International Journal of Economics and Financial Management (IJEFM)
E-ISSN 2545-5966 P-ISSN 2695-1932 Vol 9. No. 8 2024 www.iiardjournals.org Online Version

Financial Deepening on the Growth of Small and Medium Scale Enterprises in Nigeria

Dr. Ebi R. Odi and Dr. Greatness U. Oji
Department of Finance and Banking
DOI: 10.56201/ijefm.v9.no8.2024.pg157.180

Abstract
This study intends to examine the effect of financial deepening on the growth of small and medium scale enterprises in Nigeria. The specific objectives are to investigate the extent to which increase in broad money supply, increase in banking sector credit and Gross National Savings affect the growth of small and medium scale enterprise from 2000-2013. Secondary data of the variables was sourced from the publications of central Bank of Nigeria statistical Bulleting the study moduled growth of small and medium scale enterprises as the function of broad money supply, banking sector credit and Gross National Savings. Multiple regressions with the aid of Statistical Package for Social Science (SPSS) were used as data analysis Techniques. Findings revealed that broad money supply and Banking sector credit have positive effect on the growth of small and medium scale enterprises while Gross National Savings have negative and insignificant effect on the growth of small and medium scale enterprises. It revealed Beta coefficient of 6.679M2, 074BKC and -5.841GNS while the multiple R of 91.3%, R^2 of 83.3% and F-ratio of 16.645. The research concludes that financial despairing has significant effect on the growth of small and medium scale enterprises. It recommend that policies to further deepen the financial sector should be made to enhance the operational efficiency of the financial system for better performance of the small and medium scale enterprises.

Keywords: *Financial Deepening, Growth, Small and Medium Scale Enterprises, Nigeria*

INTRODUCTION

The mortality rate of Small and Medium Scale Enterprises in Nigeria is very high. The causative factors of this premature extinction is not always the issue of poor management or competition from the big firms but rather monetary policy shocks such as sudden changes in money supply, interest rate, level of credit to the core private sector and financial deepening, for instance, the recent withdrawal of 75% of public sector deposits from the banking sector constrain bank credit to the core private sector including the SMEs. Financial deepening has an essential role in the economy, developing the financial sector means improving financial structures to ensure efficient delivery of financial services to the private sectors such as the SMSs and enhance the realization of macroeconomic goals (Adamu , 2019; Zaagha, & Lucky, 2021). The financial sector strategy (FSS, 2020) which one of the visions is to build vibrant SMEs was programmed to overhaul the financial sector to achieve growth through the SMEs. The importance of SMEs remained undisputable; SMEs account for 95% of formal manufacturing activities, 70% of industrial jobs, employed over 50% of the working population and contribute up to 50% of industrial output (Akingunola, 2011; Lucky, 2018). However, the parlous state of affairs with the SMEs is due to many problems which include the risk profile of the sector that threaten bank credit, weak purchasing power and high cost of operating environment (Ayodele, 2015).

The important role played by Small and Medium Scale Enterprises in the growth and development of developing countries has long been acknowledged by governments. Apart from providing opportunities for employment generation, it helps to offer effective means of curtailing rural–urban migration and help in strengthening of industrial inter-linkages and integration Dogurou et al (2012). Small and Medium Scale Enterprises is defined by CBN as an outfit with a total capital outlay of between ₦2million and ₦5million while small and Medium Industries Equity Investment Scheme (SMIEI) recognized Small and Medium Enterprises as any industry with maximum asset base of ₦200M excluding land and working capital, and with a number of staff employed by the enterprise not less than 10 and not more than 300 Lawal & Ijaiya,2007; Akani & Lucky, 2021).
Financial deepening is to improve economic performance through increased competitive efficiency within financial market thereby indirectly benefiting non-financial sectors of the economy such as the SMEs (Adams, 2002; Akani & Lucky, 2018). It implies the level of development and innovation of the traditional and non-traditional financial service (Waqabaca, 2004). It also the ability of the financial institutions in an economy to effectively mobilize savings for investment (Ogbuabor, Ifeoma & Orji, 2019), It helps industries to depend on external finance and reduce financing constrains for SMEs (Nnabugwu, 2021). Financial deepening according to CBN report is measured as percentage of bread money supply to Gross Domestic Product and Broad money supply to credit to core private sectors of the economy.

The relationship between finance and growth has long been a point of departure among scholars in finance and economics, some believed that finance can cause economic growth, some believe no relationship while other believe economic growth can cause finance (Odhambo, 2004), (Levine, 2002), (Azege, 2004), (Adams, 2011). However, theories and findings has favour finance growth nexus, this led to various financial sector reforms and other finance programs in Nigeria to deepen the financial institutions to achieve economic growth through efficient and effective SMEs credit facilities, for instance the Second Tier Stock Exchange was introduced in 1989 for listing of SMEs, the Small and Medium Enterprises Equity Investment Scheme was launched in 2001 to facilitate ease access to Small and Medium Enterprises credit. The extent to which these policies affected the growth credit to the Small and Medium Enterprises remain a matter of concern and a knowledge gap. According to CBN report, commercial banks credit to Small and Medium Enterprises continues to depreciate at a very high rate, from 27.04% of total credit in 1992 to 0.16% in 2012. The percentage of broad money supply to Gross Domestic Product (M^2/ GDP) and credit to private sector to Gross Domestic Product (CPS/GDP) increased without corresponding increase in credit to Small and Medium Enterprises, this reveals the neglect of financial service to the sector, therefore this study focused on financial deepening and the growth of Small and Medium Enterprises in Nigeria.

LITERATURE REVIEW

Small and Medium Scale Enterprises

The notion of small and medium enterprises (SME) was introduced into the development landscape as early as the late 1940s, and the primary aim was to improve trade and industrialization in the present developed nations (OECD, 2004). The definitions of SME are 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 States of America (USA), may be a medium or large-scaled business in a developing economy like Nigeria. Moreover, the definition of SME 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 variables. Quantitative definitions mainly express the size of enterprises, mainly in monetary terms such as turnover, asset value, profit, as well as quantitative index like number of employees. As 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 £5.7million 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 SME 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 employees) and medium (between 50 to 249 employees).

Small and Medium Scale Enterprises and Entrepreneurship

The term 'entrepreneurship' is quite different small and medium enterprises (SME). Entrepreneurship is used to describe to creative, innovative, risk taking and organizational process and functions of individuals who initiate, run and nurture a business venture. It involves of identifying opportunities, creating or improving a new or existing technologies, products or services, bearing the accompanied risk and receiving resultant rewards.

Drucker, (1985) in his work, Entrepreneurship and Innovation', explained how entrepreneurship is different from SME. Entrepreneurship, according to Drucker, is all about creating a new thing, with added value and it involves a great deal of innovation. This invariably means not every new or small business can be said to be entrepreneurial. To be entrepreneurial, a business must apply unique management concepts and techniques. Also, products are developed and standardized, and process and tools are designed based on training analysis of work to be done. The process also involves the setting of required standards and controls; and creating new demands, a market and customers. Thus, an entrepreneur may start as a small and medium enterprise, he may not remain in that category for long, but all small and medium enterprise owners are not necessarily entrepreneurs.

Small and Medium Scale Enterprises and the Nigerian Business Environment

The development of viable SMEs in Nigeria has over the years been challenged by a number of harsh economic conditions which characterise the Nigerian business environment. Some of these challenges have been outlined by the Institute of Development Administrator of Nigeria (IDAN, 2007). First, informal sources of finance still remain the major source of funding for SMEs in Nigeria. These include personal saving and borrowing from friends, families and credit associations. Formal financial institutions like commercial banks are still very unwilling to grant credits to SMEs. On the other hand micro finance schemes and institutions are still in developing stages and so can only do little. Secondly, the success of economic ventures like

SMEs depends largely on the entrepreneurial skills. SME operators must possess the capacity to manage and acquire basic skill of planning, organizing, coordinating, leadership and communication. Creative and innovative abilities are gotten through work experience in other enterprises or through technical and managerial training schemes. However, for SMEs in Nigeria high failure rate is usually recorded due to poor managerial and entrepreneurial skills necessary for the achievement of results.

