BANK CREDIT AND MICRO-ENTERPRISES PERFORMANCE

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Abstract *The study investigated the impact of banks' credits on the growth of micro-businesses in the country for the period 1990-2018. The study adopted a survey research design where data relating to bank credit are used. The data used for the study were collected from CBN bulletins, which covered the period earlier stated. Econometric model was specified and analyzed using Ordinary Least Square (OLS) technique to ascertain the relationship between the variables. The findings of the study revealed that interest rate, money supply and commercial bank credit had a positive significant effect on the growth of micro-businesses in the country. The study concluded that banks' credits have a significant effect on the performance of micro-businesses in the country. Following the revelations of the study, it was recommended that there is a need for government to create an enabling environment that will make the practice of micro-businesses more efficient.*

Keywords: *Micro-businesses, Banks' credits, interest rate, SMEs, Exchange Rate.*

INTRODUCTION

The contribution of small and medium scale enterprises to the economic growth and development of most countries of the world cannot be over-emphasized. Small and medium scale enterprises are found in every sector of the economy be it finance, power, petroleum, real-estate, information technology and so on. By way of definition, small and medium scale enterprises are companies whose number of employees or output falls below specific digits. Small scale businesses are classified to have less than 50 employees, while medium sized companies are those that have employees of less than 250. This kind of company form major component of many economy worldwide and determine the development of that country (Sanusi, 2013).

In Nigeria, the small and medium scale industry is seen as a key to Nigeria's growth, alleviation of poverty and unemployment in the country. Therefore, promotion of such enterprises in the country became very paramount as they bring about a great distribution of income and wealth, development of indigenous technology, speed up the rate of social economic development, economic self-defense, entrepreneurial development employment and a host of other positive, economic uplifting factors (Aremu & Adeyemi, 2011). Since the political independence in 1960, all the successive governments have put in place several policies that rapidly and persistently increase the productivity of domestic goods.

Consequently, governments have since implemented numerous national improvement plans and programmes aimed at boosting productivity, as well as, diversifying the domestic economic base and emphasizing on the small and medium scale production. Apart from their potential for ensuring a self-reliant industrialization, in terms of ability to rely largely on local raw-materials, small scale enterprises are also in a better position to boost employment of local raw materials as input, small and medium enterprises, are also in a position to boost employment, guarantee a more even distribution of industrial development in the country, including the rural areas and facilitate the growth of non-oil exports (Imoughele, Ehikioya, Ismaila & Mohammed, 2014).

The role of banks in the performance of SMEs is vital to economic development. It was acknowledged that the availability of financial capital is a pre-requisite for rapid development. The pertinent role played by deposit money banks in the country by generating more growth in SMEs within an economy has been supported by the idea of the great entrepreneur; Schumpeter (1932) who established in his study that banking sector facilitates technological innovation through their intermediary role. His emphasis was that efficient allocation of savings through identification and funding of entrepreneur with best chances of successfully implementing innovative product and production are tools to achieve real economic performance (Schumpeter, 1932).

The small and medium enterprises (SMEs) in Nigeria are a very heterogeneous group of business, usually operating in different sectors of the economy. The SMEs consists mainly of those engaged in the distributive trade who constitute about 50% of the SMEs, 10% are in manufacturing, 30% in agriculture and 10% in services, which together account for well over 50% of Nigeria's Gross Domestic Product. There are indications that the SMEs account for about 70% of industrial employment in Nigeria (Afolabi, 2013). Nigeria is blessed with vast resources, including oil, gas and solid minerals, already confirmed to exist in commercial quantities. She also has enormous electric power resources; a large human population, forming a very big market and substantial idle capacity in all industrial sectors. In addition, small and medium enterprises are known to exist all over the country and most of them were established from the mid-1980s with the inception of the Structural Adjustment Programme (SAP).

According to Eniola and Ektebang (2014), small and medium enterprises have been acknowledged to have a prodigious potential for sustainable development. The surplus of the workforce employees from bigger firms was able to be reinstated back to the employment, mainly through the growth of SMEs. However, the performance of SMEs is constrained by internal factors such as resources and strategic choices and external factors such as the carrying capacity of the environment or competition. The resource-based view of the SMEs suggests that competitive advantage stems from the possession and deployment of resources that are in some way superior to those of its competitors.

