Bank Lending and its Impact on Small Scale Enterprises in Nigeria

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Abstract: The research investigates bank lending and its impact on small-scale enterprises in Nigeria. The main issues in this paper relate to understanding the effects and impact of bank lending on small-scale enterprises. In order to analyse the data, econometric methods were used. The econometric regression model of ordinary least square was applied in evaluating the impact of bank lending on small-scale enterprises. The model revealed a positive impact of bank lending on small-scale enterprises. Some recommendations were made therein that measures be taken to create a pool of long-term funds to enable long tenor lending. In addition, measures should be taken to influence the regime of interest rate downward, ease loan documentation process and requirements, create additional inducement to boost lending to SMEs and augment monitoring of funds disbursed under the CBN intervention schemes, etc..

1. Introduction

Small enterprises provided the mechanism for stimulating indigenous enterprise in many countries, creating employment opportunities and aiding the development of local technology (Sule, 1986; World Bank, 1995). They may look small or inconsequential but are actually the foundation of any economically stable nation. The potential benefits of SMEs to any economy include contribution to the economy in terms of output of goods and services; creation of jobs at relatively low capital cost; provision of a vehicle for reducing income disparities; development of a pool of skilled and semiskilled workers as a basis for future industrial expansion, among others [6].

The growth of the sub-sector is very critical for economic development. This is particularly so in a developing economy like Nigeria that requires to activate growth centres to promote inclusive development. In addition, some of them eventually transform to big enterprises. In contributing meaningfully to economic development, access to finance has become critical as they depend on financial institutions to raise funds for investment. [28].

The traditional portfolio theory according to [43] supports the notion, "that large banks are able to finance a wider range of firms, including for instance large enterprises. Consequently, large banks can diversify their portfolios better than small banks, and they lend less to small businesses. As a result, the traditional portfolio theory predicts size to be the most important factor in small business lending: large banks finance small firms less. This implies that banking consolidation adversely affects small business lending" [43].

The intuition is that, big banks usually lend more to big firms compared to small businesses. It might be expected that as small banks are acquired and merged into big banks, the focus might be to lend to big borrowers or even shift the composition of their assets from their previous activities. One of the reasons for the likely shift of focus from small lender to big borrower could stem from the fact that most big banks see loans to small firms as less profitable given their assets size.

Small and medium enterprises (SMEs) play important roles in the economic growth and sustainable development of any economy [4]. They contribute more to employment generation, as they employ more than half of the total workforce in the US, and two-third in the EU [43].

A typical capitalist or mixed economy is made up of surplus and deficit units. In performing their primary function of intermediation, banks collect deposits from the surplus units of the economy and lend out to the deficit units in form of loans and advances [25]. The role of the financial system in mobilizing and channeling of funds to the real sectors of the economy cannot be taken for granted. Sound financial system is recognized as a necessary and sufficient condition for rapid growth and development for every modern economy [38].

The financial system consists of institutions like banks, insurance, stock market, and other financial institutions. In Nigeria, the banking sector is an important part of the financial system. The banking sector dominates the Nigerian financial system as it accounts for about 90% of the total assets in the system and about 65% of market capitalization of the Nigeria Stock Exchange [39]. If banks cannot grant loans to the deficit economic units within their
immediate operational environment, the business sector will not grow, deposits will be limited and this will hinder the ability of banks to generate income [22; 24]. For most banks, loanable funds account for about fifty percent or even more of their total assets and about half to two-thirds of their revenue [45]. This made lending the first and most important function of banks. The function is considered important due to number of reasons.

First, the general public or customers use lending in assessing banks stability. Banks that are willing and able to give out loans are considered more stable than those that mostly reject loans proposals of their customers. Lending which may be on short, medium or long-term basis is one of the services that deposit money banks do render to their customers. In other words, banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a means of aiding their growth in particular or contributing toward the economic development of a country in general [21].

Second, lending is regarded as part of legal requirement by the monetary authority, which may stipulate certain percentage of bank lending to some sectors like agriculture, small scale industries etc. Third, lending is used as a tool in the implementation of the monetary policies of government, which affects money supply and demand in the economy. Fourth, lending affects pattern of production, level of entrepreneurship and consequently, aggregate output and productivity. The last and the most important reason why the lending function of banks is crucial and important in every economy is that it is generally accepted that there is positive relationship between bank credit and economic growth [34].

