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Impact of Banking Sector Credit (LOAN) on Business Growth in Nigeria

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Abstract: *This study examined the impact of bank lending on business growth in Nigeria. The research design adopted was the survey method. The population of this study are business men and women in Ibadan North Local Government Area of Oyo State. In this study, 120 business men/women were selected. Majority of the respondents agree that lending to SMEs will encourage self-employment thereby reducing the rate of unemployment in Nigeria. Also, many of the respondents agreed that lending to SMEs boost industrialization as well it improves the economic situation in Nigeria. The result of the hypothesis showed that there was a positive correlation between bank lending and business growth (r = .225, p<.05) which implies that bank lending significantly enhances the growth of SMEs in Nigeria. The study recommends that Government at all levels in Nigeria should be encouraged to float microfinance institutions in order to enable SMEs access enough funds for their businesses.*

Key words: *Bank Lending, Small and Medium Enterprises, Business Growth, Microfinance Institutions*

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INTRODUCTION

The business sector is very important to the economy of Nigeria; evidence shows that bank loans and credits play a significant role in the development of the manufacturing sector of any country (Nwokoro, 2017). Most industrial concerns in developing countries with particular reference to Nigeria heavily depend on bank loans to nurture their businesses to the next level. Industrial sector in Nigeria has a vast potential for economic development due to abundant labour force coupled with the agrarian nature of the Nigerian economy (Adebiyi, 2011). However, the absorptive capacity for labour expected from the manufacturing and other spill over effects have not yielded the desired results. The import substitution industrialization and other incentives to attract foreign entrepreneurs have failed and this has resulted to infantry manufacturing sector of the economy. This gives way for export promotion industrialization particularly in the early 1970s as Nigeria recorded windfall gains from crude oil sales.

In plain terms credit is the extension of money from the lender to the borrower. Credit implies a promise by one party to pay another for money borrowed or goods and services received. Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. According to the central Bank of Nigeria (CBN), the amount of loans and advances given by the banking sector to economic agents constitute bank credit. Credit is often accompanied with some collateral that helps to ensure there payment of the loan in the event of default. Thus, the availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy. The focus of this study is to examine the impact of banking sector credit (loan) on the Nigeria industrial sector growth.

The attempt to strengthen the private sector (industrial sector inclusive) by the government led to the implementation of financial liberalisation policy in 1986 as part of the Structural Adjustment Programme (SAP). The Structural Adjustment Programme (SAP) was an economic reform programme aimed at restructuring the economy and averting economic collapse. The key objectives of SAP are to lay the basis for sustaining non-inflationary or minimal inflationary growth and improve the efficiency of the public and private sectors. Therefore, the financial liberalization (reform) policy entails the provision of an appropriate legal and regulatory framework for effective private participation in the economy (Tomola, Adebisi & Olawale, 2011). Even the financial sector reform of the Structural Adjustment Programme (SAP) in 1986, which was meant to correct the structural imbalance in the economy and liberalize the financial systems did not achieve the expected results. In Nigeria like most developing countries, poor access to production funds has been blamed for the near-absence of growth of the manufacturing sector (Adelegan, 2011). He opined that managers of firms complain that inadequate finance and high interest rates are major constraints to doing business in Nigeria. Funding has made it difficult for firms to invest in modern machines, information and communication technology and human resources development which are essential factors in trimming down costs, raising productivity and improving competitive strength.

Even when credit is available, high lending rate which sometimes go over 30%, make such credits unattractive, given the fact that returns on investments in the sub-sector have been below ten percent (10%) on the average[7]. It was observed that the industrial sector is riddled with multifarious challenges. Aside from infrastructure, there are other challenges such as the suffocating high interest rate and banks' unwillingness to lend to the sector even though the monetary authorities classify it as a priority sector. In terms of its contribution, the sector accounted for 9.80% of real GDP in Q1 2019, lower than the 9.91% recorded in the first quarter of

2018 but higher than the 8.86% recorded in the fourth quarter of 2018. Manufacturing sector (subset of the industrial sector) grew by 0.81% in Q1 2019 from 2.35% in Q4 2018 and 1.92% in Q3 2018 (World Development Indicator, 2020). It is important to also state that in 2020, Nigeria's GDP amounted to 152,32 trillion Naira, over 400 billion U.S. dollars. About 13 percent of the Gross Domestic Product was generated by the manufacturing sector. The largest contribution was given by the sector of food, beverage, and tobacco, which accounted for 4.75 percent of the country's GDP in 2020. This shows that the industrial sector is vital to economic growth and utmost attention needs to be paid to the sector. In view of the above situations this study seeks to examine the impact of bank's credit on the business growth in Nigeria. The following questions are raised:

i. Will lending to SMEs encourage self-employment thereby reducing the rate of unemployment in Nigeria?
ii. Will Bank Lending boost SME growth in Nigeria?

