E-ISSN 2281-4612
ISSN 2281-3993

Academic Journal of
Interdisciplinary Studies

Vol 8 No 2
July 2019

Research Article

The Role of Deposit Money Banks' Loan Facilities in Financing Small and Medium-Scale Enterprises in Nigeria

Foluso Olugbenga Aribaba (Ph.D)

*Department of Accounting,
Faculty of Management Sciences,
Federal University, Oye-Ekiti, Ekiti State, Nigeria*

Abdul-Lateef Olamide Ahmodu (M.Sc Ed)

*Department of Management Sciences,
College of Social & Management Sciences,
Wesley University. P.M.B 507, Ondo Nigeria*

Rotimi Oladele (Ph.D)

*Department of Accounting,
Faculty of Management Sciences,
Federal University, Oye-Ekiti, Ekiti State, Nigeria*

Adesina Saliu Yusuff (M.Sc)

*Department of Management Sciences,
College of Social and Management Sciences,
Wesley University. P.M.B 507, Ondo Nigeria*

Ridwan Banji Olaleye (M.Sc)

*Department of Business Administration,
Faculty of Management Sciences,
Federal University, Oye-Ekiti, Ekiti State, Nigeria*

Doi: 10.2478/ajis-2019-0040

Abstract

The credit money banks whose obligation is to contribute money-wise to small and medium scale enterprises (SMEs) to oblige an essential utensil in decreasing the dismal paucity and enhancing pecuniary change in Nigeria. This paper examines the role deposit money banks' loan facilities plays in funding SMEs businesses in Nigeria. The study employed the cross-sectional method of survey research. Ten (10) years financial performance index report of SMEs businesses was extracted from the Central Bank of Nigeria (CBN) statistical bulletin between the periods of 2008 – 2017 were selected. The index captured dependent and independent variables. Gross domestic product (GDP) is a proxy to SMEs while fund deposit, loan facilities and return on equity were proxies to deposit money banks variable. Data collected was analysed using descriptive statistics and ordinary least square techniques. The study revealed the positive co-efficient value of 17.19434 and 15.84082 for fund deposit and loan facilities variables; and the negative co-efficient value of -3.442694 for the returns on equity variable which affect the growth of SMEs in Nigeria. The recent economic recession experienced in Nigeria also affect SMEs businesses because the return on equity from SMEs was not encouraging. Therefore, financial regulators should adhere to stability and sustainability of fiscal guidelines that will readdress the loan facilities requirements of 65% to SMEs in the nation's economy. This will aid enhancement of the country's economy from the deficiency of funds that impedes investment.

Keywords: *Deposit Money Banks, Loan Facilities, and Small and Medium Enterprises*

1. Introduction

Deposit money banks remain the occupant of depository conglomerates which have obligations inform of credits allocated on demand, convertible by a cheque or otherwise operational for making payments. The mainstream of lending to Small and Medium Enterprises (SMEs) are operational resources which enthusiast to embedded topnotch enterprises that ensure ample negotiating supremacy to discuss healthier borrowing conditions (Ojo, 2010). Funding could be defined as a perilous component used for the expansion of SMEs businesses. This depends on the variability of sources of funding that is internal and external; formal and informal sources of funding. Conversely, the links between these sources and their effects on SMEs continue vague in poetry. But in the Nigerian milieu, the crucial source of funding for Small and Medium Enterprises is ostensibly not operational. Naturally, SMEs businesses were a cutting-edge to boost the nation's economy by avail them affordable loan facilities with a low interest rate (Sanusi, 2011).

Generally, when a client obtains credit from the commercial bank, the bank conveyed the loan rate, centered within the prevalent rates as approved by the Apex Bank. Any adjustment on the loan rate apart from the agreed rate should be conveyed to the borrowers. However, the loan rate was hardly discussed, though when it being reviewed, the upward reviewed can only be communicated to the borrowers, most banks spontaneously spread over the new increment rate to outstanding loans without informing the borrowers (Okafor, 2011; & Uzonwanne, 2015). Paradoxically, some avaricious banks play on the innocence and unfamiliarity of their uneducated customers to make magnificent incomes over the unlawful charges and high-pitched transactions beside the whole charges paid by the customers. Routinely, the rate banks presented to the borrowers during loan facilities consultation becomes hydra-headed after the banks bait them into the facilities (Uzonwanne, 2015). In the process of securing loans, Nigeria banks impose the following "processing, insurance and administrative" fees on the amount requested which frightened the SMEs borrowers to benefit from the facilities. As a result, the Nigeria SMEs businesses will continue to lack funding, since the rate given to the borrowers in their various branches was not in tandem with the CBN rate as stated in section 23 of the Financial Institutions Act which was different from what most of them impose on customers.