Deposit money banks are the most significant savings, mobilization and financial resource allocation institutions. As a result, these roles make them an imperative phenomenon in economic growth and development. In performing this role, it must be realized that banks have the potential, scope and prospects for mobilizing financial resources and allocating them to productive investments and in return promote their performance. Thus, no matter the sources of the income generated or the economic policies of the country, deposit money banks would be interested in giving out loans and advances to their numerous customers bearing in mind, the three principles guiding their operations which are, profitability, liquidity and solvency.

However, deposit money banks’ knack to lend out loans are influenced by a lot of reasons such as the existing interest rate, the volume of deposits, the level of their domestic and foreign investment, banks liquidity ratio, reputation and public recognition to mention just a few. Lending practices in the world could be traced to the era of industrial revolution, which amplified the swiftness of commercial, and production activities thereby bringing about the need for large capital outlays for projects. Many captains of industry at this period were unable to meet up with the sudden upsurge in the financial requirements. They therefore turned to the banks for assistance. However, the emergence of banks in Nigeria in 1872 with the establishment of the African Banking Corporation (ABC) and later emergence of other banks in the scene during the colonial era witnessed the beginning of banks’ lending practice in Nigeria.

In Nigeria, there is detailed information about Nigerian banking industry and its activities, but little information is available about how bank lending specifically affect SMEs. In view of this development, the objective of this study is to examine the impact of bank lending on SMEs in Nigeria. However, the lending practices of the then colonial banks were biased and discriminatory and could not be said to be a good lending practice as only the expatriates were given loans and advances. This among other reasons led to the establishment of indigenous banks in Nigeria. Prior to the advent of Structural Adjustment Programme (SAP) in the country in 1986, the lending practices of banks were strictly regulated under the close surveillance of the bank’s supervisory bodies. The SAP period brought about some relaxation of the stringent rules guiding banking practices. The Bank and Other Financial Institutions Act Amendment (BOFIA) 1998, requires banks to report large borrowing to the CBN. The CBN also requires that the total value of a loan credit facility or any other liability in respect of a single borrower, at any time, should not exceed 20 percent of the shareholders’ funds unimpaired by losses in the case of commercial banks [21].

This study becomes imperative because deposit money banks in Nigeria need to understand how to manage these huge assets in terms of their loans and advances. For the banks to balance their main objectives of liquidity, profitability and solvency, lending must be handled effectively and the banks must behave in a way that their potential customers are attracted and retained. The importance of the study is underscored by the observed role of SMEs in the development of economies worldwide, especially, as evidenced by their contribution to employment, income, provision of goods and services to the economy, as well as human capital development [2,3]. The major problem of this study is therefore, the question of finding out the extent to which bank lending affect small-scale enterprises in Nigeria.
2. Conceptual Issues

This will look at issues on the concept of Small Scale Enterprises (SSEs), Bank lending and Developments in Nigeria Banking Sector.

2.1 Small Scale Enterprises

The concept of Small Scale Enterprises (SSEs) conveys different meanings in different economic jurisdictions. In the United States and India, for instance, SSEs could be very large business organisations, while in Nigeria they would, as their name imply, be businesses with limited scope of operations. However, to arrive at a working definition for SSEs, several criterions that cut across majority of jurisdictions was used as benchmark.

In the United States, any business unit employing 500 workers and less is considered a small-scale enterprise [42]. In Uganda, companies with 10 and less employees are micro enterprises while those that employ between 50 and 100 are categorised as medium scale enterprises. For India, enterprises with employees between 1 and 100 are small-scale enterprises.

[7] argued that the number of employees might not be sufficient for characterizing enterprises small or big, because development strategies vary for different countries. For instance, in countries that adopt labour intensive approach to industrialization as in India, a typical small-scale enterprise would have more employees than in a country where capital-intensive policies are in vogue as in most developed countries. According to him, a capital base of between US$5,000 – US$50,000 would be reasonable for a typical SSE. The other criterion for defining SSEs relate to the volume of transactions per day. The rationale for this is that some companies might have small capital bases but command very large turnovers. This is particularly so for trading companies. A turnover of US$50,000 and below per month is internationally viewed as depicting a SSE.

