SMALL AND MEDIUM SCALE ENTERPRISES SME AS A CATALYST FOR ECONOMIC AND NATIONAL GROWTH

Dr Emmanvitalis Ifediba

Department of Marketing

Madonna University, Nigeria

Abstract

The performance and effectiveness of small and medium scale enterprises, equity investment scheme (SMEEIS) as an instrument of economic growth and development in Nigeria has long been close examination. The study was carried out using primary and secondary methods in the collection of data, where in primary data, the researcher designed and advanced questionnaires. The data collected from the questionnaire was analyzed in tables with simple percentage and interpreted for the understanding of the study. The researcher used a sample random sampling method of selection. The procedure for analyzing the data for this research are as follows; Ordinary Least Square (OLS).Co-Integration: which is a statistical property of a collection (XI, X2,. XK) of time series variables, the study Findings it becomes apparent that the study reveals that deposit money bank lending, on SME's development and growth , indices presented in the model are capable of influencing SME's output. The study recommends amongst others that government should enforce and reinforce SME's scheme,(SMEEIS) and, small and medium enterprises credit guarantee scheme (SMECGS) to promote needed economic and National Development.

Keywords; Small and Medium Enterprise, National Development, Performance and Effectiveness

1.1 Introduction

The role of the small and medium scale enterprise (SME's) as a catalyst for economic growth and development has been well documented in the economic literature and recognized in most countries. The performance and effectiveness of small and medium scale enterprises, equity investment scheme (SMEEIS) as an instrument of economic growth and development in Nigeria has long been close examination. This intense scrutiny has been against the backdrop of the low performance and inefficiency that characterize small and medium scale enterprises (SME's) particularly in accessing its role in economic growth and development. Despite government institutional and polices support enhancing the capacity of small and medium scale enterprises (SME's), it has fallen short of expectations. This has generated serious concern and sceptism on whether SME's can bring about economic growth and national development in Nigeria. This concern is even more disturbing when comparing SME's in Nigeria with other countries, particularly were SME's has become harbinger of economic reconstruction and transformation (Ihaia, 2009). Nigerian quest for development must be hinged on industrialization. This is because of the great role industries play in terms of production activities, employment generation and the overall, improvement in the quality of life. Small and medium scale enterprises are seen as veritable instruments for the industrial development of a nation. Small and medium scale enterprises are seen as an engine of development strategies in the promotion of economic growth and development. The Nigerian industrial promotion council, NIPC (2000) confirms this by stating that "the advent of small and medium scale enterprises in Nigeria was necessitated by the transformation of indigenous technology, utilization of local resources, maintaining close relationship with customers, bank credit plays a crucial role in providing external financing to SME's is apparently non-functional Kadiri (2012). It is evident in the ratio of loan o small and medium scale to deposit money bank total credit which show that a meager 0-13% of deposit money bank total credit was granted to SME's in the last quarter of 2013 (CBN 2013). More worrisome is the fact that this relationship has been falling over the years and has continued unabated in the post consolidation era (Lorper 2012). Berg and Fuchs (2013) attribute this trend to the high interest rate on agreement securities which serve as a disincentive to intensify lending to small and medium scale enterprises.

To obtain economic self-reliance and significant sufficiency, Nigeria needs to pursue small and medium scale enterprise as a strategy for growth and development. Small and medium scale enterprises form the core of majority of the world's economies. All over the world, SME's are seen as a key to private sector growth, in advanced the economies of America, Asia and Europe with evidence form countries like India, Indonesia, Malaysia, South Korea etc, where SME's contributes more than 40 percent of their Gross Domestic Product (GDP).

Several studies have identified financial constraints as the major obstacle to SME's development in developing countries including Nigeria. It is said that the access to institutional finance has always constituted a pandemic problem for SME's development in Nigeria. A number of schemes have been put in place to provide special credit lines/ windows for small and medium scale enterprises and are such scheme is the small and. medium scale enterprises equity investment scheme (SMME's), it is an initiative of the bankers committee. This initiative was in response to the federal government concerns and policy measures for the promotion of SME's on vehicle for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. It requires all banks in Nigeria to set aside 10% of their profit after tax (PAT) for equity investment and promotion of SME's. Funding to be provided under the scheme shall be in the form of loans or equity investment.