Small and medium-scale enterprises play significant roles in an emerging and advanced country on the process of social change and economic growth. Apart from swelling per capital revenue as well as productivity, SMEs generate employment opportunities, enhance regional economic stability through manufacturing dispersion and promote effective utilization of the resource in considering economic growth and development (Sule, 1986; Udechukwu, 2003). Nevertheless, the pivotal roles played by SMEs, though its development was ubiquitously unnatural by derisory finance and the pitiable administration. Evidence asymmetries related with loaning to Small and Medium Enterprises borrowers have restricted the flow of funding to SMEs (Berger & Udell, 2004; Asaolu, Oladoyin & Oladele, 2005).

The study reviewed both theoretical and empirical literature on deposit money banks and SMEs in Nigeria. The gaps identified from the literature revealed the nit-pick of customers and the appropriate regulations they outcry for which was in tandem with international financial best practice. Unfortunately, these complaints appear to tumble on the oblivious auricles, since they claimed ignorant of any optimistic change actions in reaction thereto. It is therefore examine the role deposit money banks' loan facilities plays in financing SMEs in Nigeria with the emphasis on the following parameters which include; fund deposit, loan facilities and return on equity. Also, the important question that arises is "what role do deposit money banks loan facilities plays in financing SMEs businesses in Nigeria"? The procedure for obtaining loans to finance SMEs businesses in Nigeria are still shrouded with the secrecy of negotiating forms, especially in the prevailing deposit money banks in Nigeria.

2. Materials and Methods

To apprehend why mustering and apportioning loans to SMEs, Supply Theory and Keynesian Theory was adopted to anchor the deposit money banks

2.1 The Supply Theory

The supply theory proposed that the presence of the commercial banks in supplying financial needs, such as assets, equity, liabilities and other commercial related services to SMEs are remarkable. The demand for it enhances resourceful apportionment of wealth from excess units to shortfall units, thus leading other commercial segments in their growing route to a viable business (Patrick, 1996; Ubesie, Onvaguluchi & Mbah, 2017). This theory serves two purposes: firstly, wealth allocations from outmoded subdivisions to contemporary divisions; and secondly, it encourages and motivates an innovative response (SMEs) in the current segments of the economy. The advocates of this theory believed that the accomplishments of commercial banks serve as an expedient utensil for growing the prolific capacity of SMEs. They opined that nations with the well-developed economic structure incline to cultivate quicker. Schumpeter (1911) takes stalwartly reinforced of funding to causal correlation among funding of small-medium enterprises and the country's economic growth.

2.2 Keynesian Theory

Keynes theory was propounded by John Maynard Keynes in 1936; this theory was established amidst of economic recession. From his ideas, the Keynes book titled "the general theory of employment, interest and money". The most important aspect of this theory was an indication that macro-economy theories influenced by the aggregate demand which was not equal to the productive capacity of the economy. The theory further argues that the aggregate demand was the capricious and imbalance for the significant period, if authority does not arbitrate to assist in the comprehensive demand to diminish redundancy, the economic barriers may fallout from different factors. Prior to the above statement, a situation in which aggregate demand for goods and services does not meet the supply will be referred to classical economics, (Keynes, 2007)

2.3 Empirical Review

Joshua (2008); James and Ashamu (2014) empirically found that 70% of SMEs in Nigeria were operationally active while the collapsible leftover of 30% were in operation to the truncated measurements which was susceptible to seize in operations in the nearest imminent. Evbuomwan, Okoruwa and Ikpi (2013) empirically estimate the effect of deposit money banks' credit on the performance of Micro, Small and Medium-Scale Enterprises (MSMEs) in Nigeria with the aid of a vector autoregression and error correction mechanism (ECM) techniques. In their study, they found that credit facilities has the affirmative effect on GDP of MSMEs in Nigeria as the co-efficient of CAM was optimistic at 1.0569 and the significant rate of 1 per cent level.

