



The impact of commercial banks activities on small and medium enterprises in Nigeria

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ABSTRACT

In Nigeria credit has been recognized as an essential tool for promoting Small and Medium Enterprises since over 70 percent of the population are engaged in the informal sector. Thus, the government have recognized that for sustainable growth and development, the financial empowerment of the rural areas is vital being repository of SMEs. It is against this background that this paper seeks to examine the impact of commercial banks activities on SMEs in Nigeria Consistent with the objective, hypothesis was formulated. The population and the sample of the study were all the Commercial banks in Nigeria. The study utilized data from secondary source. Data were obtained from the Central Bank of Nigeria's (CBN) Statistical bulletin. The time frame for the study is eighteen (18) years, covering the period of 1993 to 2010. The technique of analysis used in testing the data was Linear Regression Analysis. We concluded that even though commercial banks activities such as giving out loans and receiving deposits have positive impact on SMEs, there is room for the Commercial banks to gear more of its activities towards SMEs development in Nigeria. The study calls on appropriate authority such as the government to ensure the consistency of policies that will enhance SMEs development. Similarly, the Regulatory Authority and the Bankers Committee should encourage activities by Commercial banks to provide adequate funding to SMEs through SMEEIS.

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Introduction

Despite the contributions of SMEs to economic growth in Nigeria, studies are yet to emerge to look at the contribution of bank credits to economic development of rural areas in Nigeria. Development may take place in rural sectors through the provision of SMEs in the sector, but, the rate of SMEs in rural areas is not adequately stated in the overall SMEs figures in Nigeria. As a result of this, one cannot really rely on the contribution of SMEs to the development of rural sectors of Nigerian economy. Therefore, adequate attention is needed to investigate the amount of resources rural sectors of Nigeria is contributing to the total commercial banks credit and what amount is given back to the sector in order to improve economic activities of rural sectors of Nigeria. Central Bank of Nigeria stated it clearly from the Nigerian economy that resources or funds are being sourced in the rural sectors, but, one cannot say authoritatively if the funds are meant for the development of the rural areas or are concentrated in the urban areas of the economy (Egbetunde, 2012).

In the same vein a study of the trend of commercial banks credit to small and medium enterprises in Nigeria suggest that an increase in commercial banks credit allocation to SMEs would increase SMEs contribution to total GDP. Therefore, the reasons for the low contribution of the SMEs to the total GDP in-cludes lack of credit facilities, shortage of skills among the entrepreneurs, weak infrastructural facilities, inability of small and medium industrialists to transform ideas into re-ality, poor demand for finished goods, restricted access to land, difficulties in input procurement and lack of continuity after the death of their owners. But the major problem in Nigeria still remains lack

of adequate credit facilities. In fact, chronicled several challenges confronting banks in their participation in SMEs programmes to establish why banks have not been able to give the much-needed help to SMEs finance. The World Bank survey on access to finance of Nigerian firms has demonstrated that most banks are reluctant to provide long term credit to small and medium scale indus-tries in Nigeria. It is also obvious from the survey that even when banks extend short-term credit to small and medium scale firms it is often based on high collateral requirements and the facilities do not go beyond a one-year term.

Thus, Commercial Bank is a financial institution set up to provide banking services to the general public without any restriction including high and low income earners, (Oluyombo, 2006), SMEs have been reported by Ayozie and Latinwo, (2010), Safiriyu and Njogo, (2012) to encourage entrepreneurship. In addition, Muritala, et al.(2012) posit that there is the greater likelihood that SMEs will utilise labour-intensive technologies thereby reducing unemployment particularly in developing countries and thus have an immediate impact on employment generation (Ariyo, 2008; Ayozie and Latinwo, 2010). According to the United Nations Industrial Development Organization UNIDO (2001), for developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the paramount way to triumph over poverty and inequality. The importance of this process is the development of a vibrant private sector, in which small and medium enterprises can play a central role (Onakoya, Fasanya and Abdulrahman, 2013).