Thirdly, there is the challenge of inadequate Infrastructural and Institutional Support: Weak infrastructural facilities such as electricity, portable water, feeder roads, etc. are the still the bane of SME growth in Nigeria. Also, State institutions like the Police, the Judiciary and others are still not strong enough in providing internal security and fast justice. Besides, there is no adequate protection of intellectual property. Furthermore, registration fees for some products in some government agencies are still the same for the small and large firms, irrespective of resource availability. Above all, both small and large firms pay the same minimum amount in opening corporate account in many banks.Fourthly, incessant political conflicts, ethno-religious conflicts, as well as poor governance and accountability in public service, have all functioned to make the Nigerian business environment shaky and unreliable.

Other unfavourable conditions include: flabby fiscal and monetary measures, multiple taxation, poor implementation of high interest rate and unstable foreign exchange as well as high inflation rates. These have weakened the economy and expose it to the vagaries of international capitalist system. The consequences have been overdependence on foreign technologies, final product and values, and dilapidated infrastructure. These conditions make the small firms i.e. SMEs, major victims, so that not only are their competitive abilities reduced, their mere existence becomes a struggle.

In addition to the above, are challenges confronting entrepreneurship in Nigeria, which also indirectly affect SMEs, due to the relationship existing between SMEs and entrepreneurship For instance, a number small businesses remain small for years because of the mind-set of their owners, i.e. poor entrepreneurial spirit. In Nigeria, many are in business not for the passion but just to meet their daily needs. They lack the basic knowledge of managing their venture beyond the subsistence level. As such, there is no innovation and this affects their global competitiveness. Also, the economic system in Nigeria is majorly good at producing contractors who parasite on government jobs, and middle men who flourish in informal business sector. Besides, the concept of entrepreneurship is generally reduced to individuals seeking profit through supernatural and superstitious means rather than through strategic management process. All these as noted in Ogbor and Ikhimokpa (2005), are the result of lack of entrepreneurial education.

Furthermore in Enwegbara (2006), it is the organic process of economic development also requires the education of young persons in job-enhancing education such as science, engineering and technology. These are needed to support the entrepreneurial potential and jumpstart the national economy. Where these trained individuals are not sufficiently deployed, they migrate to other countries with the right enabling environment. They formed the so called successful African in Diaspora contributing enormously to the economic development of these countries and thus the continue decrease of indigenous African entrepreneur in the continent. Even when they come back to invest in Africa with burning desire of acquainting younger ones with the entrepreneurial spirit, spread their talent, knowledge, experience, the prevailing enabling political, ethical, economic, infrastructural, environment is discouraging, making them to be employees of the state and producers of raw materials purely for export and import of finished goods from the west. This stated Enwegbara (2006) has had tremendous negative effect on African economic development for a long time.

Economic Importance of SMES

SMEs account for a large proportion of the total employment growth many countries. In such countries, SMEs produce a significant share of their increases in Gross Domestic Product (GDP), while the contributions of larger enterprises tend to remain stable (ADB 2002). For instance, in the OECD economies, SMEs and micro enterprises account for over 95% of firms, 60-70% of employment, 55% of GDP and generate the lion's share of new employment. In the case of developing economies, the situation is not very different. For instance, in Morocco, 93% of firms are SMEs and account for 38% of production, 33% investment, 30% export and 46% employment. Similarly, in Bangladesh, enterprises of less than 100 employees account for 99% of all firms and 58% employment. Also, in Ecuador, 99% of all private companies have less than 50 employees and account for 55% of employment.

In the case of Nigeria, well-managed and healthy SMEs constitute significant sources of employment opportunities and wealth creation. While the citizens benefit in terms of employment and income, Government also benefits by generating revenue in form of taxes. This can be a strong factor to social stability. It is noteworthy that not all SMEs and microenterprises are in the formal sector; some of them occupy the unofficial labour market, which varies in size from an estimated 4-6% in developed countries to over 50% in developing nations. According to the International Finance
Corporation (IFC, 2006), there is a positive relationship between a country's overall level of income and the number of SMEs per 1,000 people. The World Bank's Doing Business reports indicate that a healthy SME sector corresponds with a reduced level of informal or "black market" activities. Thus, managing SME sector to reduce the number of informal business is essential in the Nigerian development project.

SMEs are regarded as the bedrock of industrialization. Because a number of them possess extensive knowledge of resources, as well as demand and supply trends, they constitute the chief supplier of input to larger firms. They also serve as the main customers to the larger firms; provide all sorts of products ranging from food, clothing, recreation, entertainment, healthcare, education, and so forth. They help in economic development through industrial disposal and production of primary and intermediate products. They can also supply the material needs of the larger enterprises. In addition, they provide specialized, and many times, personal services. In summary, SMEs constitute important sources of local supply and service provision to larger corporations. Developing countries represent a huge, largely untapped market for large corporations. By working closely with SMEs, large corporations can develop new customer base that may not be accessible to the traditional distribution networks of these corporations. SMEs also represent important sources of innovation. They tend to occupy specialized market "niches" and follow competitive strategies that set them apart from other companies. This might include re-engineering products or services to meet market demands, exploring innovative distribution or sales techniques, or developing new and untapped markets. This often makes them good partners for large corporations. In the financial sector, emerging economies represent a huge potential market for credit, particularly in sub- Saharan Africa, where according to the United Nations Capital Development Fund (UNCDF), only 4% of Africans have a bank account. Local financial institutions that have successfully served the SME market in developed countries have found it highly profitable, according to United Nations Conference on Trade and Development (UNCTAD, 2001). Large international banking groups are beginning to tap into these markets. For instance, today Barclays Bank is present in 12 African countries, employs 41,000 people – one-third of its total workforce – and has 8 million customers. Africa accounts for 13% of the group's profits. Barclays has worked to integrate SMEs into its operations. In their efforts to localize value creation, many large companies in the world increasingly rely on local companies as a crucial component of their value chain. Furthermore, SMEs help in the development of local technology and mobilization and utilization of domestic savings. Thus, increases in SME efficiency can also improve the competitiveness of larger firms that depend on SME suppliers, and therefore improve the competitive position of a country's economy.

SMEs tend to be more labour intensive than larger firms, and capital requirements for establishing them are low. This widens the chances of many individual to participate in them and by so doing contribute to industrial development. Moreover, the size and structure of SMEs give them flexibility in management approaches which make them respond swiftly to changes and adapt to market needs much more quickly than their large enterprise counterparts in comparable industries. Thus in these days of increased emphasis on private-sector-driven economy, SMEs act as engines of the much desired private-sector-led economic growth and diversification. The development of many small and private enterprises with the associated market competition spur up entrepreneur spirit in many SMEs. This will in turn have significant impact on economic development. This is because entrepreneurship is a vital factor in economic development and social change, since it makes for continuous innovation, and commercialization of innovation and technology. Entrepreneurs are proactive to change. They like competition and are always ahead in the market place. They are change agents and catalyst for transforming resources into new products and services with greater utility and value. All these immensely impact on economic development and growth.
Poverty is a major threat to attaining sustainable human and environmental development, as well as the much needed global economic and socio-political stability (SNV & WBSCD, 2007). However, one of the keys to poverty alleviation is an economic growth that is inclusive and reaches majority of the people. According to Sen (2000), the basic thrust of development is to enlarge people's choices and to create an enabling environment for people to enjoy better standard of living. This can be achieved by improving the performance and sustainability of entrepreneurs and small and medium enterprises, as a backbone to economic activities. Poverty can then be reduced since subsistence enterprises are said to represent the vast majority of SMEs in developing countries. They are known to typically account for more than 90% of all firms outside the agricultural sector - with majority of them being essentially micro-enterprises, employing family members and close relatives. As such, the development of SMEs can be a key instrument in poverty reduction efforts of Nigerian government. Poverty can be reduced directly through their contribution to economic growth, employment and income generation.