In Nigeria, the national policy on micro, small and medium enterprises defines SSEs along the lines of international criteria. The policy mainly uses the employment base and asset size to categorize SSEs into micro, small and medium. Accordingly, any business enterprise employing less than 10 workers and has an asset base of less than N5 million could be viewed as a micro enterprise. For small-scale enterprises, the employment base should be between 10 and 49 with asset base of over N5 million but less than N50 million. Medium scale enterprises are those that employ between 50 and 199 workers, with asset base of over N50 million but less than N500 million. Importantly, the assets admitted for these classifications exclude land and buildings. In addition, in case of conflict of classification between employment and asset size, the policy gives preeminence to the number of employees over asset size. [28]

The World Bank Document (Report No. 7114) of 1998 on Nigeria, defined small and medium enterprises as one whose total fixed asset (excluding land) plus cost of investment do not exceed ten million naira in constant 1988 price and in micro enterprise as one with fixed asset (excluding land) plus cost of the investment prospect below four hundred thousand naira in constant 1988 prices. Furthermore, the National Economic Reconstruction Fund (NERFUND) defines small and medium scale enterprises (Section 2 (b) of Act No 2 of 1969) as those with fixed cost of new investment excluding land but not exceeding ten million naira. Following the current official definitions of industrial Enterprises adopted by the 13th meeting of the National Council on Industry (NCI – 13) in Makurdi, Benue State in July 2001, defined a small scale industry as an industry with total capital employed of over ₦1.50 million but not more than ₦50.00 million, including working capital but not excluding cost of land, and or labour size of 11-100 workers. [46]

The role of SMEs in industrialisation and economic development has been recognised by both developed and developing economies. The contribution of SMEs to the industrialisation and development witnessed in South East Asia has made most developing countries to pay more attention to the development of the sector as an engine of growth and development. The benefits that SMEs confer on the economy include source of output growth through innovation and a major source of employment generation that could lead to poverty reduction. In addition, SMEs are seen to facilitate technology transfer, source of economic diversification and entrepreneurial development as they are expected to grow into large industries that will stimulate economic development.

However, SMEs in Nigeria have not been able to play these important roles given the quantum of challenges they face which include inadequate capital, as they are not able to have access to finance from banks, poor operating environments as typified by poor state of infrastructure, low entrepreneurial skills and inconsistent government policies. To tackle the problem of inadequate finance, government at various times put in place schemes to ensure flow of investable fund into the sector. The focus of government shortly after independence was to ensure that indigenous entrepreneurs participated actively in the sector and efforts were made at channeling funds to improve the contribution of small and medium enterprises (SMEs). Despite the intervention by government, this trend continued till the early 2000s when it became apparent that a system-wide approach was necessary to address this funding challenge of SMEs. This partly necessitated...
the banking sector consolidation of 2005 to ensure banks active participation in financing SMEs. [28]

2.2 Bank Lending

Lending is a major function that commercial banks perform. Commercial banks in playing their intermediation role do give their deposits mobilized out to the deficit economic unit as loan, which may be on short, medium or long-term basis. This assists them in achieving their profitability principles and other ends for which they are setup. A lot has been reviewed in terms of commercial banks lending activities of various commercial banks. Some opinions deliberated on the factor responsible for banks willingness to extend much credits to some sector of the economy, while some discussed effect of such extension of credits on productivity and output. Most of these earlier studies agreed on the fact that it is logical for banks to have some basic lending principles or consideration to act as a check in their lending activities. Since there are many studies in respect of bank’s lending behavior, it is therefore imperative to highlight and consider some factor that economist and professionals alike have proposed as virtually significant in explaining the determinant’s of commercial banks lending behaviour. [32]

Lending is indubitably the heart of banking business. For that reason, its administration requires considerable skill and dexterity on the part of the bank management. While a bank is irrevocably committed to pay interest on deposits, it mobilized from different sources, the ability to articulate loanable avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application.