1.2   Statement of the problem

SME's contributes substantially to the economic development of the country in the form of improved GDP, employment generation, stimulation of indigenous entrepreneur ship, technology development, ensuring structural balance in terms of large and small industrial sector as well as rural urban areas, enhancement of regional balance through industrial dispersal. The SME's with all its contribution in the economic growth and development of the country have still not made the desired impact on the Nigerian economy in spite of all the effort and support of all succeeding administrators and government and this gives a cause for concern. This is because government needs to popularize the activities of SME's and also there is need for the support of the financial sector which is primarily responsible for channeling inevitable funds from one economic agent to another which the DMBs in Nigeria stand as one of such economic agent. With these in mind, this research is being proposed to address

the impact of deposit money bank lending to SME's emphasizing the role they play on economic growth and development in a country.

1.3 Research Questions

The study would examine the following questions;

1. What is the relationship between money deposit bank lending to small and medium scale enterprises in Nigeria?

2. What is the relationship between interest rate and small and medium scale output in Nigeria?

Hypothesis

H_O: DMB lending has not made any significant impact on the growth and development of SME's and MSE's output in Nigeria.

H_i: DMB lending has made any significant impact on the growth and development of SME's and MSE's output in Nigeria.

H_O: Interest rate has not significantly made an impact on SMEs output in Nigeria.

H_i: Interest rate has significantly made an impact on SMEs output in Nigeria.

2.1 Theoretical framework

Loan Pricing Theory

This is a model or theory based approach for calculating the fair value of an option.

Under the Loan pricing theory, banks cannot always set high interest rates, for example, trying to earn maximum interest income. Banks should consider the problems of adverse selection and moral hazards since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz and Weiss 1981). If banks set interest problems because high risk borrowers are willing to accept these high rates.

Once these borrowers receive the loans, they may develop moral hazard behavior or so called borrower moral hazard since they are likely to take on highly risk projects or investment (Chodechai 2004). From the reasoning of Stieglitz and Weiss, it is usual that in some cases we may not find the interest rate set by banks being commensurate with the risk of borrowers.

Supply Lending Theory

The supply Lending theory postulates that the existence of financial institutions like DMB 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 the surplus unit to the deficit units, thereby leading the other economic sectors in their growth process (Patrick 1996). This theory performs two functions; first it transfers resources from traditional sectors to modern sectors and second; it promotes and stimulates an entrepreneurial response (SME's) in the modern sectors.

The proponents of this theory believe that the activities of the financial institutions serve as a useful tool for increasing the productive capacity of the SME's in the economy. They opined that countries with better developed financial institutions serve as a useful tool for increasing the productive capacity of the SME's in the economy. They opined that countries with better financial system tend to grow faster in this aspect. Early economist like Schumpeter (1911), has strongly supported the view of finance led causal relationship between financing small-medium enterprise SME, and a country's economic growth.

Impact of all existing schemes to SME's in terms of funds provision for meaningful and sustained development among SME's had actually been noticeable. These schemes either have a direct or indirect link with banks. The banks by their nature and position in the economy therefore, remain the known financial source of finance for enterprises (Agumagu, 2006).

The role of SME's in developing countries with Nigeria in particular is progressively becoming significant in the sense that all available resources in any given situation in the economy well-being of a nation must be developed for industrialization and ultimately consumption through the small and medium scale business. Hence the impact and potential contribution of small and medium scale business on a broad and diverse are as well as their accelerated effect in achieving macro-economic objectives pertaining to full employment, income distribution and the development of local technology. Their existence therefore is most inevitable.

In Nigeria, the SME's is a driving force. A few years ago, SME's represented 90% of the industrial sector in terms of the number of enterprises (NIPC, 2012). This sector economically hold the key to the sustainable development of the economy or country and its importance can be put in paper perspective in relation to the structure of the Nigerian economy. The sectors performance contributes to the economy as a source of technological innovations and now products. (Jucumse 2004).

The SMEs account for about 10% of total manufacturing output and 70% of industrial employment (Osuagwu 2001). The 2012 enterprise baseline survey revealed that there are 17,284,617, SME's in Nigeria employing 32,414,884 persons and contributing 46-54 percent (46.54%) of the nation GDP in nominal terms.

SME's is regarded globally as an important force of deriving economic growth and employment creation in both developing and developed countries (Ariyo, 2008, Kpleai 2009). A health and robust SME's sub-sector is a sine qua-non for inclusive and socially sustainable developing and (Ogboru, 2005). And one of the significant characteristics of a flourishing and growing economy is a booming SME's sub-sector (Fida, 2008).

The commonly adduced reasons for the inability of SME's to meet the expectation of government in accelerating job creation, increasing the production of goods and services, facilitating technology transfer, creating more opportunities for entrepreneurs and in particular, increase the local content component of the giant multinational companies in Nigeria, is due to lack of access to credit facilities (Erike and Iwegbnebor 2009).

