THE GROWTH IMPACT OF SMES FINANCING BY DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The aim of this article was to assess the impact on the growth of small and medium-sized businesses (SMEs) financing in Nigeria (via deposit money banks). Numerous empirical studies on SMEs have been conducted previously, but only a few have looked at the impact of deposit money bank lending on SMEs in Nigeria. Thirty-four years of statistics were culled from the Central Bank of Nigeria's (CBN) Bulletin (2020). The data were analyzed using regression models. The findings indicate that the financing of SMEs by deposit money banks has a positive and significant effect on Nigeria's economic growth. Additionally, the monetary policy rate, inflation rate, and interest rate all contributed negatively to GDP during the study period, whereas credit to the private sector and credit to SMEs all contributed positively to real gross domestic product. Nigeria's monetary authority is proposed to ensure that bank loans are carefully reviewed in order to ensure that money reaches money users in the private sector with less reliance on collateral, thereby boosting the country's economy. The monetary authority (CBN) should also take steps to influence the interest rate regime downward and moderate the monetary policy rate in order to subdue their downside risk to both SMEs growth and economic growth (in the light of COVID-19's detrimental effect on SMEs in Nigeria and the world over).

Keywords: SMEs financing, Deposit money banks, Growth impact**.** Credit to the private sector.

1. Introduction

The impact of SMEs financing in developing nations like Nigeria, Ghana, Cameroun and Senegal can never be overemphasized. SME's contribute significantly to socioeconomic growth in all nations, particularly emerging ones, accounting for 90 percent of private sector businesses and employing 50-60% of the labor force in Nigeria (Magablh & Al-Mahroq, 2007).. SMEs such as: tailoring, metal and steel fabrication, bakery, hairdressing, to mention a few are seen as engines of economic growth all over the world (Ikpor, Nnabu & Obaji, 2017).

Recent statistics from the Central Bank of Nigeria shows that banks are now approving more loans to private sector enterprises. The CBN announced the establishment of a N50 billion Targeted Credit Facility (TCF) as a stimulus package to assist small and medium-sized firms (SMEs) that were adversely affected by the corona virus outbreak in 2019. (COVID-9). The TCF was established to mitigate the harmful impacts of COVID-19 on SMEs and to provide finance to SMEs for the purpose of expanding their operations. The Nigerian government designated SMEs as a priority area of intervention in acknowledgment of this problem in loan availability and accessibility for investment purposes. The government's objective was to safeguard Nigeria's economy against international capitalist entrepreneurs' control (CBN, 2019).
The increased provision of funds for SMEs financing by banks will make the SMEs sector in Nigeria and the economy of the nation to be more productive, especially among the large numbers of graduates and undergraduates who have been kept idle by frequent strike actions embarked upon by the Academic Staff Union of Universities (ASUU). The merits of having a vibrant SMEs sector in Nigeria are numerous and include the followings among others; reduction in unemployment rate, increase in revenue generation, increase in locally made goods and services, increase in gross domestic product and favourable balance of payments (Fagae, 2011).

2. Statement of the Problem

Entrepreneurs, researchers, SMEs owners, government agencies, banks, trade organisations, to name a few, are concerned about SMEs' access to financing. Credit availability has been identified as a barrier to SMEs growth in Nigeria (Ikpor, Nnabu & Obaji, 2017). Lack of cash limits SMEs' ability to address macroeconomic issues (Schneider, 2002). SMEs need funding to set up or expand their existing businesses (Osano & Languitone, 2016). SMEs require appropriate credit to spur economic growth (Ohachoism, Onwuchekwa & Ifeanyi, 2013).

One difficulty problem hurting SMEs in Nigeria is that the government gives little or no attention to them when developing important economic policies, preferring large established enterprises for credit access (Afolabi, 2013). Due to this fact, access to money was identified as the main obstacle to SMEs expanding and contributing to Nigeria's economic growth. According to the CBN (2018), commercial banks' lending to SMEs peaked at #46 billion in 1999 and peaked at #12 billion in 2010. Moreover, according to CBN data from 2017, banks lent SMEs about $12 billion.

