Small and Medium Scale Business Financing and Its Effect on the Nigerian Economy: 1992 – 2021

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Abstract

This study investigated the effect of small and medium scale business financing on the Nigerian economy. The ex-post facto research design was adopted and the dependent and independent variables were observed over the period, 1992 to 2021. The nature of data was secondary, sourced from the Central Bank of Nigeria Statistical Bulletin. The data were tested using the E-view statistical software adopting the Ordinary Least Square (OLS) method on the regression model adopted. The signs and significance of the regression coefficients was relied upon in explaining the nature and influence of the independent variable on the dependent variable as to determine both magnitude and direction of impact. The aprior expectation was that SME financing positively and significantly affect the Nigerian economy. The hypotheses were tested at 0.05 (5%) level of significance. Findings from the study showed that commercial bank loan to small and medium scale enterprises have positive and significant impact on GDP. Similarly, commercial bank loan to private sector has positive and significant impact on GDP. Hence, the study concludes that small and medium scale business financing has positive and significant impact on the Nigerian economy. Hence, it implies that SMEs financing contributes to economic growth in Nigeria. The study therefore recommends that the Federal Government of Nigeria through the Central Bank of Nigeria should prioritize financial inclusiveness in the small and *medium scale sector of the economy to enhance availability and accessibility of investable funds in the sector.*

Keywords: *SMEs, Business Financing, Economy, Nigeria*

1. INTRODUCTION

Small and medium scale businesses (SMSBs) are commonly called small and medium scale enterprises (SMEs). The contribution of small and medium scale enterprises (SMEs) to the development of any economy cannot be over-emphasized. SME has become a veritable tool for fostering entrepreneurial capitalism in developing and emerging countries of the world (Obodoechi & Akor, 2018). Small and medium scale businesses are one of the most important factors in economic growth as they serve as catalyst for economic development. SMEs remain the foundation as well as the building block in the realization of any meaningful and sustainable growth in an economy. SMEs constitute the driving force in the attainment of industrial growth and development. This is basically due to their great potential in ensuring diversification and expansion of industrial production as well as the attainment of the basic objectives of growth (Eigbiremolen & Igberaese, 2013).

Essentially, it is a known fact that, finance plays a very strategic role in the growth and development of business enterprises in any society. The important contributions of small and medium scale enterprises to the enhancement of GDP growth in developed economies over the years have motivated the policymakers in these countries to provide an enabling environment such as technical and financial assistance for these enterprises to thrive (Olowookere, Hassan, Adewole & Aderemi; 2021). This is because; availability of credit is a vital ingredient in starting, sustaining and expanding business venture (Owenvbiugie & Igbinedion, 2015; Abu, 2012; Onyeneke & Iruo, 2012). Meanwhile, in developing countries, inadequate or lack of access to finance has always been a major constraint to operation and survival of small and medium scale enterprises (World Bank, 2014).

In an attempt to facilitate the inflows of financial services towards the small and medium businesses, the Nigerian government has embarked on a number of policies and programmes targeted at these businesses (Oni & Daniya, 2012). In spite of these efforts, small scale enterprises have not experienced appreciable development in Nigeria (Akinbode & Imhonopi, 2015). It has been observed over the years that one of the serious limiting factors to the development of businesses in Nigeria is lack of access to finance (Bakare and Babatunde (2014); Evbuomwan, Ikpi, Okoruwa & Akinyosoye, 2013; World Bank, 2015 Babajide, 2012).

Meanwhile, achieving the sustainable development goals in developing country like Nigeria has redirected the focus of the nation towards sustainable economic growth through the development of small and medium business enterprises. In view of the above, small scale entrepreneurship financing has become highly imperative in Nigeria in the recent times. It is imperative to provide an empirical evidence to substantiate whether small scale financing could spark off economic growth in Nigeria because literature has been silence about this in the most recent times. It is in line with this that the study investigated small and medium scale business financing and its effects on the Nigerian economy.