Commercial banking in Nigeria witnessed an era of impressive profitability, characterized by high competition, huge deposits and varied investment opportunities; in an effort to make quick profits the commercial banks relied essentially on self-liquidating loans and diversified their portfolio into less risky investments with safe margin. The current trend in Nigerian banking and finance sector, suggest that the days of cheap profits are now over and only banks with well-conceptualized lending and credit administration policies and procedures can survive the emerging competition. [32]

Further, bank-lending decisions generally are fraught with a great deal of risks, which calls for a great deal of prudence and tact in this aspect of banking operations. The success of every lending activity largely hinges on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting.

[35], supported this view by stressing that” the days of armchair banking are over and that the increasing trend in bad debts and absence of basic business/corporate advisory services in most Nigerian commercial banks, suggest an apparent lack of use of effective lending and credit administration techniques in these banks”.

Prior to 1984, the bulk of most commercial bank deposit was made up of demand deposit. The position has now changed with the evolution of improved treasury management by corporate savers and customers as well as favorable interest rate now payable on deposits, particularly since interest rates were regulated in 1987. The result of this is additional rise in cost of funds for banks. If they are able to meet the cost element in fund and eke out some profits to meet corporate growth and shareholders’ expectation, they must really give adequate attention to the single most important source of their earnings- lending and credit administration.

Emphasizing this assertion, [35] further stressed that “the major objectives of commercial banks’ lending is to maximize profit”. The staggering increase in volume of commercial banks credit in Nigeria, during the half of eighties alone, lends credence to this assertion. In 1980, aggregate commercial bank loan and advances was N6.4 billion. This increased to N113.6billion in 1986, a staggering increase of 94%. Management of such resources should therefore transcend the use of traditional techniques based mainly on the use of rule-of thumb, hunches and experience. The present volume and complexity of transaction in bank lending and credit administration in Nigeria call for the use of scientific techniques like those of management science and operations research to aid their lending and credit administration.

[31], in a study on roles and failure of financial intermediation by banks in Nigeria revealed that “commercial banks can lend on medium and short term basis without necessarily jeopardizing their liquidity. If they must contribute meaningfully to the economic development, the maturity pattern of their loans should be on a long term nature rather than of short term period”.

However, [33] claimed that “it is generally acknowledged that commercial banking by its nature is highly prone to volatility and fragility, whether arising from exogenous shocks or endogenous policy measures and therefore amenable to regulations and supervision”. The forms of regulation vary, but in general, they embrace statutory regulations or rules of behaviour that may be administratively imposed or that can be guided through a market-oriented approach.

Similarly, there are certain aspects of fiscal and monetary policies which could affect the decision of the discerning and informed public to patronize the bank and the lending behaviour of commercial banks. Paramount amongst these measures is what could be called the interest rate disincentive. Interest
rates have been so low in the country that they are negative in real terms”. As inflation increased, the purchasing power of money lodged in deposit accounts reduce to the extent that savers per force pay an inflation tax. There is also the fear that the hike in interest rates would increase inflation rates and make a negative impact on the rate of investment. [47] supported this position, when he stated that, “a major regulation affecting commercial banks lending in Nigeria is the restriction on the amount of interest they are allowed to pay on deposits in an effort to attract additional depositors and the interest they charge on their fund based activities”.

John (1993) commented that, “the ability of commercial banks to promote growth and development depends on the extent to which financial transactions are carried out with trust and confidence and least risk”. They require safe and sound banking practices. Where commercial banks indulge in unsafe and unsound banking practices, the confidence and trust, which the public situates on them, may be threatened.

[47], commenting on the factors that affect commercial banks’ lending behaviour said that, “the sound and viable functioning of commercial banks in Nigeria is adversely affected by the choice of certain policy instruments for the regulation of banking operations. Such instruments include a rigidly administered interest rate structure, directed credit, unremunerated reserve requirements and stabilizing liquidity control measures like the stabilization securities of the past”.

3. Empirical Literature

According to [14], SMEs are critical to the development of any economy, as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. [26] stressed that, SMEs are the engine room for economic growth. For developing economies, the contribution of the SME sub-sector to job creation is even more important. Taking into account the contribution of the informal sector, SMEs account for about three-quarters of total employment in manufacturing. SMEs have also been identified as the primary vehicles through which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations [12].