Poverty persists in Nigeria today. Globally, 86.9 million Nigerians live in extreme poverty, compared to 14.2 million in Indonesia. Neither has per capita income. In 2018, it was $2,049, $3,871 in Indonesia (World Bank, 2019). The SMEEIS and other contemporary SMEs lending facilities like the Government

Enterprises and Empowerment Programme (GEEP) were created and launched in 2001 to overcome the flaws of prior SMEs financing schemes in Nigeria. However, small business owners in Nigeria lack genuine government support, leaving them uncertain about their future. In Nigeria, the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) was conceived in 2001 and the recent Government Enterprises and Empowerment Programme (GEEP) to enable banks provide equity finance rather than debt finance. Hence, small business owners are gradually experiencing impactful supports from the government, .It is against this backdrop that the study seeks to examine the impact of SMEs financing on economic growth in Nigeria.

3. Literature Review

There is a dearth of detailed definitions of SME in the literature. This is partly because the majority of definitions are based on current economic situations in a variety of countries, including Nigeria, and partly because commercial organizations are evaluated on their internal features, which are influenced by the broader economy. If you have less than 1.5 million but more than 200 million naira in capital employed, you are considered a small business enterprise (SBE) in Nigeria. According to Esuh and Adebayo, an entrepreneurial firm or business is one that is formed through an individual's entrepreneurial acts (2012). In Nigeria, however, the National Council of Industries defines small and medium-sized firms as those with total costs of less than N200,000,000.00, excluding land (Oluwarotimi & Adamu, 2017).

Why does the government keep helping SMEs? They are vital to Nigeria's prosperity. Mini-companies use resources better than big ones (Chima, 1994). A varied economic structure and employment creation are important goals for SMEs. Nigeria Government inaugurated the Development Bank of Nigeria in 2015 to assist in SMEs financing. African Development Bank mobilized $130 million to support the establishment of the Development Bank of Nigeria besides the funding it receives from both national and international government and donors. The aim of establishing Development Bank of Nigeria is to improve access of SMEs to credit by developing an array of financial products that meet the needs of both commercial banks and SMEs. Central Bank of Nigeria (2019) insisted that all deposit money banks should give out 65% of all customers' deposits as loans. Out of the 65% of all deposits given out as loans, banks are further directed to give out 150% of it to start-ups and SMEs. This however is only applicable to commercial and merchant banks in the country.

SMEs are vital to any economy's growth. In Nigeria, SMEs dominate the economy. The government has developed several policies to help SMEs expand. While most policies failed owing to poor performance, others thrived. According to Eniola & Entebang (2015), SMEs fail and perform poorly due to a lack of financial support. Thus, government responsiveness must be boosted to match reality otherwise the entire economic potentials of this sector will be lost. According to a recent report, the Development Bank of Nigeria (DBN) has lent over $31.5 billion to 35,000 entrepreneurs, 73% of whom are women. Because banks prefer major transactions and government treasuries, this type of scheme allows SMEs to structure funding at reduced rates. It wouldn't be out of place to establish funds that target sectors that produce rapid wealth. Sectors such as the creative industry, technology,, mechanized agriculture, and light manufacturing as seen in the African Development Bank's $500M FG financing. The 2019 Budget allocated nearly $500 million for Ease of Doing Business programs.

The Government Enterprise and Empowerment Programme (GEEP) was created by the Nigerian Federal Government to help the poorest Nigerians learn about finance and access microcredit. GEEP provides easy access to cash to help beneficiaries build their businesses. Trader Moni is a financing program designed for Nigerian tiny traders and craftsmen. Trader Moni is still part of the Bank of Industry's Federal Government Enterprise and Empowerment Programme (GEEP). Trader Moni offers interest-free loans to small enterprises in Nigeria, starting at #10,000 and rising to #100,000 upon repayment. Payment of the first loan qualifies small enterprises for the second loan of $15,000. After repaying the $15,000 loan, the entrepreneurs are eligible for a $20,000 loan, then #50,000 and thereafter #100,000.

Market Moni, also known as Government Enterprise and Empowerment Program (GEEP), is a business and empowerment program of the Federal Republic of Nigeria. Market Moni offers interest-free loans to traders, less a 5% administration fee. Farmer Moni is a GEEP initiative designed to help farmers receive credit. This project helps petty traders expand their business by providing collateral-free loans. The loans are repayable in six months. The scheme allows participants to obtain larger credit amounts ranging from N300,000 to N2,000,000 if they return on time. The program will provide 1.66 million microloans to enterprises, women cooperatives, and market women, as well as young entrepreneurs, farmers, and agricultural workers.