2. LITERATURE REVIEW

Entrepreneurship financing is one of the areas in literature that has received attention globally, especially in developing and emerging economies. This section highlights the perception of some scholars regarding small and medium scale business financing and its impact on the economy. Consequently, Alkousini (2021) studied the impact of small and medium-sized finance on Jordan's economic growth using the Autoregressive Distributed Lag model (ARLM) in a time series quarterly data from 2016 to 2020. Results revealed that in the first model, there was a significant negative effect of small finance, while the medium finance have positive insignificant impact on economic growth. In the second model, results agreed with the endogenous growth theory, that if small and medium finance interact with each other, the impact of these finance on economic growth will be positive and significant. The study recommended that there is need to provide support to small projects to help them overcome the challenges they face, as well as removing obstacles to small and medium finance.

Anokwuru & Wike (2021) examined the relationship between small and medium enterprises financing and the Nigeria's economic development using the Autoregressive Distributed lag (ARDL) Model approach to Co-integration, Error Correction Model and Standard Pair-Wise Granger Causality Test. The results displayed that the data were stationary at first difference while a long run relationship exist among the variables under study. With regard to the direction of influence, the result reveals that significant unidirectional causalities between gross domestic product per-capita and bank of agriculture credit to small and medium scale enterprises, bank of industry credit to small and medium scale enterprises, micro- finance bank credit to small and medium scale enterprises as well as commercial bank loan to small and medium scale enterprises to domestic product per capita. The study concludes that increase in the credits by the Nigerian bank of agriculture to small and medium scale enterprises and the loans by commercial banks in Nigeria to small and medium scale enterprises will enlarge and increase the level of the gross domestic product per capita of Nigerians. The study recommended that the financial/credit institutions should increase and mobilize more funds through effective windows of financial intermediation and enhance a better policy that will make small and medium enterprises have easy access to credit facilities.

Olowookere, Hassan, Adewole & Aderemi (2021) investigated the relationship between SMEs financing and sustainable economic growth between 1992 and 2019. After various pre-estimation tests such as unit root and cointegration were carried out, the study utilized Fully Modified Ordinary Least Square and Granger causality approach. Consequently, the following important findings were emerged from this study as follows; broad money supply and GDP growth rate have insignificant inverse relationship. Commercial banks loans to SMEs and GDP growth rate possess a positive and significant relationship. Gross fixed capital formation and commercial bank total credit to private sector showed an insignificant positive relationship with GDP growth rate. Moreover, a unidirectional causality flows from broad money supply to gross fixed capital formation. Similarly, one way feedback ran from GDP growth rate to commercial banks loans to SMEs. Hence, it was submitted that SMEs financing contributed to sustainable economic growth in Nigeria in one hand; and sustainable economic growth is the motivation behind the commercial banks loans to SMEs in Nigeria on the other hand. Consequently, the study recommended that the Central Bank of Nigeria should embark on policy measure that will ensure the priority of the commercial banks' credit policy in the direction of SMEs on a sustainable manner.

Obodoechi & Akor (2018) analyzed the impact of SMEs financing and inclusive growth in Nigeria from 1990 to 2016 adopting the ARDL model and the Error correction model. The findings in the paper revealed that SME financing had significant but negative contributions to growth in Nigeria within the study period. Interest rate and financial deepening significantly contributed to growth negatively, while the past two periods of growth registered a positive impact on current inclusive growth in Nigeria. Based on the findings, the study recommended policies that will improve upon the measures taken to give loans and suggest that low interest rates and proper supervision should be given to SMEs in Nigeria.

Akanbi, Akin & Sodiq (2016) assessed specific financing options available to SMEs in Nigeria and contribution to economic growth. The paper used secondary sources of data which were generated from the publications of Central Bank of Nigeria (CBN) statistical Bulletin and World Development Indicators (WDI). Ordinary Least Square (OLS) estimation technique was employed to determine the effect of SMEs financing on economic growth in Nigeria. The analysis of the results suggested that there is an insignificant direct relationship between SMEs financing and Economic growth in Nigeria, this can be adduced to policy inconsistencies in SMEs financing. The paper recommended that strenuous effort should be made by the government by easing access to SMEs finance via subsidized interest rate in order to enhance economic growth and development.

