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DEPOSIT MONEY BANKS' FINANCING OF SMALL SCALE BUSINESS AND NIGERIAN ECONOMIC GROWTH

Abstract: *Unemployment and poverty can be brought to minimum in Nigeria if the strength of its small business entrepreneurs can be married with loan accessibility. The World Bank development report (2013) revealed that both Small and medium Scale Enterprises operating in Nigeria contribute less than 5% to the Nigerian Gross Domestic product (GDP) as against over 40% and 50% in Asian countries and United States or Europe respectively. Perhaps, the deposit money banks are not carrying out their traditional lending functions to the small businesses as expected and that led to their little contribution to the Nigerian GDP as compared to their Asian and the United States counterparts. This study therefore examined the influence of Deposit Money Banks' financing on Small Business and Economic Growth. The primary and the secondary data were used. Data obtained was subjected to OLS regression. Finding showed that loans advanced by the deposit money banks to the small businesses have significant impact on the Nigerian GDP, though with attendant challenges. The study therefore recommends that the Central Bank of Nigeria should ensure adequate monitoring of the deposit money banks by ensuring that their primary lending function is made to small scale businesses, as this will not only positively impact on their contribution to GDP but will also impact positively on entrepreneurs Economic life vis-à-vis job creation and poverty alleviation.*

Keywords: Economic Growth, Small Scale Businesses, Deposit Money Banks, Monetary Circuit Theory

1. Introduction

Small scale entrepreneurs are known for their potentials of job creation and poverty reduction across the globe. Such businesses, are as much a cardinal economic catalyst in the both the industrialized nations and the developing world. Nigeria is the largest country in Africa with a population of over 158 million people, and despite a strong economic track record, poverty is still significant and reducing it will require a strong non-oil growth and a focus on human development (World Bank Report, 2013). Studies have also shown that Nigeria has low amount of domestic investment through loans vis-à-vis other emerging markets and this has resulted in gross under performance of the Small and Medium Enterprises (SMEs) sub-sector, which has undermined its contribution to the economic growth and

development of Nigeria. The Deposit Money Banks (DMBs) which remain the biggest source of funds to small business have shun away from their responsibility of loan provisions due to the inherent risk and uncertainties involved (Central Bank of Nigeria (CBN), 2013).

The Central Bank of Nigeria recently initiated a N220 billion fund as an innovative way of improving SMEs access to fund and shoring up their job creation potential, with the aim of reducing poverty in the Economy for inclusive Economic growth. The effort was targeted at complementing the six Entrepreneurship Development Centers (EDCs) in the six geopolitical zones of the country which is to support the mandate of the 23 Industrial Development Centers (IDCs), which are under the purview of the Small and Medium Enterprises Development Agency (SMEDAN), (CBN, 2014). According to the CBN, state governments will be able to access N 2 billion each for on-lending to Small businesses in their respective states from participating DMBs.

The World Bank development report (2013), revealed that both the Small and medium Scale Enterprises operating in Nigeria contribute less than 5% to the Nigerian Gross Domestic product (GDP) as against over 40% and 50% in Asian countries and the United States or Europe respectively. Perhaps, the deposit money banks are not carrying out their traditional lending functions to the small businesses as expected and that led to their little contribution to the Nigerian GDP as compared to the Asian countries and the United States, this study therefore examined the Nigerian Economic Growth: Role of Deposit Money Banks on Small Business financing.

The main objective of this study is to examine the impact of DMB loans to small businesses onthe growth of the Nigerian economy.It is therefore hypothesized that loans to small businesses by deposit money banks have no significant impact on the Nigerian economic growth.

2.1 Review of Literature

Economic growth is seen as the increase in the market valueof the goods and services produced by an economyover time (Arema, 2014). It is conventionally measured as the percentage rate of increase in real gross domestic product (GDP). An increase in growth caused by more efficient use of inputs is referred to asintensive growth, while extensive growth is caused only by increases in inputs such as capital, population or territory. Economic growth is measured as the annual percent change of gross domestic product (Field, 2011 and Castells and David, 2012)

Gross Domestic Product (GDP) represents the monetary value of all goods and services produced over a specific period (Coyle, 2014). Its estimate is usually used for measuring the economic performance of a country or region and can also measure the sectoral contribution of every unit of an economy (Arema, 2014). On the other hand, Deposit Money Banks (DMBs) are profitsmaking organizations. Their historical specialties have been commercial lending to businesses on the asset side and checking accounts for businesses and individuals in the liability side.