The analysis of the contribution of bank credit to small scale enterprises have stem debate and growing interest among researchers, policy makers and entrepreneurs, recognizing the immense contribution of the subsector to economic growth. According to the International Council for Small Business (ICSB), small and medium enterprises make up over 90 per cent of all firms and account for an average of 60 to 70 per cent of total employment and 50 per cent of Gross Domestic Product of any economy.

However, the influential role played by SMEs notwithstanding its development is everywhere constrained by insufficient financial support and poor administration. These factors are possibly useful to make any right thinking leader opine the need for a dedicated financial institution solely to the propagating their (SME) course. Nevertheless, bank credit has been identified in many business surveys as one of the most important factors determining the survival and growth of small and medium enterprises in both developing and developed nations (UNCTAD, 2001). Access to finance allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Poorly functioning financial systems can seriously undermine the performance of small and medium scale enterprises of a country, resulting in lower growth in income and employment.

It is against this background that this study seeks to examine the impact of bank credit to small and medium scale enterprises on the growth of SMEs in Nigeria. The study covers the period of 30 years between 1990 and 2018, concentrating on four variables such as money supply, interest rate, and bank credit to SMEs and SMEs output in Nigeria. The impact of SMEs towards economic development of a nation cannot be overemphasized. The study covers all kinds of industries, production, and processing, servicing e.t.c.

Literature Review

Conceptual of SMEs

The definition of SME is usually derived in each country, based on the role of SME in the economy, policies and programs designed by particular agencies or institutions empowered to develop SME. For instance, a small business in the developed economies of countries like Japan, Germany and United State of America (USA), may be a medium or large-scaled business in a developing economy like Nigeria. Moreover, the definition of SMEs also varies overtime from agencies or developing institutions to another, depending on their policy focus. The above variation notwithstanding, SME can be defined based on certain criteria including turnover, number of employees, profit, capital employed, available finance, market share and relative size within the industry. The definition can be based on either some quantitative or qualitative variable. Quantitative definitions mainly express the size of enterprises, mainly in monetary terms such as asset value, profit, turnover as well as quantitative index like number of employees. For examples, the 1975 companies Act in the United Kingdom stated that an enterprise with a turnover of less than ₤1.4 million was small, those with turnover between ₤1.4 and ₤5.7 million were medium, while those enterprises having turnover above ₤5.7 million were large. It also went further to classify the enterprises based on number of employees—those with fewer than 50 workers being small, between 50 and 250 workers being medium and those employing above 250 workers were described as being large.

Similarly, the European Union (EU) in 1995, defined SMEs as any enterprise employing less than 250 employees, and went further to break down the SME into micro (less than 10 employees), small (from 10 to 49) and medium (between 50 to 249) (Etuk, Etuk & Baghebo, 2014). SMEs in Nigeria, as defined by Small and Medium Industries Equity Investment Scheme (SMIEIS), are enterprises with a total capital employed not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300.

SMEs—The Nigerian Experience

The Small and Medium Industries Equity Investment Scheme (SMIEIS), are enterprises with a total capital employed not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300. The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developed countries. Almost every country assist her SMEs largely because of the crucial inherent role they play in the economic growth and development. The SMEs in Nigeria has expanded following the adoption of the Structural Adjustment Programme (SAP) to fill the supply gap in industrial consumer goods created by the difficulties faced by large scale firms which have not easily adapted to the policy changes of SAP. Moreover, a major gap in Nigeria's industrial development process in the past years has been the absence of a strong and virile small and medium enterprises sub-sector (SMEs) owing to financial constraints explained by high lending rates, high loan requirements and lack of variable entrepreneurial skills.

Also, lack of adequate credit for SMEs traceable to reluctance of banks to extend credit to those that are owing them, among others, to poor documentation at project proposals as well as inadequate collateral by SME operators constitute one of the problems facing SMEs in Nigeria. The little progress recorded from the courageous efforts of the first generation of indigenous industrialists was almost completely wiped out by the massive dislocations and traumatic devaluation which took place under the Structural Adjustment Programme (SAP). In recognition of these constraints, the Central Bank of Nigeria has remained committed to the growth and development of the small and medium enterprises in Nigeria. This stance has been successively reflected in the bank's policies over the years. In particular, the CBN has through its credit guidelines over the years, and until very recently, required the erstwhile commercial and merchant banks to allocate stipulated minimum of credit to the preferred sectors including the SMEs.

The Contributions of Small Scale Industries to the Nigerian Economy

Despite the controversies revolving around the definition of SMEs, the contribution cannot be undermined in the economy.

