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Small Scale Enterprises and Nigerian Economy

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ABSTRACT:- The study focuses on effect of money banks credits on financial performance of small and medium scale enterprise in Nigeria. The specific objective is to determine the effect of money banks credits to SMSE on Nigerian economy, The research design adopted for this research is the ex-post facto and descriptive research design, The relevant data for this study have been obtained from the Central Bank of Nigeria statistical bulletin covering the period of 1982-2018.The study revealed that Deposit money banks credits to SMSE have a positive effect on Nigerian economy. The study concluded that the economic reason for credit to small and medium scale enterprises (SMEs) is indisputable as we can observed that small and medium scale enterprises was seen to have progressively become a major factor in economic development of many countries of the world. The study recommended that government should implement policies that guide SMEs in accessing financial assistance from banks and other institutions

Key words: M*oney Banks Credits, Financial Performance, Small and Medium Scale Enterprise, and GDP*

I. INTRODUCTION

In Nigeria, the genesis of small and medium scale enterprises is traceable to the year 1945 when the essential paper number 24 of 1945 titled “A Ten year plan of development and welfare of Nigeria 1946” was presented (Aremu and Adeyemi, 2011). Since then, small and medium scale enterprises have risen in prominence over the years, with their importance expected to increase even further in the future. Small and medium-sized enterprises (SMEs) are one of the major contributors to global economic growth and job creation. They are seen as the backbone of economic development for both developed and developing countries (Abor, 2007).

However, a lot is still yet to be done especially as regards addressing the constraints of SMEs in accessing credit primarily from the bank system. This is especially the case in developing countries as Nigeria. SMEs in order to maintain or increase their contribution to overall socio-economic development in developing countries need productivity increases through adequate financing. This signifies the importance of capital which is of significant cost in sourcing, for SMEs development. Further other factors remain that adversely affect SME development and may be related to SMEs inability to access credit such as production equipment, efficient manpower, and disciplined management, hence highlighting the dire need of SMEs in Nigeria for access to significant credit. At present contributing to SME constraints to credit access are: often too short period for loan repayment (Abereijo and Fayomi, 2005), Severe pre-conditions to granting of loans (Berger and Udell, 1998), and unawareness by SMEs of criteria for granting loans employed by financial institutions in assessing loan applications.

In resolving the problems of poverty and unemployment in most developing countries Small and medium scale enterprises (SMEs) have proved to be a major intervention (Aremu and Adeyemi, 2011). Further, in both developing and developed countries, small and medium scale enterprises play important roles in the process of industrialization and economic growth, by significantly contributing to employment generation, income generation and catalyzing development in urban and rural areas (Olutula, 2001). In addition, small and medium enterprises stimulate private ownership and entrepreneurial skills in addition to rural-urban migration.

Therefore based on the aforementioned important roles played by small and medium enterprises (SMEs) amongst others, it is evident the significant contribution made by small and medium enterprises (SMEs) in countries of the world in boosting economic growth, reducing poverty and enabling the creation of wealth.

Small and Medium Enterprises (SMEs) have popularly been argued to contribute positively to economic growth of countries of the world through their positive effect on socio-economic development of the countries. However SME access to credit remains essential for SMEs continued positive contribution. In the case of Nigeria, unemployment and poverty are two major socio-economic performance indicators in which she has performed poorly over the years, despite efforts by the Nigeria government to boost credit availability to SMEs (Oluwarotimi and Adamu, 2017)

For both developing and developed countries, micro, small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, MSMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth (Sule, 1986; Udechukwu, 2003). One of the major sources of funds for the survival of the SMEs to perform their expected role of rapid industrialization and economic growth is commercial banks' credit. Commercial banks through their financial intermediation roles,are expected to provide financial leverage for small and medium scale enterprises.