Furthermore, SMEs often have a vested interest in community development. Being local, they rely upon communities for their workforce. For the communities, they provide goods and services tailored to local needs and at costs affordable to local people. They are an important source of employment, particularly for low-skilled workers, as well as women and young people, who usually make up the greatest proportion of the unemployed in emerging economies. Their flat management structures mean that their personnel must fulfill multiple roles, which makes them less vulnerable to unemployment during periods of economic downturn. Their small size and flexibility allow them to adjust to local market fluctuations and to weather local market shocks more comfortably. If well established in rural communities, migration to urban centre is often reduced, thus reducing excessive pressure on urban infrastructure.

SMES and Nigerian Policies

For SMEs to thrive, favourable institutional frameworks are required. Unfortunately, their needs are often overlooked by policy-makers and legislators, who tend to target larger corporations. Also, they are usually left out when it comes to tax incentives or business subsidies. They suffer more than big companies from the large burden and cost of bureaucracy, (World Bank, 2006). Only few SMEs possess the necessary financial or human resources to deal with these. Therefore, government can assist SMEs by: Implementing inclusive reforms. Governments need to create the necessary enabling frameworks and relax the burden of regulatory measures. Additionally, they can simplify business registration procedures and paperwork to make them cheaper, simpler and speedier. A World Bank report stated that reform expands the reach of regulation by bringing businesses and employees into the formal sector." The same report also concludes that the greater a country's ease of doing business, the greater the number of jobs created in the formal sector "because the benefits of being formal (such as easier access to credit and better utility services) often outweigh the costs (such as taxes)." Most importantly, efforts must be strengthened to tackle corruption

Providing financial and tax incentives: To encourage SMEs to join the formal sector, governments need to provide tax incentives for SMEs and subsidies similar to those available to large corporations or micro-entrepreneurs, as well as make provisions for start-up funds for SMEs.

Encouraging friendly regulatory environments: Governments should promote public-private partnerships to attract venture capital funds and higher levels of investment, and put in place measures to create investor-friendly environments. Big corporations and potential investors need guarantees that their investments and infrastructure are not going to be expropriated.

Involving business in identifying necessary reforms: Increasingly, the business voice is being listened to in decisions aimed at effecting change. In several countries, such as Mali and Mozambique, private businesses now participate in identifying the most needed reforms. The culture of bureaucrats telling bureaucrats what's good for business is gradually disappearing.

Export potential: SMEs contribute a large share of manufactured exports in most industrialized East Asian economies like China and India, ranging from 31-56%, than less developed African economies of less than 1% in Tanzania and Malawi, for instance. There is therefore the need to focus on policies that will promote the SMEs export potential to boost economic growth and development. Apart from government, large corporations can also support the development of a strong and reliable SME sector by:

Building supply chain capacity: The many large corporations that source their supplies from developing countries require reliable suppliers. Large corporations can help SMEs become more viable business partners by providing training in basic skills such as management, bookkeeping, business planning, marketing, distribution, and quality control. They can assist through technology transfers, direct investment in infrastructure, and the sharing of knowledge.

These make SMEs more competitive, as well as facilitate their access to credit. All of this can benefit the large corporations by creating more effective and inclusive supply chains.

Rationalizing procurement procedures: Many global companies use intermediaries to identify local suppliers. This can add an extra layer of cost to the operation, a financial outlay that rarely goes to the originator of the goods. It also adds time. By building relationships with SMEs, large corporations can cut out the middlemen. This helps drive down costs, hastens delivery and improves quality.

Strengthening local distribution networks: SMEs have local knowledge, understand domestic consumer demands, and have access to remote regions. By contracting local SMEs to sell and distribute their products in these markets, large corporations can help strengthen the sales capacity and income of local SMEs. At the same time, they can strengthen their own distribution networks and open up new markets for their products.

Improving standards: Global companies are frequently asked about the operations of their suppliers, and thus can offer transparency along their supply chains. Large corporations can help their SME suppliers to comply with international standards such as ISO 14001. Such compliance can enable SMEs to compete in international markets while at the same time improving the overall quality of suppliers to large corporations.

Improving environmental performance: Collectively SMEs have considerable environmental impact. However, given the various challenges with which they are confronted, and the perception that their individual impact is not significant, it is unlikely that environmental concerns will figure high on their business agenda. By engaging with SMEs, assisting them with capacity building, and aiding them with compliance, particularly with environmental standards, large corporations can help SMEs integrate sustainable development thinking into their production processes and operations.

Providing access to financial services

SMEs require greater access to financial services and investment capital. Large corporations have little difficulty securing sizeable bank loans and private investments. At the same time, microfinance, consisting of very small loans, tends to benefit individual entrepreneurs. SMEs fall in between and often struggle to obtain credit and loans, so that personal savings forms the major source of funding for most of them throughout much of the developing world. Many financial institutions in these developing societies are reluctant to fund SMEs because of perceived risks, high transaction costs and similar challenges. Thus loans to SMEs, when they are able to obtain them, tend to carry higher interest rates and shorter pay-back times. However things may be changing. Many large banks are now partnering with development agencies and NGOs to serve the SME market.

Measures of Financial Development

Since financial development (FD) means an increase in the supply of financial assets in the economy, it is important to develop some measures of the widest range of financial assets, including money. This will involve identifying these financial assets, determining their measures and summing them up. The sum total of all the financial assets is one broad measure that represents financial deepening; the other, as indicated earlier, is the growth rate of per capita real money balances. The range of financial assets to be considered in this study includes broad money (M2), liabilities of non-bank financial assets (NB), treasury bills (TB), value of shares (VS) and money market fund (MMF). The sum of these financial assets can thus approximate one of the widest measures of financial deepening. The summing up of these financial assets to represent a broad measure of financial deepening is not a problem, but the availability of data for some of them is. Because of narrow and undeveloped capital markets in many SSA countries, data on value of shares (VS) and money market funds (MMF) in particular are not available. It is equally difficult to get consistent annual data on all financial assets except broad money (M2). If data had been available on these financial assets, the degree of financial intermediation, which is an important part of financial deepening (FDY), would be the sum of the measures of these financial assets, thus:

FDY = (M2 + TB + NB + VS + MMF)/Y

The financial deepening based on such an identity is unlikely to capture a good number of SSA countries because these countries have narrow and shallow capital markets. Thus, the market capitalization as a percentage of GDP in these countries has been seen to be quite low compared with much higher percentages in advanced economies (Nyong, 1996). This may be because many companies in SSA are not quoted on the stock exchange. One example is Nigeria, where funds from the capital market in the 1970s formed a negligible 5% of total capital investment (Alili, 1984). In view of the lack of information, our study uses broad money (M2) as a proxy for the measure of financial deepening. Given the empirical/scientific work of Jao (1976), Fry (1978) and Ogun (1986), however, financial deepening is represented by two variables: the degree of financial intermediation measured, in our case M2/Y, and the growth rate of per capita real money balances (GPRMB). Financial development and long-run endogenous growth variables

SMES and Nigerian Economy

Many economies – developing and developed have come to realise the value of SMEs as they are seen to be characterised by dynamism, witty innovation, efficiency and their size allows for faster decision-making process. SMEs have been recognised as the engine through which the growth objectives of developing nations can be achieved. They are potential sources of employment and income in many developing countries (Daniels, 1994; Daniels and Ngirira, 1992; Daniels and Fisseha, 1992). It is also argued that an increase in employment via SMEs is not always associated with increase in productivity. Nevertheless, the important role played by these enterprises cannot be over-looked. SMEs are advantageous over their large scale competitors as they are able to withstand adverse economic condition.