Furthermore, small-scale enterprises are businesses that employ small number of workers and do not have a high volume of sales (Gustafson, 2013). According to

Ayozie (2011) their upper limit is below two hundred and fifty thousand naira, while their annual turnover exceeds that of cottage industry. Therefore, the sources of financing available to small business encompass personal savings, loans from friends, loans and overdraft from banks, retained earnings, equipment leasing, sales of shares, grants and loans from government, and venture capital among others (Arema, 2014).

2.2 Review of Empirical Studies

There are evidencesfrom empirical investigations on small scale businesses and loan accessibility; especially, Egbetunde (2012) investigated Bank credits and rural development in Nigeria using a double log equation and co-integration test. Findings revealed that rural economic growth is co-integrated with bank credit in Nigeria and that commercial bank credit to rural dwellers has significant impact on rural economic growth. Nwele, Ogbonna and Uduimo (2014), opined that micro credit loans have not gone deep enough to ensure a clean break from community and commercial banking lending. Using a multiple regression analysis on data obtained from 103 SMEs in Kenya. Musamali and Tarus (2012) found that ownership structure, business type, age and size of the enterprise determines the accessibility of SMEs to loan from commercial banks. Christopher (2012), argued that significant number of the SMEs benefitted from the microfinance loans eventhough only few of them were capable enough to secure the required amount needed for their operation. Ngoc, Le and Nguyen (2009), observed that young SMEs face a lot of challenges in accessing loan from commercial banks due to information asymmetry between the entrepreneurs and the banks.Ayuub (2013), observed that there is strong relationship between microfinance lending and poverty alleviation of SME owners in Pakistan. Koko (2011), investigated capital access strategies and enterprise growth in Nigeria and the findings showed a positive correlation between capital access and enterprise growth and that those entrepreneurs with more access to funds tend to experience more growth and better prospects for survival.

Emmanuel and Daniya (2012), researched into the Development of small and medium scale enterprises: the role of government and other financial institutions. Findings revealed that SMEs have been playing tremendous role in the nation's Economic development but harnessing their potentials is still a mirage has policies targeted at SME development have not stand the test of time due to stringent loan accessibility and poor implementation of schemes initiated by the Nigerian government.However, most of the available literatures did not focus particularly on small scale businesses alone, but rather on SMEs and their impacts on the rural-urban migration, employment generation and on Economic development of Nigeria and observed that Financing Small and Medium Scale businesses could reduce unemployment, reduce rural-urban drift, increase rural infrastructure and positively impact on the Economic development of Nigeria (Onyeiwu, 2009; Koko, 2011; Ayozie, 2011; Bamidele, 2012; Egbetunde, 2012; and Nwele and Ogbonna, 2014).

2.3Theoretical Background

The Monetary Circuit Theory (MCT) was adopted for this study. MCT is a theory of monetary Economics, particularly money creation developed by Nicholas Johannsen in 1903 and popularized by Augusto Graziani in 1989.The MCT theory

also known as circuitism or circulation approach holds that money is endogenously created by the banking sector rather than exogenously by the government through the Central bank's lending (Graziani, 1989). The MCT theory focuses on two cardinal points-the stock and the economic transactions. The stock is referred to as the initial loan lent by the commercial banks while the Economic transactions is seen as Economic transactions initiated by the loan over a given period of time (Keen, 2009).Connecting this theory to this study, the stock is therefore seen as the initial loan advanced by the Deposit Money Banks to the small scale entrepreneurs while the economic transactions is seen as the effect of the economic transactions whose impact has manifested on the growth (GDP) of the Nigerian Economy.This research work also focused on the post-consolidation period of the Nigerian deposit money banks (2006-2013) and adopted Monetary Circuit Theory which other studies did not consider. The post-consolidation period was chosen as it is believed that the capitalization of banks would probably increase their loan advancement to the small scale entrepreneurs.