Statement of the Problem

In Nigeria and perhaps throughout the world, the importance of small-scale business cannot be over emphasized. However, the small-scale enterprise sub-sector is seriously affected by structural problem. These include inadequate capital, 'Infrastructural deficiencies, Lack of technological knowledge, access to credit facilities and local market. These problems have hampered the development of small- scale business in Nigeria
Finance has been viewed as a critical element for the development of SMEs. Firms depend on a variety of sources for their finance which includes internal and external; formal and informal. However the relationships among these sources and their effects on investment remain unclear in the literature. But in Nigerian context, this crucial source of finance for Small and Medium Scale Enterprises is apparently non-functional
This is in spite of a host of mediums through which credit has been made available to SMEs over the years by the Nigeria Government with the most recent being Bank of Industry and recently renamed Bank of Agriculture. Consequently, SMEs in Nigeria lack of access to credit has affected the ability of the SMEs to contribute meaningfully to Nigeria's economic growth. The evident challenges of the Nigeria economy notably those of unemployment and poverty which have been persistent overtime till the present time, may have been addressed in the past if SMEs were provided the enabling conditions for their progress notably that of unrestricted access to credit.

Objective of the study

The objective of this study is to determine the effect of small scale enterprises on the Nigerian economy**.**

Review of the related literature

Concepts of Small and Medium Enterprises (SME's). The term Small and Medium Scale Enterprises (SME's)has no generally established definition. Kadiri (2012) noted that the criteria for classification of an enterprise as small, medium or large varies from one country to another, depending on whether it is developed or developing country. A small business for example to one country may be a large-scale business to another. Thus, SME's in Nigeria, as defined by Small and Medium Industries Equity Investment Scheme (SMIEIS), are enterprises with a total capital employed not less than ₦1.5 million, but not exceeding ₦200 million, including working capital, but excluding cost of land and/or with a staff strengthof not less than 10 and not more than 300. Esuh and Adebayo (2012) noted that they are firms or businesses arising as a result of entrepreneurial activities of individual.

The Nigerian Industrial Policy defined small scale business as industries with total investment of between ₦100, 000 and ₦2 million, exclusive of land but including working capital. Lastly, the medium business as the name suggests are bigger than both micro and small businesses in terms of operations, manpower capacity or number of employees, structure, capital investment and size. According to Afolabi (2013), they are the businesses that employ not fewer than 15 employees under the Australian Fair Work Act (2009) to fewer than 500 employees under the US, while the EuropeanCommission defined medium businesses as enterprises which employ fewer than 250 persons and/or have an annual balance sheet total not exceeding EUR 43 million.

Challenges of Banking Sector Credit in Financing SME's in Nigeria

It is generally accepted by both the practitioners and academics that SMEs serve as catalysts for economic growth of the economy of any nation. However, SMEs are faced with many challenges in Nigeria; one of the major challenges faced by SMEs is inadequate capital to finance their operations (Fatai, 2009). Empirical evidence shows that financing contributes about 25% to the success of SMEs in Nigeria (Ogujuiba et al,2004). A World Bank report showed that 39% of small scale firms and 37% of medium scale firms in Nigeria are financially constrained. Many SMEs in Nigeria lack the capital to continue their business and they are forced to wind up because they are unable to access the required funds. A 2001 World Bank survey on Nigeria showed that although 85% of the firms had relationship with banks, most of them had no access to their credit (Terungwa, 2011). The lack of adequate financing for the SMEs is traceable to among other reasons the reluctance of banks to extend credits to them for the following reasons; Inadequate collateral by SMEs operators, weak demand for the products of SMEs as a result of the dwindling purchasing power of Nigerians, lack of patronage of locally produced goods and poor management practices by SMEs operators

Credit to Small and Medium Scale Enterprises

Provision of finance otherwise lending by the definition is a legal function of a bank. In essence it is one of the primary functions or purposes of existence of a bank. While relating bank historical existence with its lending function, (Anyanwokoro, 2008) links it with the parable of the talents in the gospel of St. Luke – Why did you not deposit the money in the bank so that the owner could at least get some interest on it (Luke 19: 23). A little explanation here shows that banks were paying interest on deposits kept with them. And for bank to be paying interest on deposits, they must have been lending out the money to customers who pay them interest or must have been investing the money elsewhere for profit. Lending is perhaps one of the most important roles performed by deposit money banks in Nigeria. These banks usually play their intermediation role by sourcing for funds through deposits from customers and lending such funds out as loan which may be on short-term, medium-term or long-term basis to corporate bodies, government at various levels, institutions and individuals. The practice of lending by deposit money banks essentially constitutes the pivot of their operations and business. This is the more reason which informs their deployment of considerable expertise and deftness on the part of the bank management teams on lending administration and management