2.2   Empirical Review

A lot has been reviewed in terms of financial activities of various deposit money banks. Some opinions and investigations focused on the factor responsible for banks willingness to extend much credit to some key sectors of the economy and the impact of such credits to the aggregate economy while some discussed the effect of such extension of credits to some specific sectors of the economy such as small and medium scale enterprises, agricultural and other sectors. The outcome of some of these studies are succinctly discussed and analyzed in this section.

Sampling involves the selection of a number of study from a defined study population. A sample is therefore a small representative of a large population.

A sample size of three hundred (300) SME's was selected and used for the study excluding the eleven (11) banks that were also selected via SRS procedure. In order to cater for these selected respondents who may for one reason or the other fail to complete and return their questionnaire, a total of three hundred and thirty (330) SME's were chose as respondent and questionnaires sent to them. The first 300 completed and returned questionnaires were eventually used for the study. Some respondents returned theirs close to the completion of the study and a few never did.

The researcher used a sample random sampling method of selection.

Method of Data Analysis

The procedure for analyzing the data for this research are as follows;

- Ordinary Least Square (OLS): It is a method for estimating the unknown parameters in a linear regression model with the goal of minimizing the sum of the square of the differences between the observed responses in the given data set and those predicted by a linear function of a set.

- Co-Integration: It is a statistical property of a collection (XI, X2,....., XK) of time series variables.

- Error Correction Model (ECM): It is a category of multiple time series models most commonly used for data where the underlying variable has a long run statistical trend also known as co integration.

- Classical Linear Regression Model: It is a model statistical tool used in predicting future values of a target (dependent) variable on the basis of the behavior of a set of explanatory factors (independent variables).

The following model as indicated below were used in the data analysis.

Model Specification

The model of specification that SME's output as a measure of SME's growth will negatively or positively be related to deposit money bank loan to SME's government loan and advances to SME's, interest rate and-collateral security.

The functional relationship or the model is specified thus;

$$SMEQ = (DMBL, GLA, INT)..(1)$$

Given as;

$$SMEQ = B_0 + B_1 DMBL + B_2 GLA + B_3 INT + B_4 CSUT...................(2)$$

Where:

SMEQ = Small and Medium Scale Enterprise Output

DMBL = Deposit Money Bank's Loans to SME's

GLA   = Government Loans and Advances to SME's

INT   = Interest Rate

$B_0 B_1$ B_2 B_3 6_4= Parameters to be estimated

UT = Stochastic error term.

CS = Collateral Security.

Data Presentation

Table .1   Data Presentation from C.B.N Statistical Bulletin:

Year	SMEQ	CS	INT	GLA	DMBL
1980	31,546.8	10	9.97	28.62522	14968,5
1981	205,222.1	4.4	12,4	29.45752	11,413.7
1982	199685.3	7.2	7.16	31.11037	11,923.2
1983	185598.1	23.2	23.22	32.83836	9,636.5
1984	183563	40.7	40.71	33.02333	9,927.6
1985	201036.3	4.7	4.67	31,48268	13,041.1
1986	205971.4	5.4	5.39	31.51216	16,223.7
1987	204806.5	10.2	10.18	25.81954	22,018.7
1988	219875.6	56	56.04	25.96019	27,749.5
1989	26729.6	50.6	50.47	18.984.	41,028,3
1990	267550	7.5	7.5	20.44169	60,268.2
1991	265379.1	12.7	12.7	24,012745	66,584.4
1992	271365.5	44.8	44.81	23.23999	93,835,5
1993	274833.3	57.1	57.17	27.74994	136,645.4
1994	275450.6	57	57.03	28.2315	1156,837.2
1995	281407.4	72,8	72.81	15.87022	254,038
1996	293745.4	29.3	27.29	12.23075	282969.6
1997	302022.5	10.7	10.67	14.78455	42825.2
1998	310890.1	7.9	7.86	18.66342	487113.4
1999	312183.5	6.6	6.62	21.12571	947.690
2000	329178.7	6.9	6.94	21.96324	701059.4
2001	35699.4	18.9	18.87	26.66987	1018026
2002	433203.5	12.9	12.88	21,82599	1018156
2003	527576	14	14.03	20.19996	1225966
2004	561931.4	15	15	18.25631	1426200

2005	595821.6	17.8	17.86	17.73216	1822100
2006	634251.1	8.2	8.22	19.04188	2450897
2007	634251.1	5.4	5.41	28.05878	2450897
2008	672202.5	11.6	11.58	37.76613	3240820
2009	718977.3	12.4	12.54	43.2587	3452991
2010	776332.3	12	13.72	21.2587	4194218
2011	834000.5	12.2	13.05	20.68483	3823605
2012	888893	12.1	13.38	21,20013	4008911
2013	861446.9	12.15	13.21	21.51153	3916258
2014	9526164	12.125	12.1	21.3557	3962585

Source: CBN Statistical Bulletin

Regression or Data Analysis Result

Dependent Variable: SMEQ

Method Least Square

Date: 13/11/2016

Time: 00:54

Sample: 1980-2014

Included Observation: 34 yrs. (Number of Years).

