacles, the government at all levels must work together to streamline the tax code, lessen the financial strain on companies, and establish a fairer tax structure that encourages investment and growth.

Importance of MSMEs

In Nigeria and elsewhere, Micro, Small, and Medium-Sized Enterprises (MSMEs) are essential to promoting economic growth and advancement. They act as growth engines by encouraging innovation and competition, both of which are necessary for a thriving economy. MSMEs increase economic diversity by

providing a range of goods and services, which strengthens markets' resistance to outside shocks. One of their most important contributions is the creation of jobs; MSMEs account for a sizable share of the nation's employment opportunities, which directly contributes to the reduction of poverty and the enhancement of living standards.

Furthermore, because they frequently source labor and materials from their communities, MSMEs are essential to the growth of local economies because they keep money flowing through the local economy. Despite their significance, these businesses encounter many obstacles that prevent them from growing and remaining viable. Significant challenges that need to be addressed include high taxes, poor infrastructure, a shortage of skilled personnel, and restricted access to financing. Since MSMEs can spur economic growth, lower unemployment, and enhance overall national prosperity, improving their environment is essential to realizing their full potential. In addition to helping individual businesses, strengthening this sector would promote resilience and stability in the economy as a whole.

Theoretical Review

Keynesian theory

Keynesian economic theory, developed by Lord John Keynes, suggests that small businesses are crucial for a country's economic growth. The theory argues that the government can promote economic stability by providing financial support to small businesses through microfinance banks. It also states that when small businesses thrive, the government can create a conducive environment for economic growth (Keynes 1936). To achieve this, the government must allocate resources efficiently, regulate markets, and establish stable policies that impact small businesses. Keynes believed that small businesses operate best in an environment with fixed interest rates, exchange rates, and inflation rates. By understanding and adapting to the changing business environment, small businesses can make informed decisions that improve their performance.

Optimal Theory

Optimal taxation theory propounded by Frank P. Ramsey in 1927 focuses on how taxes can be organized to minimize deadweight costs and maximize social welfare outcomes (Simkovic, 2012). Optimal Tax Theory is all about finding the best way to collect taxes. Imagine you have a lemonade stand. You want to set a price that is fair for your customers but also helps you earn enough money to buy more lemons and sugar. In the same way, governments want to set tax rates that are fair for people while also bringing in enough money to pay for public services like schools and roads.

The Ramsey problem specifically aims to reduce deadweight costs. Since deadweight costs are influenced by the elasticity of supply and demand for a product, it is most effective to impose higher tax rates on goods with less elastic supply and demand to minimize overall deadweight costs.

Ability to pay Theory

The Ability to Pay Theory developed by Adam Smith in 1776 focuses on the idea that people should pay taxes based on how much they can afford. This means that wealthier individuals should contribute more to the tax system than those with lower incomes. This theory proposes that taxes should be based on an individual's financial capability. It suggests that those who have the means should contribute to public spending, rather than burdening those

who do not. The concept originated in the sixteenth century and was further developed by philosophers and economists such as Jean Jacques Rousseau, Jean-Baptiste Say, and John Stuart Mill. This idea forms the basis of a 'progressive tax' system, where tax rates increase as income levels rise. It is considered the most fair tax system and is commonly used in developed economies.

The concept of sacrifice is the most often cited justification for the ability to pay. People believe they are forfeiting money they could have spent on themselves when they pay taxes. However, since this sacrifice may be judged in a variety of ways, including absolute, proportional, and marginal, it is impossible to determine how fair it is. Equal sacrifice might imply that each taxpayer forfeits the same quantity of their income, that each forfeits the same percentage of their income, or that each forfeits the same amount of their last piece of cash. The theoretical underpinning for this investigation was the ability-to-pay hypothesis.

2.2. Empirical Review

Ojeka (2012) tested theories about tax policy and the expansion of SMEs in Nigeria using Spearman Rank Correlation and a non-probability judgmental sampling technique. Many SMEs in Zaria, North West Nigeria, suffered from complex tax laws, high tax rates, a lack of tax knowledge, and various taxes, according to surveys given to SME operators in the region. Additionally, the study found a significant inverse relationship between taxes and a company's capacity to endure and expand.

Lionel and Samuel (2018) investigated whether environmental factors have an impact on the success of small and medium-sized businesses in Nigeria. The research findings presented in this study demonstrate the critical importance that internal and external variables play when judging the performance of small and medium-sized businesses (SMEs) in Nigeria. Through the use of multiple regression analysis and a primary survey, the study discovered that even though they may potentially restrict SME performance, external variables like institutions and infrastructure are crucial for SME success. Additionally, the study discovered that marketing strategies had a negligible and adverse effect on the profitability of SMEs. According to the report, to encourage the expansion of SMEs, both the public and private sectors must act to enhance institutional effectiveness and infrastructure.