The problems bedeviling the SMEs in Nigeria are multifaceted. Ekpenyong (1997) and Utomi (1997) identified inadequate capital, inaccessible credit facilities. Long term development institutional credit was known not to be available to SMEs because they are generally considered high credit risks by financial institutions. The study by Evbuomwan, et al. (2012) indicated that 75.7% of their survey respondents relied mostly on own funds to finance their businesses. A widespread concern is that the banking system in the sub sector (which supposed to be the major financier of SMEs) is not providing enough support to new economic initiatives and in particular to the expansion of SMEs and agriculture sector. It is noted that commercial and the hitherto merchant banks which retained liquidity levels in excess of regulation have shown reluctance in financing SMEs (Sacerdoti, 2005). Also, the interest rate on micro-credits is very high, due to large administrative costs in relation to their scale of operations. (Mahmoud, 2005). It is against this background that this paper attempts to examine the impact of Commercial Banks' activities on Small and Medium Enterprises in Nigeria. To this end, the paper is structured into four major parts. Section one is the Introduction, section two which follows this introduction present, the literature review, section three discusses the methodology, while section four presents the conclusion and some recommendations.

Literature Review

Small scale industry orientation is part and parcel of Nigeria. Evidence abound in our respective communities of what successes our great grandparents made of their respective trading concerns, fanning, iron smelting, cottage industries etc. Economic history is well shocked with enough insights into humble beginnings of present day grand corporation. The paper was examined within the framework of the correlation between adequate funding of Small and Medium Scale Enterprises and its efficacy in alleviating poverty in Nigeria, hence its impact on economic growth. Ultimately, Small and Medium Scale Enterprises have come to be recognized as veritable engines of growth and development, employment and wealth creations; poverty reduction and innovative development in the economies of the world. It should be noted that government of various nations and indeed world economic development and financial institutions such as the World Bank, IMF, UNDP, IBRD and other United Nations Organizations have all maintain potentials of SMEs developmental policies aimed at creating a productive sector that will generate employment opportunities and making the people self reliance (Sule and Inyada, 2009).

In Nigeria, government policies accorded and gave priority to the country's Small and Medium Scale Enterprises. This has paved way for the registration of a greater percentage of Small and Medium Scale Enterprises. It is worthy of note that a remarkable breakthrough in Small and Medium Scale Enterprises came about through the indigenization Decree 1972 and later in Nigeria Enterprises promotion Act 1977 (ICAN Students' Journal, 2007). Thus, there is the need for a developing economy like Nigeria to embrace private initiative with a view to encourage restructuring, diversification and technological dynamism beyond what market forces on their own can generate. Small and Medium Enterprises (SMEs) are useful tools in achieving this. They are universally acknowledged as effective instruments for employment generation and economic growth. Hence, in Nigeria where the private sector is not well developed. SMEs could play a critical

role in stimulating development and alleviating poverty in Nigeria (Oyinlade, 2005).

As emphasized by Harper (1995), with the large increase in world population (especially Nigeria) government can certainly not afford to employ many more, and large-scale industry as this has dramatically failed to absorb more than a tiny fraction of the multitudes who need jobs. Therefore, in many countries Small and Medium Scale Enterprises is hoping, to provide employment creation, and almost everywhere else have so eagerly strived to promote and encourage them. Hence, the availability of efficient infrastructural services is a key requirement for the take-off of private investment (CBN, 2000). The take-off and efficient performance of any enterprise, be it small, medium or large, will require the provision of funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments (Nnanna, 2004).

As good as the objectives of the SMEs, the problems of funding have remained insurmountable. For instance, Fatunla and Adebayo (1985) note that inadequate finance has always been a constraint to the development of Small and Medium Scale Enterprises. While Oshunbiyi (1989) equally note the pivotal role of finance at every stage in an organization's life and the restricted access of SMEs to the capital market and opines that they could improve the financial position through exploitation of institutional credit sources.

Taking a look at countries experiences, SMEs employ more than 50 percent of the industrial workforce in Columbia, India, Indonesia, Kenya, Philippines, Tanzania and Zambia. They are the real job creators in the European Union (EU) accounting for 99.9 percent of 11.6million enterprises (excluding enterprise in agriculture, fishing and other sectors), 72 percent employment of the 80.7 million persons employed by all enterprises, and generate 69.7 percent in EU (Deloitte Touche Tohmatsu, 1995). SMEs were equally responsible for over 50 percent of the total employment in Canada.