Table .2

Variable	C-efficient	Std Error	BT-Statistic	Prob
C	8.998358	0.817078	11.01284	0.0000
DMBL	0.000294	7.4BE-05	3.935700	0.0005
GLA	-0.093885	0.056660	-1.656983	0.1083
INT	180E-06	5.52E-07	3.253586	0.0029
CS	-1.32E-07	2.92E-07	-0.453325	0.6537

R-squared	0.853781	Mean Dependent Variance	9.411765
Adjusted R-squared	0.833613	S.D Dependent Variance	3.299014
S.E of regression	1.345688	Akaike Info criterion	3.5667141
Surusquared resid	52.51540	Schwarz criterion	3.791205
10g likelihood	55.6359	F- Statistic	4.233309
Durblin-watsons stat	2.868875	Prob. (F-Statistic)	0.0000

Source E- view

Interpretation of the Result

The R-squared (R^2) and Adjusted R-squared (R^2) from the above result are 85% and 83% respectively and that implies that there is 85% and 83% change between the independent and dependent variable and thus considered adequate for the study.

Co-efficient: The co-efficient of the independent variables has both negative and positive changes on the dependent variable which constitute a relationship existing between the impacts of DMB on SMES ending.

Prob (F-statistics): From the above result the F-prob statistics is less than 0.5 that means the model is adequate.

Durblin Waston Stat: This is used to detect whether there is auto correlation in the model. Form the result above there is a presence of auto correlation because from the result above Durblin Waston stat is up to two (2).

Test of Hypothesis

Test of Hypothesis One and Two

The hypothesis was tested using the probability of F-stat. decision Rule: Reject the null hypothesis (HO) if F-probability is greater than 0.05, otherwise accept the alternative hypothesis.

Test of Hypothesis One

H_0: Deposit Money bank lending to SME has no significant impact on the growth and development of SMEQ in Nigeria.

H_1: Deposit money bank lending to SME has a significant impact made on the growth and development of SMEQ in Nigeria,

Decision Rule

We accept the alternative hypothesis (H_I) and reject the null hypothesis (H_O) because the F-probability is less than 0.05. Therefore Deposit money bank lending to SME has significantly made- an impact on SME's output in Nigeria.

Test of Hypothesis Two

H_0:   Interest rate has not significantly impacted on SMEQ in Nigeria.

H_1: Interest rate has significantly made an impact on SMEQ in Nigeria.

Decision Rule

We accept the alternative hypothesis and reject the null hypothesis because the F-probability is less than 0.05 therefore we conclude that interest rate has significantly made an impact on SMES and SMEQ in Nigeria.

Conclusion

It is clear that deposit money banks play a great role in the financing and encouragement of SME's. Also one can now conclude that to achieve meaningful economic development in Nigeria, the Nigerian government need to pay a greater attention to small and medium scale enterprises. This is based on the role which SME's play in stimulating economic productive activities.

The Nigerian government should therefore help to popularize the activities of SME's and support the financial sector who have the primary responsibility of channeling need funds from the economic (surplus unit to deficit unit) unit. An urgent regulatory system by the central bank of Nigeria (CBN) is needed to ensure that deposit money banks are effective in administering their required role especially in the charges and credit allocations to the SME's.

Finally, based on the data from deposit money banks and its lending to SME's in Nigeria for the period 1980-2014, it becomes apparent that the study reveals that deposit money bank lending, on SME's development and growth , indices presented in the model are capable of influencing SME's output. SMES remain one of the vital sector in the economy of a country that can influence the economic growth of the country through its contribution to the country's GDP (Gross Domestic Product) and also its contributions to the development and growth of the industrial sector of the country.

Recommendations

Based on the results and findings of this study, the following recommendation are made;

1.   The government should enforce and reinforce SME's scheme, that is; the small and medium scale enterprise equity investment Scheme (SMEEIS) and, small and medium

© **Association of Academic Researchers and Faculties (AARF)**

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories.

Page | 42

enterprises credit guarantee scheme (SMECGS) to promote needed economic development and growth.

2.   The central bank of Nigeria should monitor .and supervise the loans and advances granted to SME's by deposit money banks, so as to ensure that such credits are not diverted to unproductive ventures.