The transformation of traditional industries is one of the contributions of small scale enterprise to the growth and development of the country. Unlike the large-scale industrialization strategy, which is the category of import-substitution strategy practiced by Nigeria without any success, small-scale industrialization has made a very glaring impact on the economy of nations (Aremu & Adeyemi, 2011).

About 10% of total manufacturing output and 70% of industrial employment are by SMEs (Osuagwu, 2001). SMEs also promote industrial employment through the utilization of local resources production of intermediate goods and the transfer/transformation of rural technology.

SMEs are generally regarded as the engine driving the growth of this and other economies and provide the best opportunity for job creation and rural development. In most major economies, the critical role of SMEs is recognized and special agencies of government are created to provide support for SMEs.

The funding requirement of SMEs is also given special consideration by the formal funding institutions, banks, micro-credit agencies, venture capital and the non-formal funding agencies like the donors and specialized NGOs.

There exists a high level of consensus on the importance of SMEs, especially the SMEs sub-sector to economic growth and development. Umebali (2010) has however, observed that the importance of SMEs varies with sectors and with the developmental stage of a country. He opined that developing characteristics such as the level of capital allocation/requirements, management size and arrangement as well as limited market access which make SMEs less amenable to the disappointing results of development strategies that focus on large, capital intensive and high import dependent industrial plants as well as failed public enterprises.

In both developed and developing countries, the traditional sector has served and continues to serve as the spring board for lunching vibrant modern sector. In short the modern sector has evolved through structural transformation and modernization of the traditional type cottage or artisan industry.

Greater utilization of raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of revenue for self-employment and provision of opportunity for training managers and semi-skilled workers.

Challenges Facing Micro and Small Scale Enterprises in Nigeria

There are various challenges facing micro and small scale enterprises in Nigeria; while some are financial, others are non-financial.

The financial constraints include those factors that prevent micro and small scale enterprises (MSEs) from accessing funds easily, inadequate sources and supply of funds has been a major setback to the realization of many brilliant business ideas and outward expansion of existing business (Oluba, 2009).

Record keeping is particularly important to the integrity of the business. The prevailing corrupt tendency in the Nigerian society, which has permeated the fabric of the society including Nigeria entrepreneurs, have prevented most small and medium enterprises operators from keeping adequate records.

Poor governance structure is another factor preventing small and medium enterprises to access funds easily from banks and other specialized financial institutions.

An industrial analysis recently observed that one the reasons why micro and small scale enterprises (MSEs) funds has not been invested, is the operator prefer to get the funds as loan, rather than as equity distribution.

Role of the Banking Sector in Financing SMEs

The banking sector—specifically commercial banks and specialized banks—have several ways to get involved in SMEs finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank. Banking sector services provided to SMEs, take various form such as:

a) Short term loans compatible with SMEs business and income patterns
b) Repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client’s cash flow.
c) Very small loans, or bank overdraft facilities are also appropriate for meeting the day-to-day financial requirements of small businesses.

d) Factoring and invoice discounting, asset finance and equity finance, all being within the framework of a customer friendly approach.
e) That outlet is located close entrepreneurs
f) To use extremely simple loan applications.
g) To limit the time between application and disbursement to a few days.
h) As well as develop a public image of being approachable to low-income people.

Theoretical Framework

Pecking Order Theory

The pecking order theory was suggested by Donaldson in 1984. The proponents of the Pecking order theory contended that managers prefer financing from retained earnings, followed by debt, and then equity. It served as the underlying theory that used to reflect on the sourcing of funds by SMEs in Nigeria. The proponents of the pecking order theory specified funding demands are within the limits of the accessibility of funds because the accessibility of funds is governed by different amount of information asymmetry and related agency costs included in the various sources of finance. Pecking order theory became one of the most influential theories of corporate capital structure (Degryse, Goeij & Kappert, 2010). SMEs seem to adjust their investment plans to the principles of the pecking order approach and could use a form of borrowing ration to achieve their funding policy.

Capital Structure Theory

Modigliani and Miller (1958) propounded the capital structure theory in the field of investment, where the capital structure represents the mix of debt and equity used by firms to finance long-term investment. Debt is the component of capital loaned by other parties or investors and subject to repayment. Small businesses rely on internal sources for financing business projects (Kausar, Nazir & Butt, 2014). The internal sources of funding constrain SMEs ability to finance big projects. The capital structure theory led to vigorous debates in areas of corporate finance and academics. Despite the diversity of the capital structure literature, relatively few scholars have explored the financing decision of SMEs. Most of these researchers have ignored the uniqueness of SMEs, which represent most of activities contributing to Gross Domestic Product (GDP) and employment in most countries.