The promotion of SMEs has been recommended worldwide as a viable development strategy for developing nations that are plagued with socio-economic problems of unemployment, poverty, low capital formation, low growth rate, etc. The importance of SME in the Nigerian economy cannot be over-emphasized as successive governments have designed and implemented different programmes targeted at providing an enabling environment for SMEs to survive. The earliest attempt of government in Nigeria to develop SMEs dates back to 1946 when the sessional paper No. 24 of 1945 on "A Ten-Year Development Plan and Welfare Of Nigeria" was presented as amended by the selected
Committee of Council and approved by the Legislative Council in 1946. The first stage of the development loan involved the establishment of a "Nigeria Local Development Board saddled with the responsibility of promoting and developing village crafts and industries as well as developing the products of Nigeria, among other things. In pursuance of this scheme, it was intended that SMEs could be developed to attain higher level of efficiency so that they could be more remunerative to the operators. Thus, the World Bank reported that the country has not made any significant progress in its industrial development as out of 22 million pounds allocated for investment in the Ten-Year Development Plan, only 6 million pounds was

actually utilised. Laudable as this intention were, this dream could not materialise because of the colonial economic arrangements and structures which prevailed in the country. Although, there was no coherent policy aimed at promoting SMEs during the pre-independence era. In Nigeria's First Development Plan of 1962-1968, not much effort was made to develop Small and Medium Industries. The Federal Government's major policies in the area of trade and industries were focused on import substitution policy. Government in the 1960s laid emphasis on light industry and assembling plants as Industrial Development Centres (IDCs) were established and these IDCs assisted in financing Small and Medium Industries in the area of techno-managerial services but these laudable projects were halted by the civil war.

The government continued the import substitution policy as industrialisation strategy during Second National Development Plan of 1970 -1975. As economy became bloated from the oil boom, industrial projects with high capital outlay were undertaken. Private sector investment in manufacturing grew, though with less emphasis on Small and Medium scale Enterprises (SMEs) while that of Third National Development Plan of 1975 – 1980 was the development of a more diversified and integrated industrial structure based on the large domestic market and rapidly rising incomes. Industrial production failed to maintain its momentum during this period due to rising inflation, increased competition from imports and growing inefficiencies within the manufacturing sector. Also, the Fourth National Development Plan stressed the importance of Rapid economic growth especially in the non-oil sector and greater participation in ownership and management of productive enterprises. Therefore, the economic conditions that prevailed in the country during 1970s and 1980s made people to argue that Large-scale industries have not played and cannot alone be expected to play the dynamic role in the rapid growth and development of the Nigerian economy (Jegede, 1990). In short, the Nigerian government's intervention in SME finance comes in two main ways:

(i) Institutional arrangement which were established by government to create enabling institutions that directly or indirectly provide finance for SMEs operations such as BOI (formerly NIDB); NBCI – now defunct; NACRDB (formerly NACB); Nigeria Export-Import Bank (NEXIM),etc. The institutions created to facilitate the flow of funds to SMEs through capacity building and provision of enabling environment includes SMEDAN, NEPC, NIPC and Relevant Government Ministries, Departments & Agencies involved in SME finance and promotion, etc.

(ii) Government Financing Programmes are either direct or indirect. The former involves direct dispensation of cash, equipments and other forms of capital to various SME promoters such as: Small scale Industries Loan Scheme by FMF in 1971 – now defunct; Tractor Hiring Scheme by Federal and States Government; Keke NAPEP and other Small loan scheme by the National Agency for Poverty Eradication Programme (NAPEP), etc. Indirect financing, on the other hand, involves offering some form of guarantee to a third party to provide finance to SME promoters in a particular sector of the economy such as World Bank Assisted Loan Scheme – guaranteed by the Federal Government, Central Bank of Nigeria's Financing Schemes which include Agricultural Credit Scheme Fund (ACGSF); Trust Fund Model (TFM); Small and Medium Enterprises Equity Investment Schemes (SMEEIS), etc.

However, all efforts made in the past to attract real sector finance from the banking system have largely been unsuccessful. Part of the problem has been blamed on the Federal Government's inability to provide the required infrastructure and conducive environment for business to thrive.

Benjamin (2009) opines that Nigeria's growth strategies could therefore be summarized as follows:
i. Stable macro-economic policies;
ii. Credit to real sector
iii. SME development
iv. Legal/administrative framework
v. Infrastructural development
vi. Peace and security
The catalyst for the growth of the Nigerian economy lies in the banking system through efficient allocation of credit, especially to the real sector. This corroborates with Nnana's (2001) findings that small and medium scale enterprises needs funds to bring together the other factors of production – land, labour and capital for production to take place. Unfortunately, Small and Medium scale Enterprises have been discriminated against by financial institutions because of high risk associated with financing them. Nnana (2003) acknowledges that SMEs are considered generally as the bedrock of the industrial development of any country.

Nigerian Financial System and SMES

Modern commercial banking in Nigeria dates back to colonial era with the establishment of two British banks between 1892 and 1933, principally to carter for the payment of salaries and other banking services to colonial administrators. These two banks were Bank of British West Africa and Barclays Bank. The name "Bank of British West Africa" was so indicative of the fact that its services were principally meant for the British people living in West Africa. It is clear, therefore, that the objects of these British banks did not include the development of the Nigerian economy or financing of real sector SMEs. Between 1933 and 1951, many indigenous banks were established essentially to balance the biased credit policies of the expatriate banks. Unfortunately, many of them failed as soon as they were set up because of mismanagement.

This phenomenon led to legislation of banking activities through the Banking Ordinance of 1952 and its amendments in 1958. At the eve of independence, it became imperative to establish a central bank that would supervise the activities of the banks and also take sovereignties over legal tender issues. Consequently, the Central Bank Act of 1958 was promulgated and the Bank commenced operations on 13t h July, 1959. At independence in 1960, the total numbers of surviving banks were twelve with a total of 160 branches across the country. However, by 1966, the number of banks rose to fifteen with 253 branches across the nation. Of this number, six banks were indigenously owned with 82 branches across the nation. The dichotomy between the indigenous and expatriate banks became prominent. The post-independence policy of government that took over 60 per cent of the equity capital of the expatriate banks and nationalised the major indigenous banks helped to dilute the dichotomy between the expatriate and indigenous banks as well as put the indigenous banks on a stronger financial footing. By end 1977, the number of banks rose to 19 with 492 branches across the nation.

At the eve of consolidation of banks in 2004, there were 89 banks with 3,492 branches across the nation, out of which 5 were off shore. However, the capital adequacy ratio of these banks continued to be weak and some below the minimum prescribed by BASEL II Capital Accord. Their lending practices favoured general commerce and services rather than real sector development. It therefore became necessary to restructure and reposition the banks to meet the emerging challenges.

The CBN's assessment of the 89 banks, based on their returns, classified 62 as sound/satisfactory, 14 as marginal and 11 as unsound as at end-March, 2009. Further analysis of the marginal and unsound banks showed that they accounted for only 19.2 per cent of the total assets of the banking system, 17.2 per cent of total deposit liabilities and 19.5 per cent of the industry's non-performing assets. Those banks were hamstrung by persistent liquidity problem, poor asset quality and unprofitable operations. At the expiration of the deadline of 31st December, 2005, eighty nine (89) of the existing banks consolidated into twenty five (25) banks through mergers, acquisitions and take-overs or higher capital base. The remaining fourteen (14) banks could not consolidate and were liquidated by the NDIC. Two banks later merged in September, 2007, bringing down the number of banks operating in Nigeria to twenty four (24) as at that date. Indeed, N406.4 billion was reported as funds rose by banks from the capital market, out of which N306.0 billion was verified and accepted by the CBN. Consequently, the post- consolidated capital base of banks rose to US$5.9 billion from the previous pre-consolidation level of US$3.0 billion.