3.   Banks (DMB's) should help their SME's client on the preparation of feasibility studies and give effective direction on how their projects are to be implemented. In this way, the banks would be sure that loans would be repaid as at when due.

References

Abereijo, I.O. and Fayomi, A. O. (2005), Innovative Approach to SME's Financing in Nigeria. A Review of (SMEEIS). Journal of Social Science. Vol. 11, No 3 pg 219-227.

Abiola, B. lyiola F and Joseph T (2011), Microfinance and Micro Small and Medium Enterprises Development in Nigeria. "Unpublished Article", Covenant University.

Achu, J.K. (2008); Cooperate Social Responsibility in Nigeria Banking System. Society and Business Review. Vol. 3 No 1 p. 21.

Adeloja, B.O. (2013) Financial SMFs under SMEEIS. Being a Paper Presented at CBN Seminar on SMEEIS. August Lagos CBN, No 4. P10414.

Afolabi M.O. (2013), Growth Effect of SME's Financing in Nigeria. Journal of African Macroeconomic Review. Vol. 3, No 1, app 193-205.

Agumagu, A.C. (2006); Finance for Industry and Commerce. The Business of Banking Summer School Oxford.

Agwu M.O. and Emelo C.I (2004), "Issues, Challenges and Prospects of SME's in Port-Harcourt city Nigeria". European Journal of Sustainable Development. Vol. 3. No 1 PP101-114.

Alalade, Y.S, Amusa, B.O and Adekunle O.A (2013); "Microfinance Banks as Catalyst for Entrepreneurial Development in Nigeria". Evidence for Ogun State International Journal of Business and Social Science. Vol. 4, No 12, pp. 286-303.

Anyanwu, C. (2001), "Financing and Promoting Small Scale Industries". Concept, Issues and Prospects Bullion Volume 25, No 3, July and September 2001. CBN.

Ariyo, O. (2005) "Small Firms are Backbone of the Nigerian Economy". Accessed August 14, 2009 from www.african economicanalysis.org.

Aremu, M.A. and Adeyemi, S.L (2010), "SMEs as a Survival Strategy for Employment Generation in Nigeria". Journal of Sustainable Development Vol. 4, No 1, Feb. 2011.

Benaevenga, V.R and Smith, B.O (1991); Financial Intermediation and Indigenous Growth. The Preview of Economic Studies. Vol. 58, No 2, PP 195-201.

CBN, (2000), "Changing Structure of the Nigerian Economy and Implication for Development". August 2000. Realms Communication LTD. Lagos pp. 61-97.

Duru, M and Laval, M.K (2012); "Financial sector Reform and Growth of SME's in Nigeria. Universal Journal of Management and Social Services. Vol. 2. No2 PP 86-97.

Eniola, A.A. (2014); Role of SMEs Firm Performance in Nigeria. Arabian Journal of Business and Management Review.

Esuh, O.L and Adebayo, L.O (2013), "Is SME's an Entrepreneurship? International Journal of Academic Research in Business and Social Science. Vol. 2, No 1, pp. 487-496.

Imoughele, L.E. and Ismaila, M (2013): Commercial Bank Accessibility and Sectorial Output Performance in a Deregulated Financial Market Economy. Empirical

Evidence from Nigerian Journal of Financial and Bank Management Vol. 1, No 2, pp. 36-59.

Nwosu, P.I and Oseni I.O. (2012): The Impact of Bank Loans to SME's on Manufacturing Output in Nigerian Journal of Social and Development Service. Vol. 4, No 5, pp. 212-217.

Odetola, I.O (2001): A Memorandum Submitted to the National Assembly on the Establishment of SMIDAN.

Olaitan, L (2006): An Empirical Evaluation of the Corporate Strategies of Nigerian Company's Journal of African Business. Vol. 2, No, pp. 45-75.

Onakoya, A.B, Fasanya O. F, Abdulraham, H.B (2013); SME's Financial and Economic Growth in Nigeria. European Journal of Business and Management Science, Vol. 5, No 5, pp, 130-137.

Samson, O.S. Abass, A.S (2012); "Does Deposit Money Bank Impact on Economic Growth? Evidence from Nigeria". African Journal of Business Management. Vol 7. No 3, pp. 196-205.

Schumpeter, J. (1973): "Theory of Economic Development". Cambridge mass, Harvard University Press.

Thorsten, B. (2007): Financial Constraints of SME's in Developing Countries". Evidence, Determinant and Solution. Working Paper. No 4.

Udechukwu, F.N (2003); "Survey of SMEEIS and their Potentials in Nigeria". A Paper Presented at CBN. No 4, PP. 6-18.