By and large, studies have shown that SMEs have in many countries, provided the mechanism for stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology. They help to mobilize savings for investment and promote the use of local raw materials. Through their dispersal nation-wide, they contribute to more equitable income distribution among individuals and regions, as well as mitigate rural-urban migration.

In view of these benefits, greater attention has been given to the promotion of SMEs globally as a panacea for poverty alleviation, economic growth and development. Even in the most buoyant economies, such as the United State of America, Small and Medium Scale Enterprises have played an important role in her transition from the industrial age of the post industrial information technology era. Also, in the other countries like Japan, China and South Korea, the use of sophisticated technology has reduced the minimum efficient scale of production in industries known for product innovation. In the same vein, Nigeria budget for 2007 was designed to address the menace of poverty. Specifically, attention has been directed at the development of Small and Medium Enterprises with the aim of turning them into engines of economic growth and poverty reduction. There is no doubt however, that the Small and Medium Enterprises have the tendency of becoming large and powerful and, hence providing employments to millions of people through its active productive capacity (Ibru, 2005).

The Role of Small and Medium Scale Enterprises As Catalyst For Rural Development In Nigeria

In an effort to reduce poverty and create a sustainable economic growth and development in Nigeria, the Nigerian government since the change from military to the present democratic administration has been giving increasing emphasis to the development of the Small and Medium Scale Enterprises. This has been demonstrated not only in policy statements and formulated policy measures, but also in certain concrete steps being taken by the government, the CBN and some other relevant agencies, most especially the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

Thus, this change of government's Industrial Policy of concentrate on the development of Small and Medium Scale Enterprises (SMEs) was a focus in the right direction in alleviating poverty in Nigeria. The Small and Medium Enterprises have also been identified as the key engine that could effectively drive the development process and hence, improve the standard of living of the citizens. (Adelaja, 2004 and Owualah, 2002). Therefore, Small and Medium Scale Enterprises are capable of performing the following developmental roles as mentioned below:

(i) Employment Generation

It is estimated that 80% of the Nigerian work-force is engaged gainfully by Small and Medium Enterprises. This is because operations in this sub-sector are mainly labour intensive and,. Studies have shown that SMEs create more jobs per unit of capital employed than big businesses. It should therefore be noted that employment generation is one of the major reasons for promoting the development of SMEs. This is more so in Nigeria where a large proportion of the labour force is unemployed. This has become a major source of employment for majority of the people and, it has become a major source of employment for majority of the people and, it has a great tendency to reduce poverty.

(ii) Entrepreneurship Development

The SMEs provide a good preparation ground for the development of indigenous entrepreneurs, which drive the wealth creation process at levels. Thus, the enterprising strength of Nigerians has become most manifest among SMEs, micro-enterprises and the informal sector. This category of businesses has demonstrated excellent ability to generate business ideas. Hence, the SMEs provide the platform for the development of an army of entrepreneurs who are ever willing to take advantage of available business opportunities. Through the proactive nature of most SMEs, it has become a major source of innovation and creativity. Most of the World acclaimed technological innovations emerged from the crucible of creativity platform provided by SMEs.

(iii) Mobilization of Domestic Savings

it is exceedingly important to mention this important role of SMEs in order to re-emphasize the inevitability of the commitments of banks and government to develop this sector. Therefore SMEs offer a very good avenue for the mobilization of domestic savings for investment. These area savings, which could have been diverted to other things. Countries that have experienced economic growth have achieved that on the pedestal of SMEs.

(iv) Backward and Forward Linkages

The Small and Medium Enterprises have the capability to accelerate linkages between the small/medium and large scale businesses in a manner that will be of immense benefits to both

parties. The SMEs could feed the big firms inputs at low costs, to the benefit of both the SMEs, large industries and the overall growth of the economy. Ultimately, SMEs promote effective harnessing and utilization of scarce resources through appropriate development of forward and backward linkages that seek to minimize rural-urban migration.