A recent study conducted by Enhancing Financial Innovation & Access (EFInA) in 2012 posits that MSMEs foster equitable growth amongst low-skilled individuals that may otherwise face unemployment; generate less tangible benefits by nurturing an entrepreneurial spirit; encourage innovation and help to develop a group of individuals with basic business skills from which a new set of corporate entities may emerge in the future [18]. In contributing meaningfully to economic development, access to finance has become critical as it depends on financial institutions to raise funds for investment. Bank lending to SMEs is important in modern economy as funds provided enhance capacity to raise processes, investment and, thereby, increase productivity.

[19] suggest the need for sustained commitment in financial support to the MSMEs given the required heavy investment in fixed assets such as land, buildings, machinery and equipment, among others. They also add that while such extra investments account for about 10 per cent of the cost of machinery of large enterprises, they represent 20 to 30 per cent of that of MSMEs due to lack of economies of scale.

The [48] however, observes that credit extension to the micro, small and medium enterprises (MSME) sector is extremely low with less than 10 per cent of MSMEs reportedly receiving a loan from a deposit money bank (DMB) and with MSME loans accounting for approximately 5 per cent of the DMBs’ lending portfolios. To improve access to needed credit facilities for the rapidly growing MSME sector (currently estimated at 10 – 50 million in Nigeria), various initiatives have been embarked on by countries [18]. A study by [23] however, pointed that new SMEs face significant resource pressure. Thus, the liability of newness may lead new SMEs towards more individualist ethical postures. Investors risk perception may be influenced by the extent to which they perceive that they can trust the entrepreneur or entrepreneurial team.

However, [16] found that increased bank concentration in local markets in the United States, led to declines in credit limits and in the amount of actual credit granted to small businesses. [15]; [11] have also shown in their studies that the emergence of mega banks lead to contraction of credit to SMEs. Using nine census region divided into urban and rural areas to define the banking market, [16], found that access to credit by small businesses had significantly reduced since consolidation in the US but credit limit to them had increased.

Also studying the effect of consolidation on lending to small business in Italy, [8] concluded that mergers in Italian banks led to temporary reduction in outstanding credit to all sizes of borrowers. They found that entry of new players resulted in negative impact on credit availability to small firms. Similarly, the study by [30] showed that consolidation failed to foster a vibrant and competitive SMEs sector that could enhance job creation and economic growth in Nigeria, thus the need for government intervention. [44] showed that, the excess liquidity in the banking system...
SME financing from a supply-side perspective is particularly relevant for Sub-Saharan Africa. According to enterprise-level data collected by the [48] SMEs in Sub-Saharan Africa are more financially constrained than in any other developing region. Only 20 percent of SMEs in Sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks, as against 23 percent in Eastern Europe and Central Asia.

[9] provides the first attempt to understand SME financing from the supply side. Based on a survey of 91 banks in 45 countries, the authors provided a characterization of bank financing to SMEs and found that banks perceive SMEs to be highly profitable and therefore serve it through a number of lending technologies and organizational setups. The authors also observed few differences to the extent by which SMEs are reached out by banks based on their ownership structure (i.e. public, private or foreign-owned). However, they found significant differences across banks and therefore concluded that an enabling environment was more important than the size of the firm or bank ownership in shaping bank financing to SMEs.

[17] studied banks' approaches to SMEs in terms of business models and risk management systems. From a survey of 48 banks and one leasing company in 12 countries, the authors found that all banks in the sample were interested in financing SMEs. To do so, the banks dedicated organizational units and offered a wide range of products, applying different transactional technologies such as credit scoring or risk-rating systems. The authors therefore concluded that the conventional belief that large banks are not attracted to SMEs was given way to modern day incentives predicted on relationship lending.

In a similar study, [37] investigated the status of bank financing to SMEs in the Middle East and North Africa (MENA) region based on a survey of 139 banks in 16 countries. The study found that in spite of a positive perception of the attractiveness of the sector by banks, the SME sector in the region remained largely underserved. Direct government interventions through public banks, credit guarantee schemes and other forms of subsidized financing played a major role in SME lending, partly compensating for the low level of private sector involvement.