Njoku, (2007) revealed that the commercial bank's loan facilities to SMEs as a percentage of total credit decreased from 48.8% in 1992 to 22.2% in 1994. This also increased marginally from 22.9% to 25.5% in 1995 and 1996 respectively. There was a sharp reduction from 25% in 1997 and decreased continued till it reached 0.2% in 2008, due to the economic downturn Nigeria experienced between 2007-2008 respectively. The merchant bank loan to SMEs as the percentage of total credits decreased from 31.2% in 1992 to 9.09% in 2000 (Akabueze, 2002; & Adelaja, 2003).

Adofu and Audu (2010) assessed the influence and effectiveness of commercial banks in improving commercial growth in Nigeria. Annual report statistics was extracted from CBN statistical bulletin and found that credit facilities issue to agriculture increase GDP of the country. The study adopted ordinary least square method. The variable used was commercial bank credit loans to agriculture (SMEs). Ijaiya (2003) also found that the low impact of the SMEs to GDP was as a result of inadequate credit facilities, the acute shortage of entrepreneurial techniques, poor infrastructural amenities, and incompetence of small and medium businesses to transform ideas into reality, the low demand of finished product and restricted access to land.

Iniodu and Udomesiet (1995) found that Nigerian deposit money banks are not measuring what it's purported to measure; they are only after deposit and interest rates' but undermine the SMEs profitability. Afangideh (2009) found that performing commercial banks will alleviate SMEs growth constraint and increasing bank deposit and investment activities of Nigerian GDP. The findings discourage the SMEs from borrowing (Eseoghene, 2010). Oyinlola and Babatunde (2009) also discovered that the amounts of deposits placed on SMEs owners in Malaysia banking systems are guided by profit motive. Fadare (2004) empirically found that the link between economic growth and other exogenous variables are negative.

Uzonwanne (2015) postulated that commercial banks in Nigeria lack sustainable culture of financing SMEs. The data was sourced from CBN statistical bulletin between the periods of 1995 – 2012. The study engaged in the descriptive techniques of statistical analysis and concluded that financial regulators should initiate policies that will address the issue of finance to SMEs so as to meet up with the required percentage of borrowing to SMEs.

2.4 Methods

The study centered on ten (10) years, financial performance indices report of Small and Medium Scale Enterprises registered in the Corporate Affairs Commission (CAC) between the periods of 2008 - 2017. The reason for the choice of ten (10) years duration was the accessibility of data, such as CBN statistical bulletin which covered the periods of the two recessions or economic downturn recently experienced between 2008 - 2017 in Nigeria. In addition, the ten (10) years interval is enough to reveal much information in order to have reliable financial information data. The data were sourced from CBN statistical bulletin; the data collected were focused on the following variables: funds deposit, loan facilities and profitability were also correlated. The study employed a number of analytical tools based on the objectives of the study include: descriptive statistics and ordinary least square using econometric view (E-view) to analyse the data.

2.5 Model Specification

Different models are used to examine the role of deposit money banks in Nigeria; but the study adapted Imoughele and Ismaila (2014) model which was re-modified to determine the role of deposit money banks in financing SMEs businesses in Nigeria. In that regard, the study therefore traverses a model to guide its analyses. The model is as follows;

$SMEs_{it} = f(FD_{it}, LF_{it}, ROE_{it})$…………………………………………………….(eqn 1)

This research would specify the above model in econometric form as follows:

$SMEs_{it} = ß_0 + ß_1 FD_{it} + ß_2 LF_{it} + ß_3 ROE_{it} + \varepsilon_i$ ……………………………………*(eqn.2)*

Where:

$SMEs_{it}$ = Small and Medium Scale Enterprises

FD= Funds Deposit

LF= Loan Facilities

ROE= Return on Equity

$ß_0$ = intercept

$ß_{1-3}$ = coefficient of explanatory variables

ε_{it} = error term to represent other explanatory variables not mentioned in research.

The aprori expectation with respect to sign: $ß_1>0 : ß_2>0 : ß_3>0$:

2.6 Operational Definition of the Variable

The variables chosen and their definitions' measurement are stated in Table 1 below:

Table 1: Summary of Variables and their Measurement.