(v) Industrial Dispersal.

Essentially, SMEs help in industrial spread as they could be feasible in any nook and crannies of the country: They also help to accelerate industrial dispersal that have the capacity to stem the rural-urban migration and hence, reduce the current problem of urbanization in the country. As developed SMEs will help to promote income redistribution and poverty alleviation through numerous jobs to be created and geographical dispersal of economic activities.

(vi) Flexibility of Operations

SMEs facilitate the flexibility and diversification of industrial production in the sense that their operations are more easily adapted to changing market conditions. Also, they can operate profitably in small markets with low purchasing power. This will in no small way impact significantly on the economy this flexibility of operation will besides guarantee a critical area of specialization for most large organizations engaged in the productions of goods and services that ensures good standard of living.

(vii) Utilization of Local Resources for Producing Value Added Good and Contributing to National Output

SMSs are involved in enterprises such as textiles, food processing, woodworks, leather products. Soap and detergent, all of which require simple technology and their raw materials are readily locally available in abundance. These raw materials will be used to produce goods that will enhance economic growth. SMEs also will contribute to national output as production capacity of the country will increase and better efficiency experienced.

(viii) Poverty Alleviation

SMEs have been identified as a fundamental feature of the economy, which can generate over 60% of economic activity as well as become the engine growth required by the Nigeria government for the much needed sustainability development in terms of job, wealth creation and poverty alleviation. Therefore, the adequate funding of SMEs and providing enabling environment for its smooth operations, a lot will be achieved that will reduce poverty. These will engage more people and enhance their per capita income: Hence, SMEs will serve as a panacea for poverty alleviation if properly implemented.

From the foregoing, SMEs will contribute to the growth and development our economy. It is expected to ensure the structural balance between large and small industries sectors as well as rural and urban areas. SMEs are also expected to ensure the supply of high quality parts and components, and intermediate products, thereby minimizing the dependence on imported materials. Furthermore, SMEs would not only encourage indigenous technology but also promote the establishment of imported substitution industries.

They are expected to produce for exports thereby generating additional foreign exchange and hence help to strengthen national currency and balance of payment position. Above all, if all these are achieved by SMEs, the issue of poverty will become the thing of the past.

Table 3.1 Gross Domestic Products at constant prices versus deposit and loans of rural branches of commercial banks

Ratio of Commercial Banks' Loans to Small Scale Enterprises 1/				
Period	Gross Domestic Product at constant prices (Agriculture)	Commercial Banks Loans To Small Scale Enterprises (N' Million)	Commercial Banks Total Credit (N' Million)	Commercial Banks Loans To Small Scale Enterprises as Percentage of Total Credit (%)
1993	90,596.51	15,462.9	48,056.0	32.2
1994	92,832.95	20,552.5	92,624.0	22.2
1995	96,220.67	32,374.5	141,146.0	22.9
1996	100,216.18	42,302.1	169,242.0	25.0
1997	104,514.00	40,844.3	240,782.0	17.0
1998	108,814.07	42,260.7	272,895.5	15.5
1999	114,570.71	46,824.0	353,081.1	13.3
2000	117,945.07	44,542.3	508,302.2	8.7
2001	122,522.34	52,428.4	796,164.8	6.6
2002	190,133.40	82,368.4	954,628.8	8.6
2003	203,409.87	90,176.5	1,210,033.1	7.5
2004	216,208.47	54,981.2	1,519,242.7	3.6
2005	231,463.61	60,672.6	1,899,346.4	2.7
2006	248,598.96	75,713.7	2,524,297.9	1.0
2007	266,477.18	81,100.4	4,813,488.8	0.9
2008	283,175.43	76,565.3	27,568,464.7	0.3