The study therefore hypothesised that

H_{01}: There is no significant relationship between bank lending and SME growth in Nigeria.

Significance of the Study

The findings of this study will be of immense benefit to the government, policy makers, business owners as well as academicians, consultants, and researchers in the area of economic development in Nigeria. It is expected that the outcome of this research will go a long way in ensuring a turnaround of Nigeria's SME sub-sector. The research would come up with a set of recommendations for various stakeholders for implementations. With the concerted efforts of all and sundry including governments at all levels, SME promoters, Agencies and Departments of Governments involved in the SME sub-sector, Non Governmental Organisations (NGOs), Multilateral Agencies, Banks, Financiers, Investors, etc, it is hoped that the fortunes of SMEs in Nigeria would dramatically improve. Above all, this study would assist in expanding the scope of existing literature on SME growth and development in Nigeria. Finally, the study is important also as it will serve as a reference point to future researchers.

LITERATURE REVIEW

2.1. Conceptual Issues

Bank Lending

Lending is indubitably the heart of banking business. For that reason, its administration requires considerable skill and dexterousness on the part of the bank management. While a bank is irrevocably committed to pay interest on deposits, it mobilized from different sources, the ability to articulate loanable avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application. Commercial banking in Nigeria witnessed an era of impressive profitability, characterized by high competition, huge deposits and varied investment opportunities; in an effort to make quick profits the commercial banks relied essentially on self liquidating loans and diversified their portfolio into less risky investments with safe margin. The current trend in Nigerian banking and finance sector, suggest that the days of cheap profits are now over and only banks with well-conceptualized lending and credit administration policies and procedures can survive the emerging competition. Further, bank-lending decisions generally are fraught with a great deal of risks, which calls for a great deal of prudence and tact in this aspect of banking operations. The success of every lending activity largely hinges on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting. It was stressed that" the days of armchair banking are over and that the increasing trend in bad debts and absence of basic business/corporate advisory services in most Nigerian commercial banks, suggest an apparent lack of use of effective lending and credit administration techniques in these banks".

Prior to 1984, the bulk of most commercial bank deposit was made up of demand deposit. The position has now changed with the evolution of improved treasury management by corporate savers and customers as well as favorable interest rate now payable on deposits, particularly since interest rates were regulated in 1987. The result of this is additional rise in cost of funds for banks. If they are able to meet the cost element in fund and eke out some profits to meet corporate growth and shareholders' expectation, they must really give adequate attention to the single most important source of their earnings- lending and credit administration. Emphasizing this assertion, it was further stressed that "the major objectives of commercial banks' lending is to maximize profit". The staggering increase in volume of commercial banks credit in Nigeria, during the half of eighties alone, lends credence to this assertion. In 1980, aggregate commercial bank loan and advances was N6.4 billion. This increased to N113.6billion in 1986, a staggering increase of 94%. Management of such resources should therefore transcend the use of traditional techniques based mainly on the use of rule-of thumb, hunches and experience. The present volume and complexity of transaction in bank lending and credit administration in Nigeria call for the use of scientific techniques like those of management science and operations research to aid their lending and credit administration. In a study on roles and failure of financial intermediation by banks in Nigeria (Ekpo, 2016) . It was revealed that "commercial banks can lend on medium and short term basis without necessarily jeopardizing their liquidity. If they must contribute meaningfully to the economic development, the maturity pattern of their loans should be on a long term nature rather than of short term period".