Empirical Review

Ubesie, Onuaguluchi and Mbah (2017) ascertained the effect of deposit money banks' credit 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 of 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 discovered that deposit money banks' credit to small and medium scale enterprises has no significant effect on small and medium scale enterprises growth in Nigeria. The result also indicates that bank interest rate has serious significance effect on small and medium scale enterprises in Nigeria.

Dalhat and Hassan (2016) examined impact of poor financial support, business environment and managerial skills on the growth and survival of SMEs in Nigeria. Secondary data was 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 univariate 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 competition.

The study of Aliyu and Bello (2013) examined the contribution of commercial banks to the growth of small and medium enterprises in Nigeria between the period of 1980 and 2009. The paper employed descriptive method of analysis. An inductive methodology involving observation, collection of secondary data and the analysis of such data was employed. To complement this approach, ratio analysis and trend analysis was also used. Data were obtained from CBN publications such as Annual Reports, Statistical Bulletins, Journals, internet materials and textbooks. The study discovered that commercial banks contribute to financing small and medium scale enterprises but their contribution has declined as the government through CBN directives abolished the mandatory banks' credit allocations. Among other recommendations, the paper recommended that commercial banks should trim down its stringent requirements so that SMEs can benefit from loan advances as large corporations do.

Methodology

The study examined the impact of Banks' credits and Micro-Enterprises performance in Nigeria between the period from 1990-2018. Secondary sources of data were employed and gathered from journals, textbooks, websites related to the study as well as CBN statistical bulletin. The data used for this study are annual time series from 1988 to 2017. Ordinary least Square estimator (OLS) was adopted to determine the unit regression and explain the possible correlation. The researcher used the E-view statistical package to analyze the data.

Model Specification and Formulation

For the purpose of this study, the time series data were used for the period of 30 years (1988-2017). Thus, the model for the study is formulated as follows:

$Y = f(X_n)$

$Y = f(X_1, X_2, X_3 \ldots\ldots X_n)$

SMSEG = f (CSME, MS, INT)……………………………………..equ (1)

$SMSEG = \beta_0 + \beta_1 CSMS + \beta_2 MS + \beta_3 INTR + \mu$……………………..equ (2)

Where:

SMSEG= Small and Medium Scale Enterprises Growth

MS = Money Supply

INT= Interest Rate

β_0 = Constant term

β_1-β_3 = Coefficients of Explanatory variables

μ = Error Term

Apriori Expectation: The researcher depend on micro economic theories for the validation of statistical result. it is expected that credit to SMEs, money supply should be positive sign while interest rate should be negative B1>0, B2>0, B3<0.

Data Analysis and Interpretation

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Table 1: Unit Root Test
Group Unit Root Test: Summary
Series: SMEG, CSME, MS, INTR
Date: 07/23/19          Time: 17:02
Sample: 1988-2017
Exogenous Variable: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 5
Newey-West automatic bandwidth selection and Bartlett Kernel
```

Method	Statistics	Prob. **	Cross-Sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t**	0.37917	0.6477	4	106
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	0.41582	0.6612	4	106
ADF- Fisher Chi-square	46.4132	0.0000	4	106
PP- Fisher Chi-square	53.3152	0.0000	4	112

E-View version 9