Post-Consolidated Banking System: Implication on SMES

This paper examines three periods of SME financing policies by the Monetary Authorities:

• Period of mandatory banks' credit allocations of 20 per cent of total credits to SMEs, 1992 - 1996

• Banks' pre-consolidation period, 1997—2005, and

• Banks' post-consolidation period, 2006—2010

Period of Mandatory Banks' Credit Allocations to SMES (1992-1996)

The Monetary Authority's policy on indirect financing of small scale enterprises through the use of monetary policy instruments started in 1992. The monetary policy stance of the authorities in 1992 classified small scale enterprises, with agriculture, as the "preferred" sector of the economy. Consequently, a minimum mandatory credit allocation of 20 per cent of total credit to the economy was levied on banks' aggregate lending. During that year, total credit to the economy stood at N41.8 billion. Of this amount, N20.4 billion (48.8 per cent) was loaned to small scale enterprises. The level of compliance, however, declined progressively in subsequent years. For example, whereas total credit to the economy increased to N48.1 billion and N92.6 billion in 1993 and 1994 the share of credit to SMEs declined to 32.2 percent (N15.5 billion) and 22.2 percent (N20.6 billion) respectively. In 1995, aggregate credit to the economy rose further to N141 .1 billion, whereas the share of SMEs rose less than proportionately to N32.4 billion, representing 22.9 per cent of total credit in that year. By 1996 when the announcement abolishing the mandatory banks' credit allocations to SME (including agriculture) was made on October 1, total credit to the economy stood at N169.2 billion out of which N42.3 billion or 25.0 percent was loaned to SMEs.

The mandatory banks' credit allocations period was biased towards SME financing and may therefore be considered as not a good platform for comparing the normal market-determined trend in SME financing before and after banks' consolidation. However, the period offers a useful insight into the demand by SMEs and possible ways that could assist the Monetary and Federal Authorities in boosting SME financing through the banking system.

Banks' Pre-Consolidation Period (1997-2005)

The Federal Government policy on liberalization under the structural adjustment programme (SAP) intensified in 1996. Consequently, all forms of restrictions and controls were dismantled to pave way for a free market economy. Therefore, all monetary policies that hitherto dished out directives to banks were abolished. The effect of this policy became manifest in banks' lending preferences from 1997. For example, while aggregate credit to the economy in 1977 almost doubled to N240.8 bill0n, credit to SME declined to N40.8 billion, representing a sharp decrease to 17.0 per cent of the total credit. Total credit to the economy more than tripled to N796.2 billion and N954.6 billion in 2001 and 2002, but the share of SME declined further to 6.6 per cent and 8.6 per cent, respectively. The figures for 2003 and 2004 passed a trillion naira mark and stood at N1.2l trillion and N1.52trillion with SME share of N90.2 billion (7.5 per cent) and N54.98 billion (3.6 percent) respectively. At the threshold of consolidation in 2005, aggregate credit to the economy peaked for the period at NI .899 trillion. But the share of SME declined further to 2.7 per cent at a stagnant figure of N50.7 billion. Cumulative credit to the economy during the nine-years period, 1997- 2005 amounted to N7,754.5 billion, with accumulated loans to SMEs totalling N505.1 billion, representing a mean ratio of 6.5 per cent for the period.

Banks' Post Consolidation Period (2006-2008)

According to the CBN recent published data compiled from returns received from the DMBs from 2006 - 2008, aggregate credit to the economy more than doubled during the post-consolidation period. On the contrary, however, credit to SME declined by more than half in value. Total credit to the economy increased from N2.5 trillion in 2006, N4.8trillion in 2007 and N7.7trillion in 2008. Conversely, total credit granted to SME declined sharply from N25.7 billion (1.02 per cent) in 2006, N41.1 billion (0.9 per cent) in 2007 and dropped further sharply to N13.4 billion (0.2 percent) in 2008. Consequently, the post-consolidated loans allegedly granted to the economy during the three-year period, 2006-2008, accumulated to N15, 063.6 billion, whereas accumulated total credit granted to SMEs during the post-consolidation period declined to N80.2 billion, representing a mean ratio of 0.53 per cent for the period. This confirms the findings by many experts that the more banks are capitalised, the fewer loans they grant to the small and medium enterprises. This is the rationale behind the call for special programmes to be put in place to assist the small and medium enterprises, undisputedly recognized as the nucleus of industrial revolution, in most economies of the world. It should be noted the quantum of credit denied SME sector in the post consolidated period, 2006-2008 based on trends in credit granted to the sector in the past two periods between 1992-I996 and 1997-2005. The analysis is not necessarily based on the credit needed by SME sub-sector that was not granted by the post- consolidated banks during the period. No research has been conducted to come out with accurate figure on the amount of credit needed by the sector (Benjamin, 2009).

However, CBN report indicates that the capitalized banks under- disbursed to SME the sum of N25.7billion, instead of N164.1 billion, representing a shortfall of N138.4 billion in 2006. In 2007, only N41 .1 billion was disbursed instead of N312.9 billion, representing a shortfall of N271.8 billion. In 2008, N502.2 billion was due for disbursement to SMEs but only N 13.4 billion was actually disbursed, leaving a credit gap of N488.8 billion. Consequently, the aggregate credit denied to SME sub-sector during the post-consolidation period, 2006- 2008 accumulated to N898.9 billion as at end-December, 2008.

Theoretical Framework

This study is anchored on supply leading theory. Supply leading theory was postulated by Schumpeter (1911). The supply leading theory postulates that the existence of financial institutions like the Nigerian deposit money banks and the supply of their financial assets, liabilities and related financial services in advance of demand for them would provide efficient allocation of resources from surplus units to deficit units, thereby leading to other economic sectors in their growth process. The central argument underlying supply leading theory is that financial deepening is a determining cause of economic growth. It posits that optimal allocation of resources is an outcome of financial sector development. The supply-leading hypothesis suggests that causality flows from finance to economic growth with no feedback response from economic growth. A well-developed financial sector is a precondition for economic growth. Mckinnon (1973) and Shaw (1973) argue that a well-developed financial sector minimises transaction and monitoring costs and asymmetric information; thus there is improvement in financial intermediation. The existence of well-developed financial sector enhances the creation of financial services as well as accessibility to them in anticipation to their demand by participants in the real sector of the economy. The supply-leading hypothesis presumes that the economy responds to growth in the real sector facilitated by financial development. The supply leading theory presents an opportunity to induce real growth by financial means. Its use, analysts believe is more result oriented at the early level of a country's development than later. According to Gerschenkron cited in Adewole, Nwankwo, Ogbadu, Olukotun and Samuel (2018) 'the more backward the economy relative to others in the same time period, the greater the emphasis on supply leading finance'. According to Keynes, an increase in investment results in an increase in income, while people's propensity to consume will lead to lack of savings, nevertheless in the economic market when a function of the individuals is spending, they put back part of the income into the economy. Besides, this theory makes it clear that higher interest rate makes it more expensive for SMEs to borrow money, which means that enterprises invest less and when they do that, income is reduced such that the amount left over for savings equals the lesser amount now invested. In the theory also, investment and savings have been considered two critical macroeconomics variables with microeconomic foundation for achieving price stability and promotion of employment opportunities, which contribute to the sustainable economic growth. The conventional perception through which investment, savings and economic growth are related is that savings contribute to higher investments, hence higher GDP growth in the short run. This theory is relevant to the study in that it postulates that a well-functioning financial sector is necessary to facilitate growth in the real sector which resultantly leads to economic development. In other words, economic development is reliant on how well the financial sector is deepened or developed. As the financial sector deepens, there is increase in the supply of financial services. The financial institutions especially banks help in the reduction of risk faced by firm and businesses in their process, improve the portfolio of diversification and isolation of the economy from the change of international economic changes. It also provides linkages for the different sectors of the economy and encourages a high level of specialized expertise and economies of scale.