The Concept of SME

As stated by Kuteyi (2013), small and medium Enterprise drives their country's development as they create employment and contribute to the gross domestic product (GDP). In the opinion of Ayozie and Latinwo (2010), there is the greater likelihood that SMEs will utilize labour-intensive technologies thereby reducing unemployment particularly in developing countries and thus have an immediate impact on employment generation. Small and Medium Scale enterprises varies with culture and peculiar circumstances of the person attempting the definition. The definitions in use depend on the purposes and the policies which govern the SME sector in a particular country. However, the three parameters that is generally applied by most countries, singly or in combination are: capital investment, volume of production or turnover of business. According to Jamodu (2001), Small and Medium Scale Enterprises is defined on the basis of employment, in micro/cottage industries (1-10 workers), small scale industries (11-100 workers), medium scale industries (101-300 workers) and large scale industries with (301 and above). In Japan, small and medium firms secure capital up to one hundred million Japanese yen and less than 299 employees involve in manufacturing.

The Nigeria Minister for Industry noted that "Enterprises employing less than 500 workers are generally regarded worldwide as SMEs". Based on the foregoing, the major component is the annexation of resources and overall contribution to the economic well being of developing nations across the globe. In a developing country like Nigeria, the importance of SMEs in the process of social economic development cannot be overlooked. The importance of SMEs in the development of the country has been summarized in Nigeria third national development plan 1975-1980 as the generation of employment opportunities, stimulation of indigenous entrepreneurship, facilitation of effective mobilization of local resources including capital and skill as well as reduction in regional disparities [5]. Moreover, in a country like Nigeria with an adverse Balance of payment situation, the growing contribution of the small scale industries sector in Nigeria's export portfolio goes a long way in generating foreign exchange and smoothening out the adverse balanced of payment situation. This is important to the economy in that large percentage of their production inputs are sourced locally thus, reducing the pressure on the limited foreign exchange earnings and helping to eliminate some of the deficit in the balance of payment. SMEs constitute the very basis of the national economy in terms of development of local technology, stimulation of indigenous entrepreneurship, mobilization and utilization of domestic savings, employment creation, structural balancing of large and small industry sectors in both rural and urban areas, supply of high quality intermediate products thereby strengthening the international competitiveness of manufacturer's goods, stimulate technological development and innovations, provide the capacity to expand export possibility and substitute import effectively. Discovery has also shown that the expected role contribution by the large scale enterprise to the economy in terms of improvement in the GDP, employment generation, increasing local value added, technological development among others are been resolved by SMEs (Nwoye, 2010).

Small and Medium Scale Enterprises in Nigeria

Nigeria remains a country with very high potential but an equally high inertia to develop. The country is blessed with abundant supply of enormous human, agricultural, petroleum, gas, and large untapped solid mineral resources. Since her independence from British rule in 1960, the country has gone through decades of political instability and this has brought with it a climate of social tension and an unpredictable market for business. The successive forceful takeover of government by the use of military coup and the indigenization policy of the late 70's has put off investors who hitherto saw the country as a large and growing market. Due to the nature of these governments, there is perceived corruption, policy instability, poor infrastructural development and lack of accountability of public funds. For these reasons, the World Bank described Nigeria as a paradox. This is also true for most Sub-Saharan African countries as industrial production has declined or stagnated over the past decades (Busari, 2016). Since its independence, the Nigerian government has been spending an immense amount of money obtained from external funding institutions for entrepreneurial and small business development programs, which have generally yielded poor results. Unfortunately these funds hardly reach the desired business because they may be lost to bureaucratic bottle necks and end up in accounts of public office holders. Despite these setbacks, the role of small business owned by middle class Nigerians, set up by individual savings, gifts and loans and sometimes sustained by profit cannot be ignored. According to Bankole (2016), countries that have made economic breakthroughs in the last two decades demonstrated beyond doubt that the development of entrepreneurship has been the sine qua non of economic growth and development. According to Asmelash (2002), the significant role SMEs play in development is acknowledged world over. Also, according to the report of the Indian working group on science and technology for Small- and medium-scale enterprises, SMEs occupy an important and strategic place in economic growth and equitable development in all countries. Constituting as high as 90% of enterprises in most countries worldwide, SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports.

