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IMPACT OF COMMERCIAL BANKS LOANS ON ECONOMIC GROWTH OF SMALL SCALE ENTERPRISES IN NIGERIA

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Abstract

*This study was designed to establish the Impact of Commercial Banks loans on Economic Growth of Small Scale Enterprise in Nigeria**.** Secondary data were employed. Data for the study were drawn from the Central Bank of Nigeria Statistical Bulletin (2022). Ordinary least squares method of multiple regressions was applied. Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors were considered as independent variables while Economic Growth was represented with Gross Domestic Product, as dependent variable. The study found that Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors have influences on economic growth in Nigeria. Both Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors have significant and positive effect on economic growth. The research has recommended that there is more need for Commercial Banks to increase her loans to small scale enterprises and Private Sectors economic growth in Nigeria to stimulate economic growth of small scale enterprises and Nigerian economy.*

KEYWORDS: COMMERCIAL BANKS LOANS SMALL-SCALE ENTERPRISES ECONOMIC GROWTH

Introduction

Background to the Study

The desire to achieve economic growth has been a major concern of many developing nations of the world. Developing countries are with several problems such as high rate of poverty and unemployment which have continued to hinder the attainment of economic growth and development.

In a developing country like Nigeria, the importance of Small Scale Enterprises in the process of achievement of economic growth and development cannot be overlooked. The importance of Small Scale Enterprises in the development of the country has been summarized in Nigeria third national development plan 1975-1980- as the generation employment opportunities, stimulation of indigenous entrepreneurship, facilitation of effective mobilization of local resources including capital and skill as well as reduction in regional disparities (Choron, 2019).

Small Scale Enterprises are increasingly recognized as the principal catalysts for achieving equitable and sustainable industrial diversification and dispersal and in most countries small scale enterprises account for well over half of the total share of employment, sales and value added (Nwabueze, 2019). This is not surprising because the industrial sector in Nigeria has no significant record of meaningful contribution to economic development since independence in 1960 because it has not experienced any notable growth, traceable to indigenous industrial entrepreneurship (Udeozor, 2018).

The Nigerian economy, since the early seventies, has been dependent on oil products. As a result of the enormity of revenue generated from oil, very little attention has been paid to proper development of the industrial sector. The reason for the lackluster performance of the industrial sector is mostly associated with the poor attention paid to the promotion and development of the small and medium scale sub-sector, which is accepted worldwide to be the engine of economic growth and the basic foundation for the industrialization process of any nation that desires to experience solid development. This is more so because entrepreneurship development is a critical aspect of skills development and keystone for

economic revival and growth (Udeozor, 2018). Furthermore, the vital role of Small Scale Enterprises as the only authentic foundation for accelerated industrialization, growth and development, as witnessed in all the Newly Industrialized Countries of South East Asia, referred to as Asian Tigers, is recognized for its accelerative effect in achieving macro-economic objectives such as full employment, income distribution, development of local technology and stimulation of indigenous entrepreneurship, mitigation of rural-urban migration, support and linkage of the entire industrial sector by training of semi-skilled and non-skilled manpower as well as the manufacturing and supply of spare parts and raw materials to large scale industries (Udeozor, 2018). Hence, the urgent need for the research paper on the Impact of Commercial Banks loans to Small Scale Enterprise on Economic Growth in Nigeria.

Statement of the Problem

Several studies have identified financial constraint as the major obstacle to Small Scale Enterprises development in developing countries including Nigeria. For instance, (Obuba, 2019) argued that the access to institutional finance has always constituted a pandemic problem for Small Scale Enterprises development in Nigeria. He recalled that in the past, a number of schemes have been put in place to provide special credit lines/windows for SMEs but this achieved very limited impact.

It then follows that, the primary focus of this study emanates from the fact that small scale enterprises owners do not have sufficient finance to carry on their due to the low saving culture of the people in this part of the world. The reason for this is not far fetch: low level of income basically. While it is an established fact that Small Scale Enterprises face financial challenges, no research has been conducted to investigate the effect the financial problem on their contribution to economic development (Obuba, 2019).

Generally, Commercial Banks in Nigeria give loans and advances to private sector. However, there exists a conflict on whether Commercial Banks to Small Scale Enterprise have resulted in economic growth or not. Hence the need for this research on the Impact of Commercial Banks Loans on Economic Growth of Small Scale Enterprises in Nigeria (1992-2022). Hence, it is apt and timely.

Objectives of the Study

The aim of this study was to determine the Impact of Commercial Banks loans on Economic Growth of Small Scale Enterprise in Nigeria. The specific objectives include:

i. To examine the effect of commercial banks loans on economic growth of small scale enterprises in Nigeria.

ii. To assess the effect of commercial Banks total Credit to private Sector on economic growth in Nigeria.

The Research paper consist of five (5) sections. Section one (1) is the Introduction. Section two (2) is the literature review, Section three (3) is the methodology, Section four (4) as data presentation, Analysis and Section five (5) is Conclusion/ Recommendations.