3. Methodology

This section focuses on the methodology used for this study. It covers research design, population of the study, sample size and sampling technique, source and method of data collection andthe technique of data analysis as well as model specification and estimation.

The study adopted survey and correlational research designs usingboth primary and secondary sources of data. The primary data was obtained through structured questionnaire, while the secondary data was extracted from the Central Bank of Nigeria's Statistical Bulletin for 2013.The population for this study is the small scale business owners, registered under the Corporate Affairs Commission (C.A.C) in Nigeria. A sample size of sixty (60) of the small scale business operators was selected using stratified random sampling technique. As small business owners were first categorized into their states of operation and later regrouped into six geopolitical zones of the country for convenience, since the entire small businesses operating in Nigeria cannot be covered.

The questionnaire administered was the instrument for the collection of primary data. A total of sixty questionnaire were administered to small scale business owners in Nigeria after grouping each state into their geopolitical zones: South-West, South-East, South-South, North-Central, North-East and North-West, a state each were then randomly selected from the these geopolitical zones, which include Osun, Enugu, Edo, Kwara, Gombe and Kaduna. Ten (10) questionnaires were administered directly by the researcher in Kwara State, while the remaining 50 questionnaire were administered in copies of 10 to the other selected states and in their respective state capitals with the aid of some resident research assistant in those states. All the questionnaires were administered in the state capitals of the selected states due to large presence of commercial activities.The secondary data obtained was subjected to Ordinary Least Square regression using the e-views (7) statistical package for analysis, while the primary data were analyzed using percentages and inferences were drawn.

3.1 Model Specification

This study developed a model towards satisfying the main objective of the study. The following model specification was adopted:

$GDP_i = f(Ln_i, Ir_i, Ms_i)$.....(i)

The equation (1) can be transformed into linear equation and thus becomes;

$GDP = \alpha_0 + \lambda_1 Ln_i + \lambda_2 Ir_i + \lambda_3 Ms_i + \mu_i$ .....(ii)

Where:

GDP_i = Gross Domestic Product (Explained Variable)

Ln_i = Loan advanced by Deposit Money Banks to Small Entrepreneurs

Ms_i = Money Supplied by the CBN to the Economy

Ir_i = Interest rate

α_0 = the intercept to the equation

λ_1, λ_2, and λ_3 = the parameter estimates (coefficients)

μ_i = the error term.

The apriori expectation is that $\lambda_1 > 0, \lambda_2 < 0$, and $\lambda_3 > 0$.

The model shown in equation two has a dependent variable and three independent variables. The Dependent variable is the GDP, while the Independent variables are Loan, Money supply and the Interest rate.The model was estimated using the Ordinary least Square (OLS) multiple regression analysis. The t-statistic was used to test for the level of significance of each of the variables while the f-statistic was used to test for the overall goodness of fit of the model. The R^2 showed the level to which the independents variables (Loan, Interest rate and Money supply) explained the dependent variable (GDP).

4. Discussion of Results

This section presents and discussed the findings of this research work. From the sixty questionnaire administered, a total of 57 questionnaire were duly returned and presented in Tables below using percentages and descriptive statistics.

Table 4.1: Socio-Demographic Characteristics of Respondents

Variables	Frequency(N=57)	Percentage (%)
Gender:		
Male	34	59.65
Female	23	40.35
Age: 30 years and below		
31-40 years	5	8.77
41 years and above	41	71.93
	11	19.3
Educational Level:		
Primary	0	0
Secondary	8	14.04
Graduate	43	75.44
Postgraduate	6	10.52
Marital Status:		
Single	23	40.35
Married	29	50.88
Divorced	2	3.51
Widow/Widower	3	5.26

Source: Author's Investigation, 2014

It was observed from Table 4.1 above that59.65 percent of the respondents were males while 40.35 percent were females. 8.77 percent of the respondents had their ages 30 years and below, 71.93 percent had their ages between 31 and 40 years, while 19.3 percent were aged 41 years and above. On educational attainment 14.04 percent were secondary school leavers, 75.44 percent were graduates, while 10.52 percent have completed their postgraduate programme. 40.35 percent of the respondents were single, 50.88 percent were married, and 3.51 percent were divorced while 5.26 of the respondents were either widow or widower.