Eigbiremolen & Igberaese (2013) investigated the role of Small and Medium Enterprises (SMEs) in the achievement of economic growth in Nigeria using a linear regression model and granger causality test. The Johansen 2 likelihood ratio test statistics, the trace and maximal eigenvalue cointegration test statistics, revealed two cointegrating equations or vectors among the variables of interest. The cointegrating regression result indicated that SMEs are indispensable in achieving sustainable economic growth as they exhibit positive impact on the economy. This implied a boost to the economy for every increase in the operations and activities of SMEs. The granger causality test revealed a unidirectional causal relationship between SMEs and economic growth, running from the former to the latter. Moving forward, adequate and coordinated financing with relatively low interest rate should be made available and assessable to SMEs across Nigeria, as the issue of inadequate funding has remained the major bane to their successful operations. Also, government should make available needed infrastructure and incentives like regular power supply, good roads and tax holiday. These would greatly enhance and encourage the activities of SMEs and position them to play their all important role in the achievement of sustainable economic growth in Nigeria.

3. METHODOLOGY

The ex-post facto research design, being a design used to measure the cause-effect relationship a specific change will have on existing norms and assumptions; was adopted in this study. The dependent and independent variables were observed over the period, 1992 to 2021. The same data were analyzed and tested using econometric analytical technique to determine the effect of the independent variable – small and medium business financing, on the dependent variables – Nigerian economy, proxied by GDP. The nature of data was secondary, sourced from the Central Bank of Nigeria Statistical Bulletin. The rationale for using data from 1992 is based on the availability of data for commercial banks loans to SMEs in Nigeria which commenced from 1992 in the CBN statistical Bulletin. The study adopted the model used by Ogunleye, Aderibigbe, Lucas, Ishola & Aderemi (2020) and Aderemi, Tolulope, Adedayo & Arinola (2019) inn similar study with little modification to suit our purpose. The model is specified as follows:

GDP = f (CBLSME, CBLPS) - - - - - - - 1

The econometric form of equation (1) can be expressed as:

$GDP_t = \beta_0 + \beta_1 CBLSME_t + \beta_2 CBLPS_t + u_t$ - - - - - 2

Where:

GDP_t = Gross Domestic Product at time t;
$CBLSME_t$ = Commercial Bank Loan to Small and Medium Scale enterprise at time t;
$CBLPS_t$ = Commercial Bank Loan to Private Sector at time t;
β_0 = constant
β_1 and β_2 = the coefficient of the independent variables
t = Time Observation
μ = Random error term.

In achieving the objective of the study, the data is tested using the E-view statistical software adopting the Ordinary Least Square (OLS) method on the regression model adopted. The signs and significance of the regression coefficients is relied upon in explaining the nature and influence of the independent variable on the dependent variable as to determine both magnitude and direction of impact. In the analysis the study relied on the following statistical tools; Correlation Coefficient (R), Coefficient of Determination (R^2), probability and the student (t) test. The aprior expectation is that SME financing positively and significantly affect the Nigerian economy. The hypotheses were tested at 0.05 (5%) level of significance. The hypotheses are stated as:

i. Commercial bank loan to small and medium scale enterprise has no positive and significant impact on the Nigerian economy.
ii. Commercial bank loan to private sector has no positive and significant impact on the Nigerian economy.

4. ANALYSIS OF DATA AND DISCUSSION

TABLE 1: Descriptive Statistics of Annual Data Series (1992 – 2021)

	GDP	CBLSME	CBLPS
Mean	51217.62	38.52500	6961.507
Median	32525.56	36.60500	3714.995
Maximum	176075.5	123.9300	22026.37
Minimum	906.0300	10.75000	75.46000
Std. Dev.	52804.62	28.06980	7126.120
Skewness	0.878370	1.237854	0.578344
Kurtosis	2.564705	4.199591	1.928519
Jarque-Bera	4.094520	9.460186	3.107496
Probability	0.129088	0.008826	0.211454
Sum	1536528.	1155.750	208845.2
Sum Sq. Dev.	8.09E+10	22849.50	1.47E+09
Observations	30	30	30

Source: Authors' Computation, 2023

Table 1 presents the results of the descriptive statistics of the variables of interest estimated. GDP had 906.0300 and 176075.5 as minimum and maximum values respectively. The mean value is 51217.62 and the standard deviation is 52804.62. The implication of this is that the GDP data is widely dispersed from its mean because the standard deviation is greater than its mean value. In the same vein, the skewness of the dataset is positive and had a Kurtosis value of 2.564705; this makes the data not to satisfy a symmetrical distribution assumption because a kurtosis of less than 3, indicates that the dataset has a lighter tails than a normal distribution.