From 2005 to 2015, Hedwigis (2017) examined the role of banking in improving Indonesian private sector performance. The study employed regression to calculate SME bank loan, SME total number, and SME production. The study found that bank loans to SMEs, their number, and output all have a favorable and significant effect on economic growth. Onyeiwu (2012) used OLS to study the Nigerian economy's monetary policies. There was a favorable effect of money supply on Nigeria's GDP growth and balance of payments. Monetary policy has an impact on industrial growth in Nigeria, according to Owolabi and Adegbite (2014). Manufacturers' output, Treasury bills, deposits and lending all influenced industrial expansion.

Adofu and Audu (2011) used ordinary least squares to examine financial institutions' connection to economic growth in Nigeria. One of the variables studied was commercial bank lending to agriculture (SMEs). The study looked at annual data and found that commercial banks' agricultural loans boost GDP. From 1982 to 2012, Omonigho (2017) examined the impact of SMEs on Nigerian economy. The finding shows a substantial and favorable correlation. From 1981 to 2014, Ezeaku, Anidiobu, and Okolie (2017) investigated the impact of SME finance on the growth of Nigeria's manufacturing industry. The result shows that SMEs financing improved industrial output. Interest rates and inflation hampered manufacturing output. According to Tokuoko (2012), Real interest rates have a detrimental impact on economic growth. In Nigeria, Onwumere et al. (2012) conclude that interest rates had a tiny but positive influence on saving and investment prior to liberalization. After liberalization, there was a negative but minor influence on saving and a negligible effect on investment.

4. Methods

The secondary data was gotten from WDI 2019, and NBS, 2019. The study spanned 34 years from 1986 to 2019 on SMEs growth impact in Nigeria. The chosen period was deemed suitable to provide full trend information and sufficient variables. The OLS, unit root test, and co-integration test were employed in the study.

Model Specification

The modified model of Dada (2014) for a similar study in Nigeria was adopted. The implicit function of the study model is specified below

$RGDP = f\,(CPS, MPR, CSME, INT, INF)$. . . . . (3.1)

In econometrics form, the model of the study is specified as shown below;

error term, $\beta_0 \ldots\ldots \beta_5$ = regression coefficients of the parameter estimate.

$RGDP = \beta_1\, CPS + \beta_2\, MPR + \beta_3\, CSME + \beta_4\, INT + \beta_5\, INF + \mu$ . . . . (3.2)

Where;

RGDP = Real Gross Domestic Product, CPS = Credits to private sector,

MPR = Monetary Policy rate, INT = Interest rate, INF = Inflation rate

CSME = Deposit Money Banks' Credit to Small and Medium Scale Enterprises

μ = stochastic

A Priori Expectations

The theoretical a priori expectations about the signs of the coefficients of the parameters are as follows: $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$, $\beta_4 < 0$ and $\beta_5 < 0$

5. Data Analysis and Interpretation of Results

5.1. Descriptive Analysis

The summary of the descriptive statistics is presented as shown below

Table 5.1 Descriptive Statistics of the Variables

	LRGDP	LMPR	LCSMES	LCPS	LINF	LINT
Mean	9.002353	2.582353	10.67794	2.247353	2.687059	2.919118
Median	9.080000	2.600000	10.67500	2.120000	2.515000	2.885000
Maximum	12.29000	3.260000	11.66000	3.430000	4.290000	3.450000
Minimum	4.900000	1.790000	9.650000	1.600000	1.690000	2.300000
Std. Dev.	2.133313	0.290945	0.585242	0.423594	0.718211	0.201093
Skewness	-0.283043	-0.624911	-0.030897	0.700386	0.903195	-0.135687
Kurtosis	2.004362	4.536526	2.030154	3.288463	2.784778	5.041705
Jarque-Bera	1.858309	5.557541	1.337928	2.897615	4.688269	6.009786
Probability	0.394887	0.062115	0.512239	0.034850	0.095930	0.049544
Sum	306.0800	87.80000	363.0500	76.41000	91.36000	99.25000
Sum Sq. Dev.	150.1838	2.793412	11.30276	5.921262	17.02231	1.334474
Observations	34	34	34	34	34	34

Source: Computed from E-view 9. *(2020)*

Table 4.1 above summarizes the key characteristics of the secondary data used in the study. The LRGDP, LMPR, LCSMEs, LCPS, LINF, and LINT mean values in log form were determined to be 9.002353, 2.582353, 10.67794, 2.247353, 2.687059, and 2.919118, respectively. Additionally, the Table displays the median and standard deviation for the other variables included in the study. Jarque-Bera is a test that is used to determine whether a time series is regularly distributed. If the series is normally distributed, the residual will exhibit characteristics of the Gaussian distribution when seen as a bar chart. Jarque-Bera statistics and stated probabilities for Credit to the Private Sector (p=0.000.05) and Interest Rate (p=0.000.05) are both less than 5%, indicating that the time series are normally distributed.