Variables	Abbrev.	Proxy	Type	Measurement
Small and Medium Scale Enterprises	SMEs	Gross Domestic Product (GDP)	Dependent	This is computed as gross domestic product
Funds Deposit	FD	Deposits	Independent	Funds deposit was measured through the total amount of money deposited by banks in a year
Loan Facilities	LF	Loan to SMEs	Independent	Loan facilities were measured through the amount of money borrowed by SMEs from banks without collateral
Profitability	ROE	Return on Equity (ROE)	Independent	This is computed as the ratio of profit for the year to equity at the year end

3. Results and Discussion

Table 2: The Descriptive Statistics

	FD	LF	ROE	SMEs
Mean	4704.092	53500.49	75123.23	14621.09
Median	2192.950	15482.37	75903.25	15350.10
Maximum	16555.90	316909.5	113711.6	20526.46
Minimum	235.6000	12550.30	39157.88	7513.885
Std. Dev.	6238.539	94537.47	24919.38	4282.299
Skewness	1.314062	2.475449	-0.006155	-0.531257
Kurtosis	2.993106	7.466630	1.807623	2.190963
Jarque-Bera	2.877951	18.52590	0.592464	0.743116
Probability	0.237171	0.000095	0.743615	0.689659
Sum	47040.92	535004.9	751232.3	146210.9
Sum Sq. Dev.	3.50E+08	8.04E+10	5.59E+09	1.65E+08
Observations	10	10	10	10

Source: Author compilation. Using E-view 7 Output

The descriptive statistics in table 2 explain the mean, minimum, maximum, mid values, spread and normality of the variables. The mean value of funds deposit (FD) is 4704.092. It has a maximum value of 16555.90 and a minimum value 235.6000 which revealed an enormous dissimilarity, thereby showing some degree of unpredictability. Funds deposit (FD) is however skewed to the right with a value of 1.314062 and his normally distributed at 2.877951. Skewness describes the data symmetry. The positive kurtosis represents a data set with a high peak near the mean. The mean values of all the explanatory variables are positive. All the explanatory variables are positively skewed except return on equity (ROE) and SMEs with a value of -0.006155 and -0.531257. The Jarque-Bera probabilities with $p>0.05$ was an indication that all the variables are normally distributed.

3.1 Analysis of Regression Result

To examine the role deposit money banks' loan facilities plays in financing small and medium enterprises in Nigeria. Multiple regression analysis was performed through the Ordinary Least Square (OLS) regression technique.

Table 3: Regression Analysis

Dependent Variable: GDP/SMEs
Method: Least Squares
Date: 09/25/18 Time: 19:39
Sample: 2008 2017
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FD	17.19434	5.778399	2.975623	0.0206
LF	15.84082	10.20200	1.552718	0.1644
ROE	-3.442694	2.270819	-1.516058	0.1733

R-squared	0.663927	Mean dependent var	53500.49
Adjusted R-squared	0.567906	S.D. dependent var	94537.47
S.E. of regression	62143.10	Akaike info criterion	25.15559
Sum squared resid	2.70E+10	Schwarz criterion	25.24637
Log likelihood	-122.7780	Hannan-Quinn criter.	25.05601
Durbin-Watson stat	2.407085		

Source: Author compilation. Using E-view 7 Output.

The regression results show that about 57% of the systematic cross-sectional variation of GDP which is a proxy to SMEs explained by the independent variable of deposit money banks' loan facilities. This shows that there are other factors impeding the finances of SMES in Nigeria apart from the variables' understudy. The table reveals the negative relationship for return on equity with SMEs. In terms of individual significance, both fund deposit and loan facilities show the positive significant relationship in financing SMES in Nigeria with a value 17.19434 and 15.84082 respectively. The Durbin-Watson value of 2.407085 is an indication of absence of autocorrelation in the model.

4. Discussion of Findings

The outcome of fund deposit reveals a co-efficient value of 17.19434 and a t-value of 2.975623 with a p-value of 0.0206. The positive co-efficient value implies that there is a positive relationship between funds deposit and financing SMEs in Nigeria. The P-value of 0.0206 at a significant level of 5% signifies that funds deposit is significantly influence the accessibility of finances of SMEs in Nigeria because the more commercial banks' deposit the more SMEs owners enjoyed loans from the CBN. This is in line with the work of (Stiglitz, 1998, Ahmed & Haron, 2010., Ali, Jatau & Ashami, 2016).