Literature Review

Concept of Small Scale Enterprise

The definition of Small Scale Enterprise has been a controversial subject over the years. The definition varies from country to country, one industry to another, from time to time and several other parameters. Stoke, (2009) avers " though small firms may be difficult to define in paper, they are easily recognized once they are seen in operation" .

The Nigerian Federal Ministry of Industries (2009), defined Small Scale Enterprise as that with a total cost not exceeding N500,000 (excluding the cost of land). Today, this definition is not valid due to the changing value of money.

According to the Central Bank of Nigeria (CBN 2006), in its monetary policy guidelines, small scale business is defined as an enterprise whose total cost, excluding cost of land but including working capital does not exceed N10 million.

Section 37b (2) of the Companies and Allied Matters Decree 1990 defines Small Scale Enterprise as one with an annual turnover of not more than N2 million as well as net assets value of not less than N1 million. By and large, Small Scale Enterprise, therefore, can be defined as any business with small assets to start with its operation, it may range from the buying and selling of goods on the street, road side to manufacturing of local items and materials.

According to Ideba, (2019), Small Scale Enterprise is a part of the economy that deals with any activity that requires commitment of funds in the present time with the hope that return may be realized over a short period in the future.It is under this definition that the researcher will proceed to highlight the historical background of Small Scale Enterprises in Nigeria.

Theoretical Framework

This study adopts the Resource-based Theory. The Penrosean and Barnean resource-based verdicts contribute to the most popular and widely applied theoretical approach to understanding firm growth. While Penrose s theory considers recombining resources to ensure firm growth, based on the Penrosean legacy, Barney (1991) emphasizes exploiting resources that meet Valuable, Rare, Inimitable and Non-substitutable (VRIN) criteria to achieve competitive advantage and coined this strategy as ' Resource-based Theory (RBT; Wach, 2020).

Methodology

This research work employed expose facto research design. The expose facto was employed using both descriptive and analytical approach. The descriptive approach is necessary to give theoretical explanation to the Impact of Commercial Banks loans to Small Scale Enterprise on Economic Growth in Nigeria. While the analytical approach is aimed at revealing facts and figures, to support these theoretical postulations. The analytical approach is specially chosen to enable the study evaluate the Impact of Commercial Banks loans to Small Scale Enterprise on Economic Growth in Nigeria. Various data have been used in this research work. The dominating source is the secondary source of data. Data were drawn from the Central Bank of Nigeria (CBN) Statistical Bulletin 2022.

The Ordinary Least Square method of multiple regressions was applied to estimate The Impact of Commercial Banks loans to Small Scale Enterprise on Economic Growth in Nigeria. The E-view statistical package was used to run Ordinary Least Square regression tests for analyses.

3.1 Model Specification

To achieve the objectives of this research, the following models are formulated for our tests and analysis:

1. Model 1:

GDP = f (CBLSS, CBTCP) ……. (1)

$GDP = b_o + b_1CBLSS + b_2 CBTCP + U$……(2)

Where:

GDP = Gross domestic product (GDP). It is the total value of goods and services produced within the country during a year.

CBLSS =. Commercial Banks Loans to Small Scale Enterprises. This represents the total credited to Small Scale Enterprises by all Commercial Banks in Nigeria

CBTCP = Commercial Banks Total Credits to Private Sectors in Nigeria This represents the total credited the entire private sector by all Commercial Banks in Nigeria

b_o = Constant or intercept of the equation

b_1, b_2, b_3 =Slopes of the equation

The aprori expectation is b_1, $b_2 > 0$ and

U = Stochastic (error) Term.

Data Presentation, Analysis and Discussion

The data were collected in line with the stated objectives of the study as shown in the introductory section. Data are presented in tabular format. This is necessary to allow easy presentation and understanding.

Table 4.1 The relationship among the Gross Domestic Product (GDP), Commercial Banks Loans to Small Scale Enterprises (CBLSS), Commercial Banks Total Credits to Private Sector (CBTCP) between 1992 and 2022.

Year	GDP (₦Billion)	CBLSS(₦ Billion)	CBTCP(₦ Billion)
1992	906.03	20.40	75.46
1993	1257.17	15.46	88.82
1994	1768.79	20.55	143.52
1995	3100.24	32.37	204.09
1996	4086.07	42.30	254.85
1997	4418.71	40.84	311.36
1998	4805.16	42.26	366.54
1999	5482.35	46.82	449.05
2000	7062.75	44.54	588.00
2001	8234.49	52.43	844.49
2002	11501.45	84.37	948.46
2003	13556.97	90.18	1203.46
2004	18124.88	54.98	1519.24
2005	23121.88	50.67	1991.15
2006	30375.18	25.71	2609.29
2007	34675.94	41.10	4820.70
2008	39954.21	13.51	7799.40
2009	43461.46	16.37	9667.88

2010	55469.35	12.55	9198.17
2011	63713.36	15.61	9614.45
2012	72599.63	13.86	10440.96
2013	81009.96	15.35	11543.96
2014	90136.98	16.07	13179.60
2015	95177.74	12.95	13568.54
2016	102575.42	10.75	16500.15
2017	114899.25	10.75	16193.86
2018	129086.91	44.82	15438.60
2019	145639.14	132.93	17436.99
2020	154252.32	62.51	19818.38
2021	176075.50	83.74	22026.37
2022	210440.46	83.74	20470.91

Source: Central Bank of Nigeria (2022).