Inim et al. (2020) looked at how taxes affected SMEs. They look at the effects of tax on the expansion of SMEs in Nigeria between 2007 and 2019. While CEDT does not affect SME growth, CIT and VAT do. The paper analyzes data from SMEDAN and the Central Bank of Nigeria using co-integration and error correction models. They discovered that the growth of SMEs in Nigeria is negatively impacted by CIT, VAT, and CEDT. In their study's conclusion, they recommended that tax laws, particularly those on CIT and VAT, be properly crafted to support the expansion of SMEs. It also recommends reducing the VAT rate and providing additional incentives and reliefs for SMEs.

The entrepreneurial characteristics that contribute to the growth of small and medium-sized businesses in South Africa were investigated by Thandukwazi and Robert (2022) from the viewpoint of small and medium-sized business owners. They look at the characteristics of small company owners that support the expansion of SMEs in South Africa, particularly in the furniture-making sector. 112 SME owners from the Thekwini District Council participated in the study, which tested the impact of entrepreneurial abilities and creativity on SME growth using

correlation analysis. They discovered that although entrepreneurial skills affect the viability of businesses and the generation of jobs, creativity aids in product development. Enhancing the entrepreneurial abilities and creative potential of SME owners can help South Africa achieve its national goals for economic growth and job creation, the study's authors found.

Ellawule et al. (2024) investigated the effects of tax incentives offered by the Nigerian authority, such as low-interest financing and tax exemptions for MSMEs with a particular income level, on MSMEs' tax compliance in Nigeria. The study delivered questionnaires to MSMEs in Nigeria and used quantitative research techniques. Using regression analysis and the theories of social influence and slippery slope, the study discovered that tax incentives had a major impact on tax compliance among Nigerian MSMEs. In particular, it was demonstrated that tax compliance was significantly impacted by tax exemption and low-interest financing. This study contributes to the body of knowledge by emphasizing how government tax policies affect MSMEs' tax compliance.

Government policies, particularly those pertaining to incentives for MSMEs, should be extensively pushed through different social media platforms to guarantee that MSMEs may benefit from them, according to the study, which also reveals that government incentives are not successfully conveyed to small enterprises.

3.0. Methodology

This study examined the impact of taxes on the long-term growth of small and medium-sized businesses (MSMEs) in Nigeria using an econometric technique. To determine whether there is a long-term balance in the data, co-integration and error correction modelling were the analysis methods employed. Secondary data was gathered during a twenty-nine-year period, from 1994 to 2022, from SMEDAN and the Central Bank of Nigeria Statistical Bulletin. All 72,838 MSMEs in Nigeria, as reported by SMEDAN and the National Bureau of Statistics, were included in the research. To find patterns and offer suggestions for improving Nigeria's tax climate for MSMEs, data was examined.

The significance of taxes in promoting the long-term growth of MSMEs in Nigeria is clarified in this article. We can help create a more dynamic and resilient economy by addressing the issues these companies are facing and offering workable answers. The research is an adaptation of Inim et al. (2020), who looked at how taxes affected SMEs. They look at the relationship between Value Added Tax (VAT) and the expansion of SMEs in Nigeria between 2007 and 2019. Therefore, the following is an expression of the functional link between taxes and MSME development:

$$GMSMEs f (VAT, ACF, GGR) \dots\dots\dots(3.1)$$

Econometrically, the functional relationship is written in an equation form:

$$GMSMEs = \delta_0 + \delta_1VAT + \delta_2 ACF + \delta_3GGR + \mu \dots\dots\dots(3.2)$$

Where:

GMSMEs = Growth of Small and Medium Enterprises (proxy of MSMEs)

VAT= Value added Tax (proxy of taxation)

ACF = Access to finance (Proxy by commercial banks loan to SMEs)

GGR= Government grant Proxy to Tax Policies

$\delta_1 - \delta_3 =$ parameters coefficient with respective exogenous variable

$\mu =$ Error Term

4.0. Results and Discussion

Table 4.1 Unit Root Test

ADF Unit Root Test			
Variables	Levels	1 st Difference	Order
GMSMEs	-0.9538	-3.0091**	I(1)
VAT	-2.9802**	_____	I(0)
ACF	-1.5337	-5.3531***	I1
GGR	-2.2800	-8.0583***	I1
Critical Values			
1%	-3.689	-3.699	
5%	-3.526	-2.976	
10%	-3.194	-2.627	

Source: Compiled by Author, 2024

Table 4.1 above reveals how stable the variables used in this study. From the table above, all the variables-GMSMEs, ACF, and GGR

were stationary at the first difference since their values were lesser than critical values at 1%, 5%, and 10%. From Table 4.2, it can be seen that our variables of interest stationary order combine both the levels 1st difference I (1) order for the ADF test.