The regression outcome of loan facilities showed a co-efficient value of 15.84082 and t-value of 1.552718 with a P-value of 0.1644. This means that there is a positive relationship between loan facilities and finances of SMES in Nigeria. The p-value as indicated from the above result is 0.1644 suggesting that the loan facilities are strongly and significantly influencing the finances of SMES in Nigeria. This is in line with Njoku (2007) who postulated that to foresee the imminent investment voyage from SMEs businesses to the banking sector; the bank should take another stare on SMEs in terms of loaning procedures. He also believed that banks should concentrate more on SMEs businesses as long as their long term loan rates are not exceeding 5%. This will encourage SMEs businesses not only to remain present easiness but also to achieve their business expansion targets.

The regression effect of return on equity (ROE) revealed a co-efficient value of -3.442694 and t-value of -1.516058 with a P-value of 0.1733. This means that there is a negative relationship between the return on equity and finances of SMES in Nigeria. The p-value as directed from the above result is 0.1733 proposing that the return on equity does not have a significantly influence on the finances of SMES in Nigeria due to the economic downturn that the country experienced within the last 10 years. The finding here is commensurate with the work of Matarirano and Fatoki (2010). They found that the return on equity has a negative impact on the profitability of small manufacturing firms.

5. Conclusion and Recommendations

The investigation from this study centered on deposit money banks in Nigeria market. This is backing the notion that some magnitudes of deposit money banks' loan facilities predict SMEs business growth in Nigeria. Some deposit money banks' loan facilities variables, specifically enhanced SMEs businesses while some does not have positive effect on business growth in Nigeria. The results reveled that deposit and loan facilities variables play a significant role in financing SMEs in Nigeria, while the return on equity were negatively influence SMEs.

Based on the conclusion, the study therefore recommends that financial regulators should employ palliative measure in managing the obligatory roles of fund deposit and loan apportionment to SMEs. It was also recommend that the era of automation and inflexibility in issuing out loans to SMEs businesses cannot boost investment of a nation. These accomplishments can only be attained in mitigating the hitches arising from the pitiable rheostat of the coast-to-coast economy that shadowy the vapors of SMEs business owners.

References

Adelaja B. O (2003) *Financing small and medium enterprises under SMIEIS*. Being a Paper presented as central bank of Nigeria (CBN) seminar on small and medium industries equity investment, August. Lagos: CBN. 4: 100-1 14

Adofu, I. M. & Audu, S. I. (2010). An assessment of the effects of interest rate deregulations in enhancing agricultural productivity in Nigeria. *Current Research Journal of Economics Theory.* 2(2): 82 – 86.

Afangideh, U. J. (2009). Financial development and agricultural investment in Nigeria: Historical Simulation Approach. *West African Journal of Economics and Monetary Integration. 9(1); 189 – 198.*

Ahmed, N. & Haron, S. (2010). The effects of conventional interest rates and rate of profit on funds deposited with Islamic banking system in Malaysia. *International Journal of Islamic Financial Services, 1 (4).1-7.*

Akabueze, B. (2002). Prospectus on Nigeria SMEs under the small and medium industries investment scheme (SMIEIS). *Accessed August 14, 2009 from www.nigeriabusinessinfor.com/nigeria-smes2000.htm*

Ali, J. I., Jatau, S. & Ashami, P. I. (2016). Deposit money banks' credit and investment drive of developing economics: Empirical Evidence from Nigeria. *Asian Journal of Agricultural Extension, Economics and Sociology. 11(1); 1- 12.*

Asaolu, T. O. Oladoyin, A. M & Oladele, P. O (2005) -A Consideration of the problem and Prospect of Revitalising the Small-Scale sector in Nigeria *"European Journal of Scientific Research.* 7(3); 5-11.