Theoretical Framework

There are many theories which seek to explain the behaviour of money deposit banks in their lending activities in various economies around the world. To access the journey so far in the achievement of the stipulated objectives, the association between traditional bank lending and SMEs could be theoretically established from two theories under consideration namely, loan pricing theory, and supply leading hypothesis postulations. The loan pricing theory by Thompson Reuters in 1965 posits that banks cannot always set high interest rates by trying to earn maximum interest income. According to Chodechai, (2004), if banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates, but once these borrowers receive the loans, they may develop moral hazard behaviour or so-called borrower moral hazard since they are likely to take on highly risky projects or investments

According to Rehanet, Zainab, Razika, Jumai, Fatima, Olatunji, and Shehu, (2015), the supply leading theory postulates that the existence of financial institutions like deposit money banks and the supply of their financial assets, liabilities and related financial services in advance of demand for them would provide efficient allocation of resources from surplus units to deficit units, thereby leading the other economic sectors in their growth process. The highlight of this theory is a two dimensional function of transferring resources from traditional sectors to modern sectors, and promoting and stimulating small and medium scale enterprises into economic growth. Essentially, the proponents of this theory believe that the activities of the financial institutions serve as a useful tool for increasing the productive capacity of the Small and Medium Scale Enterprises (SMEs) in the economy. They opined that countries with better developed financial system tend to grow faster in this aspect. As far back as 1911, an early economist Schumpeter strongly supported the view of finance led causal relationship between financing of small and medium scale enterprises and a country's economic growth. He describes the supply leading financial intermediation as "innovation finance". Hence, Schumpeter in 1912, states that one of the most significant effects of supply-leading funds approach is that as entrepreneurs have new access to the supply leading funds their expectations increase and new horizons as to possible alternatives are opened, thereby making the entrepreneur to think big. The supply leading theory presents an opportunity to induce real growth by finance means. Analysts believe that the use of supply leading theory is more result-oriented at the early level of a country's development than late

Empirical Review

Okey (2016) examined the role played by commercial banks' credit in facilitating the growth of SMEs in Nigeria. It adopted co -integration and error correction mechanisms in carrying out this empirical examination. The findings revealed that Commercial Banks ' credit has not contributed significantly to the growth of Small and Medium Scale Enterprises in Nigeria. To support the growth of SMEs by Commercial Banks, so that they can be properly positioned to play a catalytic role in rapid industrial take off and development in Nigeria , the paper recommended as follows: SMEs should be made to have easy access to credits by commercial banks, to achieve this, the monetary authority should ensure that the lending rate at which commercial banks lend to the SMEs is reduced to the barest minimum; devaluation of the national currency – the naira ,should not be encouraged as devaluation makes imported raw materials and capital goods used by the SMEs very expensive and hence impedes their production rather ,local sourcing of raw materials should be encouraged to reduce the pressure on exchange rate; and finally, more Commercial Bank branches should be established in Nigeria, especially in the rural areas to create opportunity for SMEs operating in such areas to have access to credits and finance their operations

Iloh and Chioke (2015) examine the relationship between commercial bank credit indicators and availability of credit facility to small and medium scale enterprises in Nigeria. Data were collated from the Central Bank of Nigeria (CBN) Statistical Bulletin for the period of 1980 to 2010 and data was tested for stationarity using Augmented Dickey-Fuller (ADF) unit-root test. Generalized least squares estimation method was used to estimate the model employed in the study in testing the stated hypothesis. The result of data analysis showed that commercial banks' credit to SMEs in Nigeria have significant effect on Nigeria economic growth by positively affecting gross domestic product. The finding further implied that SMEs financing is a great catalyst and a driving force for economic growth in Nigeria. Therefore, it is recommended that soft and short term loans should be made available to SMEs for business enhancement