Source: Central Bank of Nigeria Statistical Bulletin

Table 4.4 Regression Analyses for HypothesisModel Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.869 ^a	.755	.714	5,362.89415	.658

a. Predictors: (Constant), BLNS

b. Dependent Variable: RECD

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	76764.688	6439.084		11.922	.000
BLNS	.742	.173	.869	4.298	.005

a. Dependent Variable: RECD

Source: Regression Analysis Result using SPSSWIN

Governmental Policy on Small and Medium Scale Business

Small and Medium Scale Enterprises (SMEs) are engine room of economic development of any nation but its funding has been a recurrent problem which the Nigerian government has been making attempts to solve, Terungwa (2009). Small and Medium Enterprises Equity Investment scheme (SMEEIs) is an umbrella under which banks came together to supposedly attend to this problem. Facilitated by the CBN, it was initiated by the Bankers' Committee (all the banks in Nigeria) as another means to funding small and medium scale enterprises in Nigeria. The scheme requires all banks to set aside 10 percent of their profit before tax annually for equity investment in small and medium enterprises. The scheme is to promote indigenous entrepreneurship, develop local technology, generate employment, facilitate the flow of funds from banks for the establishment of new, viable SMEs, ensure output expansion, re-distribute incomes and promote industrial linkages. The Scheme involves equity participation of banks in enterprises that they have appraised to be viable. The banks partner with the entrepreneurs.

(A) Activities covered by SMEEIS:

SMEEIS funds can be used for the following business activities (with the exception of trading):

- i. Agro-allied,
- ii. Information technology and telecommunication,
- iii. Manufacturing,
- iv. Educational establishments,
- v. Services,
- vi. Tourism and leisure,
- vii. Solid minerals; and,
- viii. Construction

(B) Funds set aside and investments made by banks under SMEEIS

The total funds set aside were N41.433billion by 83 banks as at December 31st 2005. At this time N12.049billion had been invested by 58 banks in 2002 projects.

(C) Ensuring micro and small enterprises have unhindered access to SMEEIS funds.

Recently, the Bankers' Committee decided that ten percent of the SMEEIS funds be set aside for financing micro-

entrepreneurs such as fashion designers, mechanics, vulcanizers, black smiths, carpenters, etc.

Methodology

The population of this study is the 21 quoted banks on the floor of the Nigerian Stock Exchange. The hypothesis Commercial Banks' activities have no impact on Small and Medium Enterprises was tested using Regression Analysis. Regression Analysis is used to determine the effect of an independent variable say X on dependent variable say Y. Regression analysis is a statistical tool for the investigation of relationships between variables it seeks to ascertain the causal effect of one variable upon another. We have different variant of regression techniques which are Linear Regression, Non-Linear Regression, Multiple Regression, Regression Model for time series Analysis, but this research work will use Linear Regression. The regression standard formula is given below:

$$Y = a + bx + \mu$$

$$\mu = \text{Standard error}$$

$$\text{Where 'a'} = \frac{\sum y - b \sum x}{n}$$

$$b = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

$$y = a + bx$$

$$S_{yx} = \frac{\sum y^2 - a(\sum y) - b(\sum x \sum y)}{n-2}$$

Where a = the y intercept

b = the slope i.e. the gradient of the regression line which is the regression co-efficient

x = is the independent variable

y = is the dependent variable

μ = error factor usually assumed as equal to zero

S_{yx} = standard error of the estimate which measures the variation around the regression line.

y^1 = estimate of the value of y given x (Owojori, 2002).

The information provided in the table 3.1 above were used as data for testing the second hypothesis (Governmental policies have not played a significant role in enhancing Rural Economic Development).

The effect of a governmental policy (The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund which became operational in the year 2000) on Commercial Banks loan to small scale enterprises (Rural Economic Development) as contain in the table above depicts the data that span between periods of sixteen years from 1992 to 2008, thereby giving us adequate and relevant figures for the testing of the hypothesis involved in this research work.

Decision rule

The effect of the policy- SMEEIS which became operational in 2000 on rural economic development will be tested here. The data gotten from 1993-2000 (before the policy) will be regressed and compared with the data gotten from period ranging from 2001-2008 (after the policy). If there is an increase in t value then the policy can be said to have played a significant role in rural economic development and if there is a decrease in t value then the null hypothesis will be accepted.