Table 4.2: Categories of Respondentsin Small Businesses

Categories of Small Business	Frequency (N=57)	Percentage (%)
Agriculture	8	14.04
Manufacturing	37	64.91
Services	12	21.05

Source: Author's Survey, 2014

The Table 4.2 reveals that a larger part of the respondents i.e. 64.91 percent are into manufacturing, 21.05 percent were into services while 14.04 percent were into Agricultural production.

Table 4.3: Regression Results

Variables	Coefficients	T-statistic	Prob.
C	22103122	3.494536	0.0250**
Loan	104.4923	4.217966	0.0135 **
Ir	-1063837	-3.056100	0.0378 **
Ms	1.637606	9.737235	0.0006 *
R^2 = 0.990705 Adjusted R^2 = 0.983734 F-stat = 142.1118 Prob(f-stat) = 0.000161 * DW = 2.7			

Source: Author's Computation, 2014

* indicates 1% level of significance and ** indicates 5% level of significance

The apriori expectation of the model is that $\lambda_1 > 0$, $\lambda_2 < 0$, and $\lambda_3 > 0$. The apriori expectation was satisfied as Loan has positive relationship with the Gross Domestic Product, Interest rate has negative relationship with GDP while the Money supplied to the Economy has positive relationship with GDP. Thus, the model for this study is valid.

On the grounds of the coefficients of the independent variables, a unit increase in the Loan advanced to the SME's will lead to 104.4923 increases in GDP. A unit increase in interest rate will lead to a -1063837 unit increase in GDP, while a unit increase in money Supply will lead to 1.637606increases in GDP. The coefficient of the constant variable is 22103122; this implies that GDP will increase with this

value irrespective of the relationship of Loan, Interest rate and money supply with the GDP.

The result also showed that the t-statistics of the constant variable, Loan, interest rate and money supply are 3.494536, 4.217966, -3.056100 and 9.737235 respectively with the attendant probability values of 0.0250, 0.0135, 0.0378 and 0.0006 respectively. These imply that the constant variable, loan and interest rate are all significant at 5% level of significance, while money supply is significant at 1% level of significance.The value of the R^2 is 0.990705, implying that approximately 99% variation in GDP can be explained by Loan, Interest rate and Money supply while the remaining 1% can be explained by the error term.The F-statistics value is 142.1118 with a probability value of 0.000161, thus, significant at 1% level of significance. The Durbin Watson from table 4.3 indicates a value of 2.7, which implies absence of serial or auto-correlation. This is in line with the view of Alsaeed (2005) that if the Durbin watson is within the range of 1 and 3, then it signifies absence of serial correlation.

Unit Root Test

Table 4.4: Kwiatkowski-Phillips-Schmidt-Shin (KPSS) Test.

Variables	Order of Integration
GDP	I(0) **
Loan	I (2) **
Interest Rate (Ir)	I (0) **
Money supply (ms)	I (0) *

Source: Author's Computation, 2014

* indicates 1% level of significance and ** indicates 5% level of significance.

Unit Root Test was conducted using the Kwiatkowski-Phillips-Schmidt-Shin (KPSS) on all the variables. GDP, Interest Rate and Money supply were found to be stationary at level, whileLoan was stationary at second difference. Relating the monetary circuit theory to this study, the stock is seen as the loans advanced by the deposit money banks to the small scale businesses, while the Economic transactions is seen as the effect of the transactions initiated by the loan over a given period of time on the Nigerian GDP. The findings of this research work is therefore consistent with that ofOnyeiwu (2009); Ngoc, Leo and Nguyen (2009); Koko (2011); Christopher (2012); Ayuub (2013); and Aliyu and Bello (2013).

Table 4.5: Respondents Ability to Secure Loan from DMBs

Question	Frequency(N=57)	Percent (%)
Have you been able to secure loan from the Deposit money banks?		
Yes	18	31.58
No	39	68.42

Source: Author's Investigation, 2014

Table 4.5 showed that larger number of respondents have not been able to access loans from the DMBs has 68.42 percent argued that they have not been able to secure loans from the DMBs.