Empirical Review

Nnabugwu (2021) determined the effect of bank lending rate, collateral security, bank credit and Bank loan and advances has no significant effect on the development of small and medium scale enterprises in Anambra state Nigeria Relevant conceptual, theoretical and empirical literature were reviewed. This study is anchored on supply leading theory. Descriptive survey research design was adopted. The study was carried out in Anambra State, Nigeria. Population of study is infinite. The sample size is 384 using Cochran determining the sample size for an unknown population. The study makes use of primary source of data. Face and content validity was employed to establish the validity of the research instrument. The instrument was pilot tested with representative sample of 30 owners of SMES in Onitsha, Awka and Nnewi in Anambra State. Cronbach Alpha value of 0.812 was obtained which is within the acceptable threshold. The data that will be generated through the questionnaire was analyzed using Multiple regression. The hypotheses will be tested at 0.05 level of significance. The study found that Bank loan and advances has a significant effect on the development of small and medium scale enterprises. Bank lending rate has a significant effect on the development of small and medium scale enterprises. Collateral security has a significant effect on the development of small and medium scale enterprises and Bank credit availability has a significant effect on the development of small and medium scale enterprises in Anambra state Nigeria. The study concludes that financial intermediation had significant effect on the development of small and medium scale enterprises in Anambra state. The study recommends that Government should put in place measures to enhance the availability of finance to SMEs, particularly in the area of institutional credit that would provide affordable medium and long-term loans for expansion and working capital needs. Government should establish credit guarantee and insurance schemes to address the problem of SMEs providing collaterals to banks before loans are administered to the sub-sector. CBN, the apex bank of the country in recognition of the importance and contribution of SMEs to the nation's economic/industrial development should encourage commercial banks and other financial institutions to lend to the SME sub-sector with ease. Various credit schemes targeted at SMEs in Nigeria should be re-energized, coordinated and monitored so that they can effectively impact on the growth and development of the economy

Micah (2020) investigated microfinance banks services and small scale enterprises (SSEs) financing in Abuja, Nigeria. The specific objectives of the study were to evaluate the impact of micro loans on SSEs financing in Abuja, Nigeria and assess the influence of micro savings on SSEs financing in Abuja, Nigeria. The research design used for the study was survey research design. The population of the study comprises of 57 MFBs and 2,794 SSEs in Abuja, Nigeria. A sample of 349 SSEs and 26 MFBs were selected through stratified random sampling techniques. The data was analyse through simple percentages and order logit regression. The finding of the study revealed that an increase in the amount of loan given by microfinance banks increase the growth of small scale enterprises; an increase in micro savings of small scale enterprises lead to an increase in small scale enterprises financing by microfinance banks. The study concluded that MFBs impact positively on financing SSEs in Abuja, Nigeria. Ghulam and Iyofor (2017) examined the effect of firm and owner characteristics on the availability of bank credit to small and medium size enterprises (SMEs) in Nigeria using firm-level data from the World Bank Enterprise survey. Firm with financial statement, firm with audited financial statement, firm size, firm performance, firm age, firm legal status, owner gender and owners educational level were employed as the independent variables while loan status was employed as the dependent variable. Descriptive statistics, logit and probit regression analysis were employed in analyzing the data. The study found that SMEs with a financial statement and an audited financial statement are more likely to have credit than SMEs that don't. Medium sized firms are more likely to have credit than small firms whilst higher performing firms are more likely to have credit than SMEs that have lower performance. Additionally, the study found that also found that firms with a sole proprietor are less likely to have credit than partnerships or corporations. These findings provide empirical support to the theory that a reduction in information asymmetry reduces the perceived higher lending risk and hence the bank is more likely or willing to lend in these circumstances.

Ovat (2016) investigated commercial banks' credit and the growth of small and medium scale enterprises in Nigerian. Small and medium scale enterprises' (SMEs) output was employed as the dependent variable while commercial banks' credit, lending rate, inflation rate, exchange rate and bank density were employed as the independent variables. Co-integration and error correction mechanisms were employed in analyzing the data. The findings revealed that Commercial Banks' credit has not contributed significantly to the growth of Small and Medium Scale Enterprises in Nigeria. The study recommends that SMEs should be made to have easy access to credits by commercial banks, to achieve this, the monetary authority should ensure that the lending rate at which commercial banks lend to the SMEs is reduced to the barest minimum. Aguwamba and Ekienabor (2017) investigated bank lending and its impact on small scale enterprises in Nigeria. Total Deposit Money Banks and Bank Lending were employed as the independent variables while small scale enterprises growth was employed as the dependent variable. Ordinary least square was employed in analyzing the data. The study revealed a positive impact of bank lending on small-scale enterprises. 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.

Adamu (2019) investigated the effect of microfinance banks on the growth of selected small and medium scale enterprises in Makurdi Metropolis, Benue State. Job creation and business expansion were employed as the dependent variable while credit by microfinance bank and savings mobilization was employed as the independent variable. Descriptive statistics such as frequency, simple percentage and multiple linear regression analysis was employed in analyzing the data. The findings indicates that a significant positive relationship exist between credit by microfinance and job creation of selected SMEs; a significant positive relationship exist between credit by microfinance and business expansion; an insignificant negative relationship exist between savings mobilization and the growth of small and job creation; and a significant positive relationship exist between savings mobilization and business expansion of selected SMEs in Makurdi Metropolis. The study concluded that micro finance does enhance the job creation and expansion capacity of small business in Nigeria. John-Akamelu and Muogbo (2018) investigated the role of commercial banks in financing small and medium size enterprises in Nigeria with particular reference to selected banks and firms in Anambra state. The main objective of the study is to examine the role of commercial banks in financing SMEs in Nigeria. Structured questionnaire were distributed to the respondents which includes the commercial banks staff and selected SMEs staff in Anambra State Nigeria. Percentage and chi-square method were employed in analyzing the data. The study found that small and medium size businesses encounter problem in the procurement of loans from commercial banks; also, commercial banks have contributed immensely to the development of SMEs through their loans and advances. The study also found that to a high level SMEs has contributed to the growth and development of Nigeria's economy. The study recommended that for small and medium enterprises to survive, there have to be collective effort between them and banks.

Ubesie, Onuaguluchin and Mbah (2017) investigated the effect of deposit money banks credit on small and medium scale enterprises growth in Nigeria using time series data from 1986 to 2015. Specifically, this study ascertains the effect of deposit money banks' credit to small and medium enterprises, credit to private sector and interest rate on small and medium scale enterprises growth in Nigeria. Ordinary least square regression method was employed in analyzing the data. The study found that deposit money banks 'credit to small and medium scale enterprises has no significant effect on SMEs growth in Nigeria. The result also indicates that deposit money banks' credit to private sector has significant effect on SMEs growth in Nigeria. The result also indicates that bank interest rate has serious significant effect on small and medium scale enterprises in Nigeria.

Otonye (2017) carried out an analysis on the impact of commercial bank's loans on the performance of small and medium enterprises in Nigeria. The variables used in the study include Gross Domestic Product, deposit money bank loans to small and medium enterprises, deposit money bank loans to the Agricultural sector, prime lending rates, loans to rural branches of deposit money banks, and small and medium enterprises output (contribution to GDP). Augmented Dickey-Fuller (ADF), Cointegration test, Granger causality test and regression analysis were employed in analyzing the data. Results show that significant relationship exists between deposit money banks loans and SMEs output in Nigeria. The findings revealed that loans to the Agriculture sector and loans to the rural branches of DMBs have a significantly positive relationship with SMEs output, the other two variables, Loans to SMEs and Prime lending rates shows negative and insignificant sign. Ogbonna (2019) investigated the effect of bank lending on the development of small and medium scale enterprises in Nigeria. Bank loan, bank lending rate and inflation rate were employed as the explanatory variables while growth rate of SMEs was employed as the dependent variable. Regression analysis was employed in analyzing the data. The study found that Bank loan has significant positive effect on the growth rate of SMEs while bank lending rate have significant negative effect on the growth rate of SMEs.

Mesagan, Olunkwa and Yusuf (2018) investigated financial development and manufacturing performance in Nigeria from 1981 to 2015. Three indicators of manufacturing performance such as manufacturing capacity utilization, manufacturing output and manufacturing value added were employed as the dependent variables while money supply as a percentage of GDP, domestic credit to the private sector and liquidity ratio were employed to proxy financial development. Three models were formulated for the study. Unit root, Johansen cointegration test and error correction model was employed in analyzing the data. The result indicates that credit to the private sector and money supply positively but insignificantly enhanced capacity utilization and output, but negatively impacted value added of the manufacturing sector in the short run. There is slight improvement in the long where both money supply and credit to private sector exert positive impact manufactured output.