Let A represent the period 1993-2000

Let B represent the period 2001-2008

$$R^2 = 0.76 \quad \bar{R}^2 = 0.71 \quad F = 33.209 \quad DW = 0.66$$

Here, BLNS means commercial banks loans to small scale enterprise.

Therefore, $RECD = 11.922 + 4.298BLNS$

This can be interpreted to mean that before the SMEEIS policy was introduced, as commercial banks loan to small scale enterprise increases by one million naira then rural economic development increases by N4.298 million.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.417 ^a	.174	.037	49,474.027	.380

a. Predictors: (Constant), BLNS

b. Dependent Variable: RECD

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	111798.573	97979.065		1.141	.297
BLNS	1.511	1.344	.417	1.125	.304

a. Dependent Variable:

RECD

Source: Regression Analysis Result using SPSSWIN

$$R^2 = 0.174 \quad \bar{R}^2 = 0.037 \quad F = 1.265 \quad DW = 0.380$$

$$RECD = 1.141 + 1.125BLNS$$

This can be interpreted to mean that after the SMEEIS policy was introduced, as commercial banks loan to small scale enterprise increases by one million naira then rural economic development increases by N1.125 million.

DECISION: Considering the rate of Rural Economic Development before and after the introduction of SMEEIS policy, we could see that RECD fell despite the introduction of the policy.

$$\text{BEFORE (A)} \quad RECD = 11.922 + 4.298BLNS$$

$$\text{BEFORE (B)} \quad RECD = 1.141 + 1.125BLNS$$

Since $4.298BLNS > 1.125BLNS$, thus following the decision rule already stated, the alternative hypothesis (H1) will be rejected and the null hypothesis (H0) accepted.

Research Findings

Interpretation of research findings represents a key component in the research process. Therefore, results of research must be presented in such a way that it would be meaningful and well understood. In line with research question and research hypothesis, the linear regression analysis was used to determine the relationship that exist between commercial banks loan to small scale enterprises (GDP of agriculture) in both period 'A' (before the SMEEIS policy) and period 'B' (after the SMEEIS policy). From the result, we discovered that there was a higher rate of relationship between commercial banks loan to small scale enterprise in period 'A' than 'B'. Thus, we conclude that governmental policy has not played a significant role in enhancing rural economic development.

Conclusion

The development of SMEs and its effective promotion have not been approached seriously in Nigeria; hence, the lack of their impact in the economy. In Nigeria, various governments instituted various programs aimed at developing SMEs sector. Most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the economy. The Non-Governmental organization and donor agencies are currently involved in the promotion of SMEs in Nigeria. Access to credit continues to pose a major problem to

SMEs sector in Nigeria since the traditional financial institutions have not been able to meet their credit needs.

To this end, sustainable development is human focused, long-term and enduring, and not a quick fix (Odigbo and Adediran, 2004). Government has a chief role of building and financing an enduring political, social, cultural and environmental structure on which rural development can thrive, through the encouragement and recognition of the roles of cooperatives, Non-Governmental Organizations, and private initiatives as their grass root appeals promote sustainable rural development.

This work strongly recommends the need for government to concentrate its efforts to the encouragement of private initiatives, teaching and propagation of cooperative philosophy and peaceful coexistence to the rural dwellers; as such education forms the bedrock for rural development. By this, the rural dwellers who are the principal target of rural development will be taught 'how to fish instead of being given fish' through guided efforts, to initiate, participate and execute desirable projects in their communities. The Commercial Banks who are the prime mover of any economy should also be greatly encouraged to help and participate in the development of these rural areas in Nigeria.

The monetary authority in Nigeria should task the commercial banks to concentrate the resources of the rural areas in their domain in order to improve economic activities of the sector of the economy. They should urge the commercial banks to promote small and medium enterprises in the rural sectors in Nigeria so as to serve as an engine of development in the sector. The rural dwellers should be further encouraged to deposit more of their funds with the commercial banks in order to strength the commercial banks to create more credits / wealth in the rural areas. Agriculture should be further developed with appropriate policy in rural areas in Nigeria because it is one of the key determinants that contribute to the growth of rural areas.

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