4.1 Co-integration Test

Table 4.2

F-Bounds Test		Null Hypothesis: No levels of relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	8.952622	10%	2.37	3.2
k	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

The ARDL bound test examined the long-term convergence of the variables being studied. This result can be seen in Table 4.2 above. It shows the long-term results of the ARDL-bound test data. The bound test cointegration method was computed for each model. The result shows that there is long-term convergence between the selected explanatory variables and the associated dependent variables. The bound testing the f-statistics (8.952622) is greater than I0 and I1 at other crucial bounds. This suggests that the factors being studied have a long-term relationship.

Estimation Results

Table 4.3

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LGMSMS(-1)	0.745916	0.085811	8.692545	0.0000
LVAT	-0.095180	0.041246	-2.307644	0.0304
LACF	0.053637	0.019251	2.786243	0.0105
LGGR	0.010144	0.015992	0.634273	0.5322
C	1.930605	0.629810	3.065379	0.0055
R-squared	0.992732	Mean dependent var		8.708427
Adjusted R-squared	0.991468	S.D. dependent var		0.636435
S.E. of regression	0.058787	Akaike info criterion		-2.669354
Sum squared resid	0.079486	Schwarz criterion		-2.431460
Log-likelihood	42.37095	Hannan-Quinn criter.		-2.596627
F-statistic	785.3787	Durbin-Watson stat		1.637624
Prob(F-statistic)	0.000000			

Author's computation, 2024

Discussion of Results

Leverage taxation for the long-term growth of MSMEs in Nigeria was evaluated in this study. Value-added tax (VAT) serves as a proxy for the taxation variable in this study, while the expansion of SMEs in Nigeria serves as a proxy for MSMEs. Other variables included in this study include government grants and commercial bank loans to SMEs. The CBN Statistical Bulletin (2022) provided the data utilized in this investigation. Lastly, 2009–2022 is the time frame being examined.

This study made use of ARDL estimation due to the combination level and first difference of unit roots test of the data. From Table 4.3 above, it can be deduced that taxation had a negative and significant impact on MSMEs during the period of study. A unit change in taxation (VAT) will bring about a -0.095180 percentage decrease in MSMEs under the period of study. This finding implies that multiple taxation can have a negative and significant impact on the growth of MSMEs in Nigeria. The p-value (0.0304) which is less than 0.05 indicates that it is

statistically significant at 5%. Thus, the null hypothesis of no significant relationship between taxation and the sustainability of MSMEs in Nigeria is rejected and the alternative hypothesis is accepted. This result is also consistent with research by Inim et al. (2020), which discovered that taxes had a detrimental impact on Nigerian SMEs.

Similarly, from Table 4.3 it can be deduced that access to finance which is proxy by commercial banks loan to SMEs has a positive and significant impact on MSMEs in Nigeria. A unit change in access to finance (ACF) will bring about a 0.053637 percentage increase in MSMEs under the period of study. The p-value (0.0105) which is less than 0.05 indicates that it is statistically significant at 5%. Thus, the null hypothesis of no significant relationship between access to finance and the sustainability of MSMEs in Nigeria is rejected and the alternative hypothesis is accepted.

Furthermore, it can be inferred from Table 4.3 that government funds benefit MSMEs throughout the research period. In particular, there would be a 1% rise in MSMEs for every unit adjustment in government funding. The total impact of the factors on the variable in question is displayed by the f-statistic, which is significant at all levels of confidence.

Conclusion

MSMEs are vital for the sustainable development of Nigeria's economy. They contribute to job creation, poverty reduction, and innovation. However, the lack of access to finance and the burden of multiple taxation pose significant challenges to the growth and development of MSMEs.

To leverage taxation for the sustainable development of MSMEs in Nigeria, the government must address these challenges. This can be done by improving access to finance through targeted loan programmes and financial support, as well as simplifying the tax system and providing incentives for MSMEs. By creating a favorable business environment, Nigeria can unlock the full potential of its MSME sector and foster economic growth and development.

Recommendations

These recommendations aim to tackle the multifaceted challenges faced by MSMEs in Nigeria.