Onwuteaka, Molokwu and Aju (2019) investigated the impact of commercial banking on Nigeria industrial sector from 1980 to 2018. Commercial bank credit to industrial sector, inflation, infrastructure, exchange rate, interest rate, labour force and bank capital were employed as the independent variables while industrial sector proxied by industrial output was employed as the dependent variable. Ordinary least square was employed in analyzing the data. The results show that commercial bank credits to industrial sector, infrastructure, inflation, labour and bank capital have a positive impact on industrial sector while exchange rate has a negative impact on industrial sector. The study also found out that only commercial bank credits to industrial sector and infrastructure were significant in explaining industrial sector growth.

Adeyefa and Obamuyi (2018) investigated the effect of financial deepening on the performance of manufacturing firms in Nigeria from 1970 to 2016 using data sourced from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics. The model was specified, and the hypotheses were tested with the Autoregressive Distributed Lag model and Mann-Whitney U Test test. The Augmented Dickey-Fuller, Phillips-Perron and Breusch- Pagan-Godfrey tests were carried out to ensure robust regression results. Results obtained from the study revealed that broad money supply has direct and significant impact on index of manufacturing production in Nigeria, credit to private sector has indirect and insignificant impact on index of manufacturing production in Nigeria and market capitalization has an indirect and significant impact on index of manufacturing production in the long-run and a direct and insignificant impact in the short-run. The study also discovered that financial deepening impacted more on the manufacturing sector performance in the post financial reforms period.

METHODOLOGY

Research design is a set of methods and procedures use to collect data and analyze measures of the variables specified in the research problems (Okwandu, 2002). The design of the research was developed in order to accomplish the purpose for which the study was intended, which is to examine the relationship between financial deepening and the growth of SMEs. The research design of this study is a survey design because data will be collected from a sample drawn from a given population and it describes certain features of the study.

Model Specification

The objective of financial sector liberalization is to deepen the operational efficiencies of the financial institutions for the realization of macro and monetary policy goals, therefore the model specified below is based on the objective of the financial sector deepening and the growth of the Small and Medium Scale Enterprises.

GSME =f (MS, BC, GNS)

$Y = \beta_0 + \beta x_1 + \beta x_2 + \beta x_3 + \mu$

Where;

Y = (GSME) Growth of SMEs in Rivers State

X_1 = (MS) Money Supply

X_2 = (BC) Bank Credit

X_3 = (GNS) Gross National Savings

μ = Error term

Data Analysis Techniques

The technique used in this study is the Ordinary Least Square (OLS) estimation technique. The test instrument is the OLS and the T-statistics and F-test which were used to test the significance of variables and the overall significance of the regression respectively. Other test instruments also employed were the Durbin Watson test which was used to test the presence or absence of auto correlation between and among the explanatory variables and the adjusted R square used to test the percentage variation of the dependent and the independent variables.

RESULT AND DISCUSSION

Table 1: Test of Colinearity and Auto-Correlation of Variables Tolerance and Variance Inflation Factor (VIF)

VARIABLE	TOLERANCE	VIF
Broad money supply (m_2)	.008	131.556
Bank Credit	.817	1.224
Gross National Savings (GNS)	.008	132.186

Source: Computed by researcher from SPSS (17.0)

The table above shows a tolerance of above 0.1 inverse to the rule of the thumb which is contrary the rule for testing multicolineaity on tolerance while only one variable which is Banking Sector credit satisfies the threshold of being above 0.5 and less than 10. Broad money supply and Gross National Savings are unable to satisfy the requirement of above 0.5 with a coefficient of 131.556 and 132.186.

Table 2: Colinearity Dignostic and Durbin Watson Test

Variables	Eigen value	Con index	Variable Constance	M_2	BKC	GNS
1	2.815	1.000	.02	.00	.01	.00
2	1.009	1.671	.01	.00	.48	.00
3	.175	4.017	.62	.00	.50	.00
4	.002	43.070	.36	1.00	.00	1.00

Durbin Watson = 1.076

Source: Computed from SPS (17.0)

The table above illustrates a colineanity and auto conclation, the results found that, the Eigen values that corresponds with the highest condition index and variance constants are less than 0.05. The Durbin Watson statistic of 1.076 is greater than 1.00 but less than 2.00, this shows the absence of multicolinerity, portraying a significant relationship between the dependent and the independent variable in the model.

Table 3: Effect of Financial deepening on the growth of SMES multiple Regression Results

Variables	M_2	BKC	GNS
β	6.679	.074	-5.841
STDB	2.056	.578	-1.069
STDERROR	4.812	.021	8.111
Partial COR	.402	.754	-222
Part	.176	.469	-093
CORR	-995	-038	-38.849
T-Test	1.388	3.628	-720
Sig T	.195	.005	.488
Constant	902.977		

Source: SPSS (17.0)

The table above revealed the relationship between the dependent and the independent variable in the regression model formulated in chapter three of this study. The Beta coefficient revealed that Broad money supply and Banking system credit have positive effect on the growth of small and medium scale enterprises with the positive coefficient of 6.6792M2 and. 074BKC while Gross National Savings have negative relationship with 5.8419GNS. The relationship in the Beta coefficient also confirms the standard Beta of 2.056M2, 578BKC and -1.069GNS. The partial correlation indicates that Broad money supply have 40.2% relationship, Banking sector credit have 75.4% while Gross National Savings have 22.2%. The positive constant value proved the effect of the independent variables on the dependent variables at constant term, the T-test reveal that gross National Savings and Broad Money Supply are statistically not significant while banking sector credit is significant in explaining changes on the growth of Small and Medium Scale Enterprise.

Table 4: Model Summary Result

Test Results	Coefficients
Multiple R	.913
R –Square (R_2)	.833
Adjusted R_2	.783
F-Ratio	16.645
Sig-F Ratio	.000

Source: SPSS (17.0)

The model summary result above revealed a multiple R of 913 which means 91.3% correlation coefficient. This signifies strong relationship. The R2 and the adjusted which measures the extent to which the independent variables can explain changes on the dpendent variable revealed that 83.3% and 78.3% variation in the growth of small and medium scale enterprises can be explained by the independent variable in the model which is Broad money supply, commercial banks credit and Gross National Savings. The F-ratio which measures the fitness of the model reveal 16.645 with the ratio of .000, this implies that the model is fit.

Discussion of Finding

The relationship between finance and growth has well been established in literature. Despite the divergences on the effect of finance on Economic growth scholars have always favour the existence of positive relationship between finance and growth. This led government to formulate various monetary policies that will enhance and facilitate the achievement of set macroeconomic goals. The objective of this study is to examine the effect of financial deepening on the growth of small and medium scale enterprises using monetary policy variables used to measure financial deepening such as increase in broad money supply, Banking sector credit and Gross National Savings for the period 2000-2013.

Findings explaining the effect of the independent variables on the dependent variable revealed that Broad money supply and banking sector credit have positive effect on the growth of small and medium scale enterprise measures as the contribution of SMES to Real Gross Domestic product. The positive effect of the variable confirm the expectation of the result and the effect of government policies to increase the productory of the SMEs to achieve real economic growth, for instance the introduction of Credit Scheme such as the equity investment scheme and the reduce interest Rate from financial institution to the SMES. The positive effect of financial deepening on the growth of the SMES is in line with the opinion that finance transfer cause economic growth which is contrary that economic growth transfer cause finance.

However, Gross National Savings have negative but insignificant effect on the growth of the SMEs. This finding is contrary to the expectation of the results and the objectives of the financial sector reforms. Increase in Gross National Saving is an indication well-structured and developed financial system. The negative and the insignificant effect to the variables can be traced to and extend credit enough in the economy, for instance significant proportion of the rural communities have no access to formal banking or financial services, this have the capacity of increasing money outside the banking system the consequence, is contraction in the lending ability of the credit institutions. It might also be traced to reduced saving Rate of the deposit institutions that discourage savings. A close examination of the central bank of Nigerian Report shows that the Banking sector saving rate is far less than the inflation Rate. This according to the finance theory does not give value to money.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examines the effect of financial deepening on the growth of Small and Medium Scale Enterprises. The objective is to investigate the extent to which financial deepening measured by increase in Broad money supply, banking system credit and Gross National Savings affects the growth of Small and Medium Scale Enterprises. The findings reveal a correlation coefficient of 91.3%, an R-square of 83.3%, an adjusted R^2 of 78.3%. The F-ratio is 16.645 with the significant of 0.00000. The β coefficient reveals 66.79M2, 0.74BKC and -5.841GNS. From the above, this research concludes that there is significant relationship between financial deepening and the growth of Small and Medium Scale Enterprises.