[41] analyzed both the trend and structure of the SME financing market in Colombia. They found that banks in the country regard the SME segment as an attractive business opportunity though their level of sophistication in terms of business models and risk management tools remain modest. The authors concluded that a number of institutional and policy constraints characterized the market, which inhibit further growth of SME lending. In addition, evidence has shown that bank consolidation has many benefits, which include but not limited to; increased liquidity, efficiency and better diversification that may also support macroeconomic stability (Craig and Hardee, (2004), [20]; [36]; [40].

[16] assert that one reason advanced for why larger banks are less likely to lend to SMEs is that larger banks tend to rely on formal framework for determining whether to grant credit, and amount to be granted. He further stressed that since SMEs are less able to fulfill these formal requirements, they may be less likely to obtain credit from large banks. Based on this, it is believed that smaller banks initially constrained in lending to SMEs may once again reorganize into larger banks, shift their portfolio of loans in favour of larger borrowers or even shift their assets composition away from traditional lending activities aimed at financing SMEs.

SMEs are more obscure in terms of information than larger ones. In addition, smaller banks enjoy comparative advantage in overcoming information problem. This explains why SMEs financing is high in a market that consist of small banks. Therefore, since consolidation will reduce the number of smaller banks, it can be safe to conclude that there will be a decrease in SMEs financing because these loans are deemed less profitable for large banking organizations.

4. Bank lending and SMEs development in Nigeria

SMEs are crucial catalysts for economic development [5]. Banks provide a nation with a function of pooling scattered resources from surplus to deficit units so as to promote investment innovation, productivity and consequently growth and development. The banking industry in Nigeria dominates the financial system. [10] maintains that a well functioning financial system contributes to investment and economic growth. Every enterprise at its onset, before standing firm on its feet, needs borrowing. The first place that they need to go and borrow at those times is the banks. According to elementary corporate finance theory, an investment project should be undertaken whenever its net present value is positive. This assumes that the capital expenditure is not exhaustive. Firms do any volume of investment, and so where the firms do not have sufficient capital to embark on any level of investment, there is need for capital borrowing. This shows that even if an enterprise is strong and firmly rooted, it still does not stop borrowing, because it can embark on a very large-scale investment more than it currently does, if it can get the required capital. In an economy where the interest rate is high, small and
medium scale enterprises find it difficult to borrow and repay when in fact they constitute the real sector of the economy.

When funding becomes a major problem for such enterprises, nothing else works. This is because other problems, which emerge later in, an enterprise’s lives that are being tackled as natural problems, which come after its funding. This in turn hinders the growth and development of the economy. [29] postulates that to forestall the imminent capital flight from the real sector to the banking sector, banks should begin to take second look at the industrial sector in terms of lending operations. He continues that banks should plough back a large proportion of the money available to them to the real sector of the economy as long-term loans at rates not exceeding 5%. This he said will encourage industrialists not only to remain in their present businesses but also to achieve their business expansion targets. Small and medium scale enterprises dominate the private sector of the Nigerian economy, but almost all of them are starved of funds [27]. The persistent lack of finance, for establishment and operation of SMEs occasioned by the inability or unwillingness of the deposit money banks to grant long term credit to operators of the real sector of the economy, led to the establishment of development finance institutions and the introduction of numerous funding programmes for the development of SMEs in Nigeria. 

In spite of these institutions and funding programmes, there continues to be a persistent cry against inadequate finance for the development of the SMEs in the country. The [13] shows that commercial, merchant banks loans, and advances to SMEs have been decreasing over the years. The statistics show thus; commercial bank’s loans to SMEs as a percentage of total credit decreased from 48.8% in 1992 to 22.2% in 1994. The trend increased marginally to 22.9 and to 25.5% in 1995 and 1996, respectively. There was a sharp reduction from 25 to 17% in 1997, and the decrease continued till it reached 0.2% in the year 2008. Similarly, merchant banks loans to SMEs as a percentage of total credits reduced from 31.2% in 1992 to 9.0% in 2000 [1]. The continuous decrease in commercial and merchant bank’s loans to small-scale enterprises can be attributed to lack of collateral from the SMEs to secure the loans and the high lending rates from the banks.