Oluwarotimi and Adamu (2017) study explores, the relationship between SME credit and each of Unemployment and poverty respectively, using Pearson's correlation, and further examines the impact of Deposit money bank credit to SMEs on economic growth in Nigeria using Ordinary least squares regression. Data employed for this study was annual data from 1992 to 2015 obtained from the Central Bank of Nigeria Statistical Bulletin. The Pearson's correlation revealed a negative but insignificant relationship between SME credit and Unemployment, and a negative and highly statistically significant relationship between SME credit and poverty. The results of Ordinary Least Squares regression revealed that SME credit has a negative and highly statistically significant impact on economic growth in Nigeria. Based on the results of the study it is recommended that the Nigeria government should support SMEs with necessary training in risk management so as to increase SME capability to effectively manage the risk of their operations, the Nigeria government should increase provision of infrastructural facilities in order to reduce the operating costs of SMEs, and Nigeria deposit money banks should be equipped with necessary technology to effectively assess the creditworthiness of SMEs in applying for loans, amongst other recommendations.

Aliyu and Yusuf (2014) the study examined the impact of bank lending on economic growth in Nigeria. In addition, the objective of this study is to examine the impact of bank lending on economic growth in Nigeria for the period 1987 to 2012. This study relies purely on secondary data, and using multiple regression model, the study found out that bank lending accounts for about 82.6% variation in economic growth in Nigeria for the period under study. The study concludes that there is a statistically significant impact of bank lending on economic growth in Nigeria. This, suggest that the performance of the Nigerian economy is greatly influenced by bank lending. The study recommends that the federal government of Nigeria through the central bank of Nigeria (CBN) should strengthened the banking sector to ensure an improved credit flow to the activity sectors because of its strategic importance in creating and generating growth of the economy.

Ubesie, Onuaguluchi and Mbah (2017) did a study on effect of deposit money banks' credit to small and medium enterprises, credit to private sector and interest rate on small and medium scale enterprises growth in Nigeria. An ex-post facto research design which employed secondary data sourced from Central Bank of Nigeria (CBN) Statistical Bulletin 2015 and National bureau of statistics (NBS) for the period 1986 – 2015 was adopted. The ordinary least square regression method was used in the analysis of the data after conducting a stationarity test on the variables. The study finds out that deposit money banks 'credit to small and medium scale enterprises has no significant effect on small and medium scale enterprises growth in Nigeria. Again, the result indicates that deposit money banks' credit to private sector has significant effect on small and medium scale enterprises growth in Nigeria. The result also indicates that bank interest rate has serious significant effect on small and medium scale enterprises in Nigeria. To this effect, deposit money banks' management should see economic development as a priority by extending more credit to the private sector which are driven by small and medium scale enterprises

Dalhat, and Hassan, (2016)Examined the role of deposit money banks (DMBs) in financing SMEs in Nigeria, The objectives of the study are to assess the impact of poor financial support ,business environment and managerial skills on the growth and survival of SMEs in Nigeria, Secondary data were extracted and entered into the data view and analyzed thereafter. Record on financial support, business environment, and managerial skills were extracted and analyzed using the linear regression analysis and the multiple regression analysis for the purpose of testing the hypotheses. As for the primary data analysis, the univariant analysis technique was used to obtain the mean and standard deviation to see the level of inclination to the scale. The study recommends that Government should as a matter of urgency assist prospective SMEs to have access to finance and necessary information relating to business opportunities, modern technology, raw materials, market, plant and machinery which would enable them to reduce their operating costs and be more efficient to meet the market competitions, That the government should endeavour to create an enabling environment that would be truly conducive for SMEs to thrive without engaging in any act of fraudulent practices. Finally, a system of technical skills and entrepreneurship training should be developed by the Government and the private sector for the operators of SMEs, so that they can improve on product quality, upgrade their operations to international standard and attract investment for expansion

II. METHODOLOGY

Research Design

The research design adopted for this research is the ex-post facto and descriptive research design. The inability of the researcher to manipulate these variables is a basic feature of ex-post facto research design thus, it perfectly suits this research. Also, as described by Kerlinger (1970), the ex-post facto research design is also causal comparative research which is used when the researcher intends to determine cause-effect relationship between the independent and dependent variables with a view to establishing a causal link between them Nwogu, (2006). Thus, all this led to the adoption of this research design.