Recommendations

From the findings of the study we make the following recommendation.

(1) There should be policies to further deepen the operational efficiency and effectiveness of the financial system for increase financial sector development.

(2) Implementable polices should be made to enhance financial sector credit to the small and medium scale enterprises to enhance the growth of the industry.

(3) The monetary authorities should embark in measures to subsidize lending Rate to the SMEs.

(4) The is need to revisit the rural banking scheme to enable banks open branches in the rural areas to enhance deposit mobilization and credit allocations

(5) Government policies on Small and medium scale enterprises should be revisited to achieve growth

REFERENCES

Adamu , G. (2019). Effect of microfinance banks on the growth of selected small and medium scale enterprises in Makurdi Metropolis, Benue State. *Journal of Advance Research in Business Management and Accounting. 5(7),1-23*

Adekunle, O., Salami, G. O., & Adedipe, O. A. (2013). Impact of financial sector development on Nigerian Adeniyi, O. M., (2006). Bank credit and economic development in Nigeria: A case study of deposit money banks.

Adeyinka O. F. (2015). An analysis of banks' credit on the Nigerian economic growth (1992-2008). *JAS Journal of Economics, 4(1), 1-10.*

Adeyafa F. A., & Obamuyi T. M., (2018). Financial Deepening and the performance of manufacturing firms in Nigeria. *A Canadian social scientific journal, 7(3), 56-77.*

Ahiawodzi, A. K. & Adade, T. C. (2012). Access to credit and growth of small and medium and the unit-root hypothesis. *Journal of Business and Economic Statistics 10: 251-70.*

Akani, H. W., & Lucky, A. L., (2018). An assessment of the level of banking sector development. Evidence from Nigeria commercial banks: *Journal of marketing development (JMD), 2(2) 83-102.*

Akani, H.W., & Lucky, A.L. (2021). Comparative analysis of financial sector development indicators of Nigeria and South Africa. Book of Proceedings of *The Second International Virtual Conference, 2(1), 31-41*

Akingunola, R. O. (2011). Small and medium scale enterprises and economic growth in Nigeria: An Assessment of Financing Options. *Pakistan Journal of Business and Economic Review, 2(1): 78 – 97.*

Akinwale S. O., & Obagunwa O. T., (2019). A VECM Approach towards the effects of bank credits on economic growth: Empirical evidence. *European Scientific Journal, 1-16.*

Akinwumi O. A., Omotayo O. F. & Alani O. E. (2020). Bank Financing and Industrial sector Performance in Nigeria. *International Journal of accounting, Finance and Management 157(1), 1-22.*

Allen, F. & Gale, D. (2004). Financial intermediaries and markets. Econmetrika, 72(4), 1023-1061.

Andabai P. W. & Eze G. P.(2018). Bank Credits and manufacturing sector Growth in Nigeria (1990- 2017): A Causality Investigation: *International Journal of economic, Commerce and Management. IJECM*

Andabai, P. W. & Eze, G. P. (2018). Bank Credit and Manufacturing Sector Growth in Nigeria (1990- 2017): A Causality Investigation. *International Journal of Economics, Commerce and Management, 6(3), 326 – 336.*

Araujo, L. & Minetti, R. (2007). Financial intermediaries as markets for firms' assets. *Economic Journal, 117, 1380-1402.*

Aremu, M. A. & Adeyemi, S. L. (2011). Small and Medium Scale Enterprises as A Survival economic growth. *American Journal of Business and Management, 2(4), 347-365.*

Ayodele, T. D. (2015). Revolving Loan Scheme (Esusu): A Substitute to the Nigerian Commercial Banking? *Journal of Business and Management, 17(6), 62 – 67.*

Egbuna, C. K. & Agali, I. (2013). Effect of Planning on the Performance of Small and C.S. Ije and F.O.Ozor, *Economic Development and Management, Enugu: Quarterly Press Limited. 326 - 331.*

Evbuomwan G. O., Ikpi A. E., Okoruwa V. O. & Akinyosoye V. O. (2012). Preferences of intermediation roles of banks on economic growth: A Case Study of Nigerian Experience. Investment in Nigeria. *Research Journal of Finance and Accounting, 4(12):47-54.*

Hao, C. (2006). Development of financial intermediation and economic growth: the chinese experience. *China Economic Review, 17(4), 347-362.*

John-Akamelu C. R., & Muogbo U. S. (2018). The role of commercial banks in financing small & medium size enterprises in Nigeria: A study of selected banks and firms in Anambra State, Nigeria. *European Journal of Economic and Financial Research, 3(1),1-12*

Kalu, E. U., Obasikene, A. C., Oleka, C. D. & Nwadike, C. O. (2017). The Relative Impact of Bank Credit on Manufacturing Sector in Nigeria. *International Journal of Economics and Financial Issues. 7(2), 196-201.*

King, R. & Levine, R. (1993). Finance and growth: schumpeter might be right. *The Quarterly Journal of Economics, 108, 681-737.*

Lucky, A. L., (2018). Marketing of financial service: Evidence from Nigeria Financial Market. *International Journal of Marketing Research Innovation 2(1), 31-46*

Nieh, C., Chang, Y., Russel, P., & Hung, K. (2009). The asymmetric impact of financial intermediaries development on economic growth. *International Journal of Finance, 21(2), 6035-6079.*

Nnabugwu, O. C. (2021). Effect of financial intermediation on the development of small and medium scale enterprises in Anambra State Nigeria. *International Journal of Innovative Finance and Economics Research 9(3):44-54*

Odhiambo, N. (2011). Financial Intermediaries versus Financial Markets: A South African Experience. *International business and economic research journal, 10(2), 77-84.*

Ogbuabor, J.E., Ifeoma C. & Orji, A. (2019). Lending to small and medium scale enterprises and economic growth in Nigeria, 1992 – 2011. *European Journal of Economics, Finance and Administrative Sciences 6,(7),72-85*

Ojo, A. S. & Ololade, O. F. (2014). An assessment of the Nigerian manufacturing sector in the era of globalization. *American Journal Of Social And Management Sciences, 5(1): 27-32*

Oleka, C.D., Sabina, E.A., and Onyeze, C.N., (2014). The empirical study of the impact of medium enterprises in South-Western Nigeria. *Asian Journal of Business Management, 5(3), 89-105.*

Olorunsola, E. Olowofeso, A. A., Adeboye, V. T. A., Kufre J. B. & Ochoche, A. (2017). Agricultural Sector Credit and Output Relationship in Nigeria: Evidence from Nonlinear ARDL1 *CBN Journal of Applied Statistics. 8(1), 101 – 122.*

Omodugo, V.A, Kalu, I.E. and Anowor, O.E. (2013) Financial Intermediation and Private Sector Micro, Small and Medium Scale Enterprises to Financial Products in Nigeria. *Journal of Management Sciences, 6(2), 34 – 51.*

Onwuteaka, I. C., Molokwu, I. M. & Aju G. C. (2019) Impact of Commercial Banking on Nigeria Industrial Sector. *International Journal of Trend in Scientific Research and Development. 3,(3), 752-758*

Schumpeter, J.A. (1911). The theory of economic development. Cambridge, MA, USA: Harvard University Press,

Tomola M. O., Adebisi T. E, Olawale F. K. (2020). Bank lending, economic growth and performance of manufacturing sector in Nigeria. *European scientific Journal, 78-99.*

Zaagha, A. S., & Lucky, A. L. (2021). Comparative analysis in growth of conventional and Islamic banking: evidence from Nigeria. *European Journal of Accounting, Finance and Investment*, *7*(12), 23–34.