Data Analysis

Table 4.2 Regression Result showing the relationship among the Gross Domestic Product (GDP), Commercial Banks Loans to Small Scale Enterprises (CBLSS), Commercial Banks Total Credits to Private Sector (CBTCP) between 1992 and 2022.

Dependent Variable: GDP
Method: Least Squares
Date: 12/03/23 Time: 05:12
Sample: 1992 2022
Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CBLSS	32.30779	71.82283	4.498262	0.0001
CBTCP	7.593766	0.278667	27.25034	0.0000
C	12.73726	3870.441	3.290908	0.0027

R-squared	0.966576	Mean dependent var	56353.86
Adjusted R-squared	0.964189	S.D. dependent var	59272.13
S.E. of regression	11216.55	Akaike info criterion	21.57993
Sum squared resid	3.52E+09	Schwarz criterion	21.71871
Log likelihood	-331.4890	Hannan-Quinn criter.	21.62517
F-statistic	404.8643	Durbin-Watson stat	1.295200
Prob(F-statistic)	0.000000		

It obvious from the above that the R Squared of 0.966 that 96.6% is an indication of high level of good fit. This also indicate the ability of the independent variables (Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors) to predict the behaviour of the dependent variable (Economic Growth).

Commercial Banks Loans to Small Scale Enterprises showed a coefficient 32.30% meaning that for every 100% increase in Money Supply will result to a 32.30% increase in economic growth. It shows there exist a significant and positive relationship between Commercial Banks Loans to Small Scale Enterprises and economic growth.

While Commercial Banks Total Credits to Private Sectors showed a positive co-efficient of 7.59%, meaning that for every 100% increase in Commercial Banks Total Credits to Private Sectors will reduce by 7.59%.

It shows there exist a significant and positive relationship between Commercial Banks Total Credits to Private Sectors and economic growth.

The F- Stat of 404,28 shows Commercial Banks loans to Small Scale Enterprise significantly and positively impact on Economic Growth in Nigeria.

The D.W of 1.295 shows that there is no auto-correlation between the independent variables. In summary, the analysis shows that Central Bank intervention in Nigeria economy through monetary policy rate and the regulation of the level of money supply affect economic growth in Nigeria.

Test of Hypotheses

The following hypotheses were tested base on the empirical result

1. H_0: There is no significant relationship between Commercial Banks Loans to Small Scale Enterprises and economic growth in Nigeria.

2. H_0: There is no significant relationship between Commercial Banks Total Credits to Private Sector and economic growth in Nigeria.

We therefore have:

3. There is a significant relationship between Commercial Banks Loans to Small Scale Enterprises and economic growth in Nigeria.

4. There is a positive relationship between Commercial Banks Loans to Small Scale Enterprises and economic growth in Nigeria.

Discussion of findings

It shows there exist a significant relationship between Commercial Banks Loans to Small Scale Enterprises and economic growth. Within the period the changes in economic growth was influenced by changes in Commercial Banks Loans to Small Scale Enterprises.

It shows there exist a positive relationship between Commercial Banks Loans to Small Scale Enterprises and economic growth. Also, within the period, changes in Commercial Banks Loans to Small Scale Enterprises was also responsible for changes in economic growth. It shows there exist a significant relationship between Commercial Banks Total Credits to Private Sector and economic growth.

It shows there exist a positive relationship between Commercial Banks Total Credits to Private Sector and economic growth. The Impact of Commercial Banks loans to Small

Scale Enterprise on Economic Growth in Nigeria is remarkable and cannot be over emphasized.

Conclusion/Recommendations

This study was designed to establish the Impact of Commercial Banks loans on Economic Growth of Small Scale Enterprise in Nigeria**.** Secondary data were employed. Data for the study were drawn from the Central Bank of Nigeria Statistical Bulletin (2022). Ordinary least squares method of multiple regressions was applied. Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors were considered as independent variables while Economic Growth was represented with Gross Domestic Product, as dependent variable. The study found that Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors have influences on economic growth in Nigeria. Both Commercial Banks Loans to Small Scale Enterprises and Commercial Banks Total Credits to Private Sectors have significant and positive effect on economic growth. Hence, Commercial Banks loans to Small Scale Enterprise positively and significantly affect Economic Growth in Nigeria.

1. The research has recommended that there is more need for Commercial Banks to stimulate the growth of small scale enterprises in Nigeria.
2. There is also the need to increase the level of loans to private sector in Nigeria.

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