Sources and Method of Data Collection

To carry out this empirical analysis, the study employed secondary data. The relevant data for this study have been obtained from the Central Bank of Nigeria statistical bulletin covering the period of 1982-2018. The study was based on time series data collected on annual basis from the periods under review. The data set was tailored to the need of the empirical framework and it contained information on economic variable such as GDP.

Model Specification

The above equation is modified to suit the hypotheses formulated. This model will be used to analyze the two hypotheses formulated based on bank credits and financial performance indicator.Koutsyannis (2001) articulated that model specification is the formulation of a maintained hypothesis. This involves expressing the model to explore the economic phenomenon empirically. To determine the relationship between the dependent and independent variables of this study, the model for the study is specified and the function capturing them is initially stated as:(Multiple regression model)

$LGDP = \alpha_{\text{ɩ}} + \beta_1 X_1 + \beta_2 X_2 + \mu$

Where LGDP = Log Gross Domestic Product

$\alpha_{\text{ɩ}}$ = Constant

β_1 = Coefficient of X_1

X_1= Credit to SMSE

β_2 = Coefficient of X_2

X_2 = Inflation Rate

μ = Error Term

Technique of Data Analysis

In order to ascertain the degree of impact of one variable on another, we specify a linear equation model and apply the econometric Ordinary Least Squares (OLS) technique to ascertain the level of economic effect which exist between the dependent variable and the independent variables. We carried out the preliminary tests, so as to ensure that the time series data set meets the classical linear regression model assumptions before the diagnostic test is carried out as stated below.

The Coefficient of determination, F-Statistics, t-statistics, statistic error- test, unit root, Durbin Watson test is used to evaluate the correlative nature of the estimated parameters of the regression model.

Data Presentation and Analysis

The essence of this area is to present and analyze the data collected for the study. The presentation of data for the entire period is discussed in line with the objective (to measure the impact of deposit money banks credit to SMSE on the Nigerian economy) of the study. The period of this study covered 1982-2018.

Table 4.1 Normal Distribution Table

	LOAN_MN_	INFLAT___	GDP_MN_
Mean	21655.43	19.28027	23079.36
Median	11158.60	12.50000	4679.210
Maximum	100291.5	72.80000	119043.6
Minimum	35.90000	5.380000	94.33000
Std. Dev.	27652.01	17.49238	35225.51
Skewness	1.645092	1.725540	1.530120
Kurtosis	4.632724	4.722843	3.912383
Jarque-Bera	20.79878	22.93714	15.72116
Probability	0.000030	0.000010	0.000386
Sum	801250.9	713.3700	853936.3
Sum Sq. Dev.	2.75E+10	11015.40	4.47E+10
Observations	37	37	37

E view result

Source: Researchers Computation

The descriptive statistics presented, aided in the interpretation of the variables applied in the model as stated in methodology.

The table 4.1 as stated above indicated that volatility of inflation rate is 11015.4, as measured with standard deviation, while other variables are relatively low. The effect of this volatility is easily felt on the performance indicator-GDP. Some variables as indicated on the table, such as loan to SMSE (0.00003) and GDP (0.00038) are not normally distributed using jack- bera probability.

Test For Stationarity

In other to estimate the impact of deposit money banks credit to SMSE on the Nigerian economy, the study tested for the presence of unit root in the time series data set. This was necessary because we want to ensure that the parameters estimated are stationary time series data. The study utilized the Mackinnon(1996) one sided p-values.