5.2. Augmented Dickey Fuller (ADF) Test

Table 4.2 presents the results of ADF test statistics for both the levels and first differences.

Table 4.2: Results of ADF test statistics

Variables	ADF	Critical Values	Order of Integration
LMPR	-2.345	-3.553**	I(0)
LRGDP	-4.554	-4.273*	I(1)
LCPS	-7.032	-4.273*	I(1)
LINF	-4.171	-4.273*	I(1)
LINT	-6.425	-4.273*	I(1)
LCSMEs	-6.567	-4.577*	1(1)

Source: Computed from E-view 9. *(2020)*

Except for the monetary policy rate, all variables were non-stationary in the ADF unit root test. After the initial shock, they were immovable. Harris (1995) and Gujarati (2009) claim that both I(1) and I(0) variables can be used to test for cointegration.

5.3. Johansen Co-integration Test

Table 5.3 Co-integration Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.845684	162.6350	95.75366	0.0000
At most 1 *	0.769441	102.8349	69.81889	0.0000
At most 2 *	0.630455	55.88292	47.85613	0.0074
At most 3	0.363437	24.02749	29.79707	0.1993
At most 4	0.153268	9.573977	15.49471	0.3149
At most 5 *	0.124373	4.250091	3.841466	0.0392

Source: Computed from E-view 9. *(2020)*

Cointegration test results are shown in Table 4.2. A single co-integrating equation with a 5% significance level was found in the data. Since the probability ratio is above 5%. SMEs' growth and all independent variables are shown to have a long-term correlation. Imoughele & Ismaila (2013) identified a long-term link between deposit money bank credits and Nigerian economic growth.

Table 5.4: Regression Analysis showing relationship between MPR, LCSMEs, CPS, INF and INT with RGDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LMPR	-0.919531	0.835452	-1.100638	0.2804
LCSMES	2.286205	0.315656	7.242708	0.0000
LCPS	2.143665	0.527290	4.065438	0.0004
LINF	-0.053600	0.254418	-0.210678	0.8347
LINT	-0.963172	1.032328	-0.933010	0.3588
C	-20.52022	3.813321	-5.381193	0.0000
R-squared	0.852250	Mean dependent var		9.002353
Adjusted R-squared	0.825866	S.D. dependent var		2.133313
F-statistic	32.30177	Durbin-Watson stat		1.949272
Prob(F-statistic)	0.000000			

Source: Researcher's computation (2020).

6. Discussion of findings, Conclusion and Recommendation

Monetary policy rate (MPR) is negative and has insignificant impact on gross domestic products in Nigeria during the period under consideration. A unit increase in monetary policy rate will bring about 0.91 percent fall in economic growth in Nigeria. The government through its monetary authority (the CBN) should employ an expansionary monetary policy to stimulate the economy in order to address the problems of shortage or fall in output and rising unemployment.

The study, during the period under review further revealed that deposit money banks' credit to SMEs (CSMES) and credit to private sector (CPS) both have positive and significant impact on economic growth in Nigeria. This suggests that a unit increase in deposit money banks' credit to SMEs will bring about 2.28 percent increase in economic growth ,while a unit increase in credit to private sector will increase economic growth by 2,14 percent in Nigeria
Furthermore,, inflation rate (INF) and interest rate (INT) both have negative and insignificant impact on economic growth in Nigeria. The findings of the study showed that a unit increase in inflation will reduce economic growth in Nigeria by 0.05 percent while a unit increase in interest rate will reduces economic growth by 0.96 percent in Nigeria. The results of the study is in line with the findings of Ezeaku Anidiobu and Okolie (2017).

The study therefore concludes that SME financing (proxy by CPS and CSMES) has positive and significant impact on economic growth in Nigeria, even if majority of the active poor in the economy have not benefited from various established government SMEs schemes in Nigeria. The study thus recommends that the monetary authority (CBN) should ensures that bank loans are adequately scrutinized to reach the active unemployed poor youths in the private sector with less attention on collateral, in order to boost economic growth. Given the negative impact of COVID-19 on SMEs in Nigeria and globally. The monetary authorities should also drive interest rates downward in order to increase output, increase employment generation and stimulate growth.

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