```
** Probabilities for Fisher tests are computed using an asymptotic Chi-square
distribution.
All other tests assume asymptotic normality.
```

The top of the output indicates the type of test, exogenous variables and test equation options. The lower part of the summary output gives the main test results, organized both by null hypothesis as well as the maintained hypothesis concerning the type of unit root process. All of the results indicate the presence of a unit root at level, as the LLC, IPS, and both Fisher tests fail to reject the null of a unit root. However, SMEG, CSME, MS and INTR are all stationary at first difference. This means that all the variables have no unit root at first difference.

Table 2: Regression Output

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Dependent Variable: SMEG
Method: Least Square
Date: 07/23/19    Time: 17.30
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Sample: 1988-2017
Included observations: 30

Variable	Coefficient	Std. Error	t-Statistics	Prob.
CSME	0.002418	0.015373	0.157297	0.8762
MS	0.964559	0.051328	18.79212	0.0000
INTR	209.7503	93.65201	2.239678	0.0339
C	3961.768	1527.549	2.593547	0.0154
R-squared	0.943562	Mean dependent var		4646.631
Adjusted R-squared	0.937050	S.D. dependent var		7098.109
S.E. of regression	1780.902	Akaike info criterion		17.93119
Sum squared resid.	82461914	Schwartz criterion		18.11802
Log likelihood	-264.9679	Hanna-Quinn criter		17.99096
F-statistic	144.8947	Durbin-Watson stat		0.963026
Prob (F-statistic)	0.000000			

Goodness of Data Fit: Data must be fitted reasonable well. That is value of R^2 should be reasonable high at least more than 60 percent. The higher the R^2 better the fitted data. In this model, we observed that R^2 is 0.943562 which is quite good because 94 percent is more than 60 percent, which means that the model is nicely fitted. The adjusted R^2 which is 0.937050 (94%) could be further explained that credit to small and medium scale enterprises, money supply and interest rate are good variables to explain the growth of small and medium scale enterprises while the remaining 6 percent are factors or variables that were not included in the model but been captured by error term which are capable of influencing the dependent variable.

T-test: The independent variable should be individually significant. This could be checked by using probability value of t-test. If the p-value of t-statistics is less than 5 percent (0.005), we can reject the null and accept the alternative hypothesis. If otherwise, we do the inverse.

From the result presented in table 2, credit to small and medium scale enterprises is statistically insignificant because the p-value of 0.870 is greater than 0.05 percent level of significance.

Money supply is statistically significant because the p-value of 0.0000 is less than 5 percent level of significance.

In the same vein, Interest rate is statistically significant because the p-value of 0.0339 is less than 5 percent level of significance.

This implies that only money supply and interest rate are capable of influencing the growth of small and medium scale in Nigeria for the study under review.

Coefficient of Variables

The sign of the coefficients should follow economic theory or expectation, experiences of others or intuition. The column labelled "Coefficient" depicts the estimated coefficients. The least squares regression coefficients β are computed by the standard OLS formula.

For the simple linear models considered in this study, the coefficient measures the marginal contribution of the independent variable to the dependent variable, holding all other variables fixed. The other coefficients are interpreted as the slope of the relation between the corresponding independent variable and the dependent variable, assuming all other variables do not change.

SMEG = 3961.768 + 0.002418CSMS + 0.964559MS + 209.7503INT

The value of constant is 3961.768; this means that growth of small and medium scale enterprises will increase at 3961.768 units while other variables remain constant. The coefficient of credit to small and medium scale enterprises is 0.002418; which means that for every unit increase in credit to small and medium scale enterprises, there will be the same unit increase in the growth of SMEs in Nigeria. The coefficient of money supply is 0.964559; which means that for every unit increase in money supply, there will be the same unit increase in the growth of SMEs. The coefficient of interest rate is 209.7503; which means that increase in interest rate will bring the same unit increase in growth of SMEs in Nigeria.

F-statistics: This test the joint significance of the variables employed. Independent variables should be jointly significant to explain dependent variable. This can be checked using F-test. If the p-value of F-statistics is less than 5 percent (0.05) we can reject the null and accept the alternative hypothesis. If otherwise, we can do the inverse.

From the result, p-value is (0.000000) which is less than 5 percent level of significance. Hence, we reject the null hypothesis (H_0) that the overall estimate has a good fit which implies that our independent variables are simultaneously significant, which means that bank credit has a significant effect on the growth of small and medium scale enterprises in Nigeria.

Conclusion

The study investigated the effect of bank credit on the growth of small and medium scale enterprises in Nigeria. The study covers the period of 30 years between 1988 and 2017. The study revealed that interest rate and money supply are statistically significant and also posited a positive relationship. Commercial credit to small and medium scale enterprises is statistically insignificant. Based on these results, the study concluded that bank credit has a significant effect on the growth of small and medium scale enterprises in Nigeria.

Recommendations

Based on the findings of this study and to further induce SMEs growth in Nigeria, the following recommendations are suggested:

i. There is a need for government to consciously develop the business environment by provision of necessary infrastructure, which will lower the cost of doing business in Nigeria, this will induce the growth of SMEs.
ii. Interest rate on credit facility granted to SMEs should be drastically reduced, commercial banks should grant soft loan to this important sector of the economy and also reduce stringent policy in supply of credit to SMEs.
iii. Greater efforts should be made to make available short, medium and long term loans to productive investments like SMEs as they constitute an integral part of the economy.

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