Berger, A. N & Udell, G. F (2004) A more complete conceptual framework for SME finance in small and medium enterprises; *Overcoming growth constraint world bank MC 13-21, October 14-15.*

Central Bank of Nigeria (2017) Annual Financial Report: ISSN 1597 - 2976

Eseoghene, J. I. (2010) Bank frauds in Nigeria: Underlying causes, effects and possible remedies. *African Journal of Accounting Economics, Finance and Banking Research, 6 (6): 11-14.*

Evbuomwan, G. O. Okoruwa, V. O. & Ikpi, A. E. (2013) Effect of deposit money banks' credit on the performance of micro, small and medium enterprises in Nigeria. *Central Bank of Nigeria Economic and Financial Review, 51(2). 63 – 91. ISSN 1957-2968*

Fadare, S. O. (2004). Recent banking sector reforms and economic growth in Nigeria, *Middle Eastern Finance and Economic Journal. 6(2): 147-182.*

Ijaiya, M. A (2003). Commercial banks' credits to the agricultural sector and the Nigerian economy: An analysis of the future trend. *Advances in Management, 3: 86-93.*

Imoughele, L. E. & Ismaila, M. (2014). The impact of commercial bank credit on the growth of small and medium-scale enterprises: An Econometrics Evidence from Nigeria (1986 – 2012). *Journal of Educational Policy and Entrepreneurship Research. 1(2): 251 – 261.*

Iniodu, P. U. & Udomesiet, C. U. (1995). Commercial banking system efficiency and financing of small-scale enterprises (SSEs) in the 21st Century.

James, S. K. & Ashamu, S. O. (2014). Financial structure mix: Effect on growth and earning of small and medium enterprises in Nigeria. *International Journal of Humanities and social Science. 4(4): 132-137*

Joshua, M. (2008). *Small and medium scale business as instrument of economic growth in Nigeria*. Lagos: Kinston Publishers.

Keynes, J. M. (2007) *The general theory of employment, interest and money*. Basingstoke, Hampshire: Palgrove Macmillan. ISBN 0-230-00476-8

Matarirano, O. & Fatoki, O. (2010). Does debt really matter on the profitability of small firms? A perspective on small manufacturing firms in Bulawayo, Zimbabwe. *African Journal of Business Management. 4(9): 1709 – 1716.*

Njoku, S. (2007). The capital flight challenge for the Nigerian industrial sector. Real Sector Digest, *Business Day, August 15.*

Ojo, J. A. T. (2010): ''*The Nigerian Maladapted Financial System-Reforming Tasks and Development Dilemma*''. The CIBN press Ltd., Lagos Nigeria, 2010.

Okafor, R. G. (2011). Risk minimization strategies of Nigerian banks on small business loans: Lesson for small business borrowers. *Haitian Research Journal on Development Studies. 9(2): 14-19.*

Oyinlola, M. A. & Babatunde, M. A. (2009). A bond testing analysis of exchange rate pass-through to aggregate import prices in Nigeria. (1980 – 2006). *Journal of Economics Development. 31(2); 97 – 109.*

Patrick, H. (1996). Financial Development and Economic Growth in Underdeveloped Countries. *Journal of Economic Development and Culture Change, 14: 174-189*

Sanusi, L. S. (2011): *Banks in Nigeria and National Economic Development: A Critical Review*. Keynote Address at the Seminar on ''Becoming an Economic Driver while applying Banking Regulations'', organized by the Canadian High Commission in Collaboration with the Chartered Institute of Bankers of Nigeria and Royal Bank of Canada, on March, 7, 2011.

Schumpeter, J. A. (1911). The theory of economic development. *Harvard Economic Studies. 46: ISBN 9780674879904.*

Stiglitz, J. (1998). Distinguished lecture on economics in government: The private uses of public interest, incentives and institutions. *The Journal of Economic Perspective. 7(1): 393-410.*

Sule, E. I. K. (1986): Small Scale Industries in Nigeria. Concepts, Appraisal of Government Policies and Suggested Solutions to Identified Problems. *CBN Economic and Financial Review (EFR). 24(4).*

Ubesie, M. C., Onuaguluchi, I. F. & Mbah, A. M. (2017). Effect of deposit money banks credit on small and medium-scale enterprises growth in Nigeria. *International Journal of Finance and Accounting. 6(5): 117-132.*

Udechuckwu, F. N. (2003): *Survey of Small and Medium Scale Industries and their Potentials in Nigeria*. In CBN Seminar on SMIEIS, 2003.

Uzonwanne, M. C. (2015) Deposit money bank and financing of small and medium-scale enterprises in Nigeria. *Journal of Economic and Sustainable Development.* 6(8): 185-195.