- i. It is important to have well-designed and effectively implemented tax policies, particularly those related to VAT, as they play an important role in the growth of small and medium-sized enterprises (SMEs). These policies should be structured in a manner that directly supports the development of SMEs.
- ii. Access to finance through targeted loan programmes and financial support for MSMEs can enhance their sustainability
- iii. Simplifying the tax system and providing incentives for MSMEs
- iv. Government grants to MSMEs should be well monitored to ensure effective utilization of the grant which can enhance their sustainability in Nigeria.

Suggestions for Future Studies

Future studies should:

1. Investigate how technology adoption affects the operational efficiency and competitiveness of MSMEs in Nigeria. This could include studies on digital marketing, e-commerce, and automation.
2. Examine the environmental practices of MSMEs and how they can be aligned with sustainable development goals. This could include waste management practices and resource utilization.
3. Analyze the supply chain challenges faced by MSMEs and how effective supply chain management practices can enhance their sustainability.
4. Explore how MSMEs in different regions of Nigeria face unique challenges and opportunities, and how these can inform targeted support strategies.
5. Investigate the effectiveness of various capacity-building programmes aimed at enhancing the skills and capabilities of MSME owners and employees.
6. Analyze consumer behavior towards products and services offered by MSMEs and how this affects their sustainability and growth.

By addressing these areas, future studies can provide comprehensive insights that contribute to the sustainable development of MSMEs in Nigeria.

Appendix-Data

Year	GMSMS	VAT	ACF	GGR
1994	2434.99	5.03	20.5525	3.48
1995	2436.69	6.26	32.3745	7.28
1996	2457.4	11.29	42.3021	16.65
1997	2494.26	13.91	40.8443	4.34
1998	2569.09	16.21	42.2607	31.48
1999	2633.32	23.75	46.824	6.55

2000	2675.45	30.64	44.5423	33.29
2001	2742.34	44.91	52.4284	58.06
2002	2920.11	52.63	82.3684	129.71
2003	3088.31	65.89	90.1765	134.18
2004	4220.22	96.20	54.9812	104.34
2005	4790.51	87.45	50.6726	137.45
2006	5521.46	110.57	25.7137	125.32
2007	6360.81	144.37	41.1004	209.38
2008	7252.6	198.07	13.5122	179.01
2009	8085.44	229.32	16.36649	188.05
2010	8992.65	275.57	12.5503	224.20
2011	9640.9	318.00	15.6117	88.70
2012	9853.68	347.69	13.86346	95.67
2013	10507.9	389.53	15.35304	35.03
2014	11125.8	388.85	16.06927	43.82
2015	11697.59	381.27	12.94948	18.12
2016	11669.06	397.06	10.74789	34.50
2017	11546.45	473.77	10.74789	70.44
2018	11473.79	533.74	44.82284	31.56
2019	11430.55	564.45	123.9321	41.36
2020	10459.7	699.37	62.51017	200.73
2021	11360.9	964.11	83.73543	333.79
2022	11541.1	1,171.36	94.46	431.36

Appendix-Unit root test

Null Hypothesis: LGMSMS has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-0.953830	0.7553
Test critical values:	1% level	-3.689194	
	5% level	-2.971853	
	10% level	-2.625121	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LGMSMS)

Method: Least Squares

Date: 10/03/24 Time: 18:57

Sample (adjusted): 1995 2022

Included observations: 28 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGMSMS(-1)	-0.021058	0.022077	-0.953830	0.3490
C	0.237778	0.191540	1.241403	0.2255
R-squared	0.033809	Mean dependent var		0.055570
Adjusted R-squared	-0.003352	S.D. dependent var		0.073967
S.E. of regression	0.074090	Akaike info criterion		-2.298310
Sum squared resid	0.142724	Schwarz criterion		-2.203153
Log likelihood	34.17635	Hannan-Quinn criter.		-2.269220
F-statistic	0.909793	Durbin-Watson stat		1.046060
Prob(F-statistic)	0.348954			

Null Hypothesis: D(LGMSMS) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.009140	0.0467
Test critical values:		
1% level	-3.699871	
5% level	-2.976263	
10% level	-2.627420	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LGMSMS,2)

Method: Least Squares

Date: 10/03/24 Time: 18:59

Sample (adjusted): 1996 2022

Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LGMSMS(-1))	-0.526679	0.175026	-3.009140	0.0059
C	0.030602	0.016292	1.878346	0.0720
R-squared	0.265892	Mean dependent var		0.000557

Adjusted R-squared	0.236527	S.D. dependent var	0.076558
S.E. of regression	0.066894	Akaike info criterion	-2.500222
Sum squared resid	0.111871	Schwarz criterion	-2.404234
Log likelihood	35.75300	Hannan-Quinn criter.	-2.471680
F-statistic	9.054921	Durbin-Watson stat	2.314909
Prob(F-statistic)	0.005907		