5. Methodology

The focus of this study is to examine bank lending and its effect on small-scale enterprises in Nigeria, for the period, 1995-2012. The population of the study is made up of all SMEs in Nigeria. The econometric technique employed in this study is the ordinary Least Squares (OLS) regression technique with the aid of EViews 8.0.

Model Specification

The model for this study examines bank lending as an its effect on small scale enterprises in Nigeria. 

\[ SESG = \beta_0 + \beta_1 BL + \beta_2 TDMB + \mu_t \]

Where 

SESG = Small Scale Enterprises Growth
BL = Bank Lending
TDMB = Total Deposit Money Banks

\( \beta_0 \) is the constant
\( \beta_1 \) and \( \beta_2 \) are parameters

6. Presentation and Empirical Results

Table 1: Regression Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>409549.2</td>
<td>36994.60</td>
<td>11.07051</td>
<td>0.0000</td>
</tr>
<tr>
<td>BL</td>
<td>0.019960</td>
<td>0.005976</td>
<td>3.340000</td>
<td>0.0049</td>
</tr>
<tr>
<td>TDMB</td>
<td>0.006886</td>
<td>0.002557</td>
<td>2.692442</td>
<td>0.0175</td>
</tr>
</tbody>
</table>

R-squared: 0.686534
Adjusted R-squared: 0.641753
S.E. of regression: 2.03E+11
Durbin-Watson stat: 2.692442
S.D. dependent var: 409549.2

7. Researcher’s Computation using EViews 8.0

The result shows a high explanatory power of the model. This is evident by the coefficient of determination (R²). R² with value of 0.6865 implies that 68.65% of the systematic variation in SESG is explained by the model i.e the independent variables during the period under study. This is further buttressed by the adjusted coefficient of determination (64.17%) which takes into consideration degrees of freedom. This shows that the model has a high goodness of fit represented by the co-efficient of determination value of 0.6865 and a high predictive power of the model with a high Adjusted co-efficient of determination of 0.6417.

The overall goodness of fit of the model represented by the F-statistics is 15.33095, which is significant at 1% level. This validates that there actually exists a significant linear relationship between the explanatory variables (BL and TDMB) and the dependent variable (SESG).

The T-statistics reveals that taking individually, the value of BL and TDMB highly significant in
explaining variations in SESG, at the 1% and 5% significant level. This is seen in their observed values of 3.340000 and 2.692442 respectively.

In addition, as expected, BL has a coefficient with value conforming to a-priori expectations. This conforms to the theory that purports a positive relationship between BL, TDMB and SESG.

BL and TDMB will significantly increase SESG in Nigeria. A one unit increase in BL will result in 0.019960units increase in SESG in Nigeria. In addition, a one unit increase in TDMB will lead to 0.006886units increase in SESG in Nigeria.

The DW-statistic of 1.814851 indicates the absence of positive first-order serial correlation (autocorrelation) in the model.

7. Summary, Conclusion and Recommendation

The study examines bank lending and its effect on small-scale enterprises in Nigeria. The study covers the period of 1995 to 2014 to examine the variables under study.

We observed from the analysis that there is an impact of bank lending on small-scale enterprises. Hence, bank lending has an effect on small-scale enterprises in Nigeria. Based on the empirical findings, it can be said that the contribution of deposit money banks in terms of credit granted (bank loans) for the growth of SMEs in Nigeria is estimated to be positive.

Following series of interventions adopted by the CBN since the banking sector consolidation exercise of 2004/2005 to the more recent initiatives meant to boost activities in the real sector, this study sought to ascertain among other things, the direction of growth of credit to SMEs. Nigeria deposit money banks remain dominant in the banking system in terms of their shares of total assets and deposit liabilities.

Consequently, it was discovered that there is an impact of bank lending on small-scale enterprises. Drawing from the findings, the study recommends that measures be taken to create a pool of long-term funds to enable long tenor lending. In addition, measures should be taken to influence the regime of interest rate downward, ease loan documentation process and requirements, create additional inducement to boost lending to SMEs and augment monitoring of funds disbursed under the CBN intervention schemes, etc.

8. References

List and number all bibliographical references in 9-point Times, single-spaced, at the end of your paper. When referenced in the text, enclose the citation number in square brackets, for example [2-4], [2, 5], and [1].