Again, commercial banks loan to SMEs has a minimum and maximum value of 10.75000 and 123.93000 respectively. The mean value is 38.52500 which are greater than its standard deviation at 28.06980. This implies that the data is moderately dispersed from its mean. The variable data is positively skewed and with the Kurtosis value of 4.199591; this makes the data not to satisfy a symmetrical distribution assumption because a kurtosis of above 3, indicates that the dataset has heavier tails than normal distribution. This attests to the fact that commercial banks loan to SMEs data satisfies a symmetrical distribution assumption.

Finally, commercial banks loan to private sector has a minimum and maximum value of 75.4600 and 22026.37 respectively. The mean value is 6961.507 which are less than its standard deviation at 7126.120. This implies that the data is widely dispersed from its mean. The variable data is positively skewed and had a Kurtosis value of 1.928519; this makes the data not to satisfy a symmetrical distribution assumption because a kurtosis of less than 3 indicates that the dataset has a lighter tails than a normal distribution.

TABLE 4.2: Regression Result of the effect of SMEs financing on the economy

Dependent Variable: GDP
Method: Least Squares
Date: 03/24/23 Time: 12:01
Sample: 1992 2021
Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CBLSME	246.6830	48.95001	5.039489	0.0000
CBLPS	7.234142	0.192814	37.51873	0.0000
C	-8646.382	2636.779	-3.279146	0.0029

R-squared	0.981755	Mean dependent var	51217.62
Adjusted R-squared	0.980404	S.D. dependent var	52804.62
S.E. of regression	7391.887	Akaike info criterion	20.74879
Sum squared resid	1.48E+09	Schwarz criterion	20.88891
Log likelihood	-308.2319	Hannan-Quinn criter.	20.79362
F-statistic	726.4479	Durbin-Watson stat	1.270855
Prob(F-statistic)	0.000000		

Source: Authors' E-view result, 2023

Table 4.2 reveal that, commercial bank loan to small and medium scale enterprise has positive and significant impact on the Nigerian economy (coefficient of CBLSME = 246.6830, t-value = 5.039489) using 1992-2021 data. The probability value of 0.0000 < 0.05 further indicates that, this is positive and significant. Similarly, commercial bank loan to private sector has positive and significant impact on the Nigerian economy (coefficient of CBLPS = 7.234142, t-value = 37.51873) using 1992-2021 data. The probability value of 0.0000 < 0.05 further indicates that, this is positive and significant.

On the whole the coefficient of determination which measures goodness of fit as revealed by R squared (R^2) indicates that 98.18% of the variations observed in the dependent variable (Nigerian economy) were explained by variations in the independent variable (small and medium scale business financing). The test of goodness of fit of the model as indicated by R^2 was properly adjusted by the Adjusted R-Square of 98.04%. Hence, increase in small and medium scale business financing will lead to an increase in Gross Domestic Product (GDP) and by implication economic growth. This is in line with the works of Ogunleye, Aderibigbe, Lucas, Ishola & Aderemi (2020) and Aderemi, Tolulope, Adedayo & Arinola (2019).

5. CONCLUSION AND RECOMMENDATION

This study investigated the effect of small and medium scale business financing on the Nigerian economy. Essentially, it is a known fact that, finance plays a very strategic role in the growth and development of business enterprises in any society. The important contributions of small and medium scale enterprises to the enhancement of GDP growth in developed economies over the years have motivated the policymakers in these countries to provide an enabling environment such as technical and financial assistance for these enterprises to thrive. This is because; availability of credit is a vital ingredient in starting, sustaining and expanding business venture. Meanwhile, in developing countries, inadequate or lack of access to finance has always been a major constraint to operation and survival of small and medium scale enterprises.

Findings from this study show that commercial bank loan to small and medium scale enterprises have positive and significant impact on GDP. Similarly, commercial bank loan to private sector has positive and significant impact on GDP. Hence, the study concludes that small and medium scale business financing has positive and significant impact on the Nigerian economy. Hence, it implies that SMEs financing contributes to economic growth in Nigeria. The study therefore recommends that the Federal Government of Nigeria through the Central Bank of Nigeria should prioritize financial inclusiveness in the small and medium scale sector of the economy to enhance availability and accessibility of investable funds in the sector.

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