Null Hypothesis: LVAT has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-2.980289	0.0491
Test critical values:	1% level	-3.689194	
	5% level	-2.971853	
	10% level	-2.625121	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LVAT)

Method: Least Squares

Date: 10/03/24 Time: 19:01

Sample (adjusted): 1995 2022

Included observations: 28 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LVAT(-1)	-0.047177	0.015830	-2.980289	0.0062
C	0.418040	0.078590	5.319236	0.0000

R-squared	0.254632	Mean dependent var	0.194689
Adjusted R-squared	0.225964	S.D. dependent var	0.142330
S.E. of regression	0.125221	Akaike info criterion	-1.248729
Sum squared resid	0.407686	Schwarz criterion	-1.153572
Log likelihood	19.48221	Hannan-Quinn criter.	-1.219639
F-statistic	8.882121	Durbin-Watson stat	2.149163
Prob(F-statistic)	0.006174		

Null Hypothesis: LACF has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.533719	0.5022
Test critical values:	1% level	-3.689194	
	5% level	-2.971853	
	10% level	-2.625121	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LACF)

Method: Least Squares

Date: 10/03/24 Time: 19:02

Sample (adjusted): 1995 2022

Included observations: 28 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LACF(-1)	-0.194577	0.126866	-1.533719	0.1372
C	0.724506	0.446174	1.623818	0.1165

R-squared	0.082967	Mean dependent var	0.054471
Adjusted R-squared	0.047696	S.D. dependent var	0.491519
S.E. of regression	0.479654	Akaike info criterion	1.437247
Sum squared resid	5.981775	Schwarz criterion	1.532404
Log likelihood	-18.12146	Hannan-Quinn criter.	1.466338
F-statistic	2.352293	Durbin-Watson stat	1.867300
Prob(F-statistic)	0.137179		

Null Hypothesis: D(LACF) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.353126	0.0002
Test critical values:	1% level	-3.699871	
	5% level	-2.976263	
	10% level	-2.627420	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LACF,2)

Method: Least Squares

Date: 10/03/24 Time: 19:03

Sample (adjusted): 1996 2022

Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LACF(-1))	-1.055615	0.197196	-5.353126	0.0000
C	0.042553	0.097434	0.436737	0.6661

R-squared	0.534069	Mean dependent var	-0.012366
Adjusted R-squared	0.515431	S.D. dependent var	0.723256
S.E. of regression	0.503466	Akaike info criterion	1.536585
Sum squared resid	6.336944	Schwarz criterion	1.632573
Log likelihood	-18.74390	Hannan-Quinn criter.	1.565127
F-statistic	28.65596	Durbin-Watson stat	2.018295
Prob(F-statistic)	0.000015		

Null Hypothesis: LGGR has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.280006	0.1849
Test critical values:		
1% level	-3.689194	
5% level	-2.971853	
10% level	-2.625121	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LGGR)

Method: Least Squares

Date: 10/03/24 Time: 19:04

Sample (adjusted): 1995 2022

Included observations: 28 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGGR(-1)	-0.279260	0.122482	-2.280006	0.0311

C	1.280389	0.508888	2.516052	0.0184
R-squared	0.166625	Mean dependent var		0.172157
Adjusted R-squared	0.134572	S.D. dependent var		0.857140
S.E. of regression	0.797384	Akaike info criterion		2.453787
Sum squared resid	16.53134	Schwarz criterion		2.548945
Log likelihood	-32.35302	Hannan-Quinn criter.		2.482878
F-statistic	5.198428	Durbin-Watson stat		2.557768
Prob(F-statistic)	0.031050			

Null Hypothesis: D(LGGR) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=6)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-8.058329	0.0000
Test critical values:	1% level	-3.699871	
	5% level	-2.976263	
	10% level	-2.627420	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LGGR,2)

Method: Least Squares

Date: 10/03/24 Time: 19:05

Sample (adjusted): 1996 2022

Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LGGR(-1))	-1.435786	0.178174	-8.058329	0.0000
C	0.224822	0.155634	1.444556	0.1610
R-squared	0.722027	Mean dependent var		-0.017878
Adjusted R-squared	0.710908	S.D. dependent var		1.475636
S.E. of regression	0.793410	Akaike info criterion		2.446234
Sum squared resid	15.73748	Schwarz criterion		2.542221
Log likelihood	-31.02415	Hannan-Quinn criter.		2.474776
F-statistic	64.93667	Durbin-Watson stat		1.877582
Prob(F-statistic)	0.000000			

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