Decision rule:

To accept the null hypothesis that the data are non-stationary, the probability value of t-statistics must be greater than the critical values and significant at 5%, otherwise the null hypotheses is not accepted. Or the test result must be more negative than the critical value at 5%, then reject the null hypotheses.

Table 4.2

Null Hypothesis: D(GDP_MN_) has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 0 (Automatic - based on SIC, maxlag=9)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-5.698698	0.0002
Test critical values:	1% level		-4.243644	
	5% level		-3.544284	
	10% level		-3.204699	
*MacKinnon (1996) one-sided p-values.				

E view result

Source: Researchers Computation

In table 4.2 the unit root test is carried on the regressors using Mackinnon method. It is observed that the probability of the unit root statistics is 0.0002 which is less than 0.05,therefore the data set is said to be stationary at first difference using automatic selection of maximum lags of nine(9).The study therefore, rejects the null hypothesis (H_0) in favor of the alternative (H_1) that the time series data set is stationary

Test for Multicolinearity

The explanatory variables of the time series data set of 1982-2018. By simple observation, there is no evidence of multicolinearity among the variables because there is no relationship between the explanatory variables. There is evidence of orthogonal, since re- moving or adding variable to regression does not affect the coefficient of other variables.

TEST OF HYPOTHESIS

Decision rule:

Accept the null hypothesis (Ho) if the coefficient of t-statistic is negatively signed and the p-value of t statistics is greater than 5% level of significance, otherwise reject the null hypothesis.

TEST OF HYPOTHESIS

Statement of hypothesis in null form:

H_0: Deposit money banks credits to SMSE have no positive effect on Nigerian economy.

Table 4.3

Dependent Variable: GDP_MN_
Method: Least Squares
Date: 01/29/19 Time: 16:47
Sample: 1982 2018
Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-70.54914	4889.413	-0.014429	0.9886
LOAN_MN_	1.132978	0.098994	11.44493	0.0000
INFLAT___	-71.84622	156.4898	-0.459111	0.6491

R-squared	0.809104	Mean dependent var	23079.36
Adjusted R-squared	0.797875	S.D. dependent var	35225.51
S.E. of regression	15836.80	Akaike info criterion	22.25566
Sum squared resid	8.53E+09	Schwarz criterion	22.38628
Log likelihood	-408.7298	Hannan-Quinn criter.	22.30171
F-statistic	72.05379	Durbin-Watson stat	2.326558
Prob(F-statistic)	0.000000		

E view result

Source: Researchers Computation

Interpretation of Regression Result

From the table 4.3 ,the coefficient of t-statistics is 1.13297 which is positively signed, while the probability value of t-statistics is 0.0000 which is less than 5% level of significance.

R-squared of 80% means that variation caused by the explanatory variable(BANKS CREDIT) on the dependent variable (GDP) was explained by 80% using multiple regression model. The remaining 20% variation unexplained as a result of variables not included in the model. Adjusted R^2 in the result above shows 79% as the best fit of the model for all the explanatory variables jointly tested. There is evidence of positive serial autocorrelation since DW statistic is 2.32 .The p-value of F-statistics (0.0000) indicated that the overall regression is statistically significant since the result is less than 5% level of significance.

The study therefore, rejects the null hypothesis which states thatdeposit money banks credits to SMSE have no positive effect on Nigerian economy.

III. CONCLUSION/ RECOMMENDATIONS

The economic reason for credit to small and medium scale enterprises (SMEs) is indisputable as we can observed that small and medium scale enterprises were seen to have progressively become a major factor in economic development of many countries of the world. This study has empirically brought to light pivotal role of deposit money banks' credit to growth of small and medium scale enterprises, which in turn accelerate economic growth and development. In addition, the finance led growth postulation for growth and development of an economy through mobilization and allocation of financial resources to deficit economic unit is valid in Nigeria. However government should implement policies that guide SMEs in accessing financial assistance from banks and other institutions. It is recommended that soft and short term loans should be made available to SMEs for business enhancement.

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