Table 4.6 Benefits of Small Businesses on the Nigerian Economy

Question	Frequency(N=57)	Percent (%)
Benefits of small businesses on the Nigerian Economy:		
i. Job Creation	36	63.16
❖ Strongly agree	21	35.09
❖ Agree	0	0
❖ Indifferent	1	1.75
❖ Disagree	0	0
❖ Strongly disagree	44	77.19
	12	21.06
ii. Poverty alleviation	0	0
❖ Strongly agree	1	1.75
❖ Agree	0	0
❖ Indifferent		
❖ Disagree	22	38.59
❖ Strongly disagree	20	35.09
	7	12.29
	6	10.52
iii. Rural infrastructure	2	3.51
❖ Strongly agree		
❖ Agree		
❖ Indifferent		
❖ Disagree		
❖ Strongly disagree		

Source: Author's Survey, 2014

From Table 4.5 above, it is clear that 63.16 percent of the respondents strongly agree that small businesses create job while 35.09 agree that small businesses create job, this implies that the larger part of the respondents are of the opinion that small businesses create job, which positively tells on the economy. Larger part of the respondents are also of the opinion that small scale business alleviates poverty as 77.19 percent and 21.06percent strongly agree and agree respectively to this effect. 38.59 percent and 35.09 percent strongly agree and agree respectively that small scale businesses facilitate rural infrastructure which positively impacts on the Nigerian Economy.

Table 4.7 Challenges Militating against the Growth of Small Business in Nigeria

Question		Frequency(N=57)	Percent (%)
Challenges militating against the growth of small businesses in Nigeria:			
i.	Poor access to loan	51	89.47
❖	Strongly agree	6	10.53
❖	Agree	0	0
❖	Indifferent	0	0
❖	Disagree	0	0
❖	Strongly disagree		
ii.	Poor records and documentation	12	21.05
		21	36.84
❖	Strongly agree	1	1.75
❖	Agree	13	22.81
❖	Indifferent	10	17.53
❖	Disagree		
❖	Strongly disagree		
		46	80.70
iii.	Poor infrastructure	6	10.53
❖	Strongly agree	0	0
❖	Agree	3	5.26
❖	Indifferent	2	3.51
❖	Disagree		
❖	Strongly disagree		
		52	91.23
iv.	Unfriendly interest rates	5	8.77
		0	0
❖	Strongly agree	0	0
❖	Agree	0	0
❖	Indifferent		
❖	Disagree		
❖	Strongly disagree	34	59.65
		21	36.84
v.	Poor demand of products/services	0	0
		0	0
❖	Strongly agree	2	3.51
❖	Agree		
❖	Indifferent		

Source: Author's Survey, 2014

Table 4.6 clearly showed that 89.47 percent of the respondents strongly agreed that small businesses have poor access to loans from DMBs, perhaps this might be due to the risk inherent in advancing loans to them and or inability of the small businesses to meet up with the collateral demands of the banks. A total of 57.89 percent of the respondents were of the opinion that small scale businesses have poor records keeping attitude. 80.70 percent of the respondents agree that poor infrastructure is militating against the growth of small businesses in Nigeria. Based on unfriendly interest rate, 91.23 percent of the respondents agreed that DMBs charge unfriendly interest rate, perhaps this has made it difficult for small businesses to access loans from banks. 59.65 percent of the small scale entrepreneurs were also of the opinion that poor demands of their products/services is also militating against their growth.

5. Conclusion and Recommendation

This study concludes that the loans granted to the small scale businesses by the

deposit money banks has significant impact on the Nigerian GDP, though with attendant challenges militating against the growth of small businesses in the Nigerian state. If the recommendations of this study are implemented by the relevant stakeholders, the maximum positive impact of small businesses will not only be felt on the Nigerian GDP, it will also physically be felt on the economy in terms of small entrepreneurs welfare, their standard of living and infrastructural development.This paper therefore recommends that: (i) the government of Nigeria should provide enabling infrastructures like constant power supply and good roads for small business operators to thrive; (ii) the deposit money banks should make their loan accessible to small business owners and with friendly interest rates; and(iii) the Central Bank of Nigeria should ensure adequate monitoring of the deposit money banks by ensuring that their primary lending function is made to small scale businesses, as this will not only positively impact on their contribution toGDP but will also impact positively on entrepreneurs Economic life vis-à-vis job creation and poverty alleviation

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