Owing to the success of the Asian tigers, interest is running high globally particularly in developing countries that are in the rat race to meet up and reduce the economic and development gap. Chinese and foreign experts estimated that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns (Shepherd & Wiklund, 2009). These SMEs creates jobs for workers who have been laid off from state-owned enterprises due to the steady transition from communism to a market based economy. A 2004 survey conducted by the Manufacturers Association of Nigeria (MAN) revealed that only about ten percent (10%) of industries run by its members are fully operational. Essentially, this means that 90 percent of the industries are either ailing or have closed down. Given the fact that manufacturing industries are well-known catalysts for real growth and development of any nation, this reality clearly portends a great danger for the Nigerian economy. The acting director-general of the association, Mr. Jide Mike, who disclosed this fact, attributed the cause of this sorry state to such factors as poor infrastructure, multiple taxes imposed on manufacturers in Lagos state by all tiers of government and the difficulty in accessing finance.

Theoretical Anchor: Resource-Based View

The foundations of firm growth conception were laid by Penrose (1959) and evolutionary economists such as Peteraf (1993). As a result, and in parallel to these contributions, the resource-based approach to decision making on firm scope and size was further developed. Penrose perceived growth as a process of learning and development of capabilities, eventually resulting in scope and size enlargement. Concepts such as core competence and core-related capabilities, absorptive capacity and dynamic capabilities have comprehensively provided explanatory power with regard to learning and knowledge development that lead to innovative outcomes. The heterogeneity of firm capabilities is thus reflected in the differences in their competitive positions and the ways firms achieve growth. The RBV logic is applied in the majority of the entrepreneurship studies on growth determinants. These studies focus on the internal characteristics of the entrepreneur, the firm, and its strategy. Similarly, the classical growth stage models adopt an internal focus on firm resources and management systems. In spite of the capability-oriented thinking, the life cycle studies and studies on growth determinants are inductive and empirical rather than deductive and theory-driven. Therefore they rarely apply the core concepts of the RBV, including its developments such as absorptive capacity and dynamic capabilities. Absorptive capacity (AC) is one of the key concepts that emerges from the understanding of innovation regarding the internal usability of external knowledge. The existing evidence has discussed how companies with good levels of AC are more likely to absorb external knowledge through the establishment of cooperation agreements, what influences the returns these companies get from product and process innovations.

Empirical Review

Also, Dandago and Azende (2011) in an empirical evaluation of the performance of small and medium scale Enterprises, Equity Investment Scheme (SMEEIS) in Nigeria used Benue and Nassarawa states as case studies. Using total credit to SMEs as a percentage of Banks' total credit for the period 1993 to 2008, the T-test conducted to determine the extent of relationship between bank loans before and after the introduction of SMEEIS indicated no significant difference between loans disbursed by banks to SMEs. This result, according to him, was due to the fact that the conditions for accessing SMEEIS funds were beyond the reach of the targeted SMEs.

Eze and Okpala (2015) carried out a study on the quantitative impact of Small and medium scale enterprises (SMEs) on Nigeria's economic growth performance for the sample period 1993 to 2011. The econometric technique adopted for the study was multiple regression method based on ordinary least squares technique. However, in order to avoid the incidence of spurious estimates, evidence from the ADF test conducted revealed that the variables are integrated of order two,1(2). The Johansen test conducted showed evidence of long run equilibrium relationship between small and medium scale enterprises and economic growth. However, in the mean time, output of SMEs (SMEO) does not make any significant contribution to Nigeria's economic growth performance. The study concludes that poor government policies, on tariffs and incentives, bribery and corruption, non-existent entrepreneurial development centers and poor state of infrastructure act as impediments to the growth and development of SMEs in Nigeria. The recommendations are that governments at all levels should endeavor to establish Microfinance institutions for easy access to credit by SMEs, introduce financial literacy in schools, establish entrepreneurial development centers for capacity building, provide enough infrastructure, especially electricity and road net work, and finally establish agencies for control of bribery and corruption.

Chawla (2011) carried out a study on the effects of exchange rate fluctuation on business competitiveness. The findings revealed that the adoption of single currency in Europe can result to loss of currency devaluation leverage in some EU member countries, which may eventually give Chinese's companies the opportunity to acquire Western firms. Of course, this can only happened if the Chinese government revalue its currency to effectively minimize its current account surplus.

In another study, Kamil (2012) used information on the currency composition of firm's liabilities and assets to investigate the impact of .exchange rate regimes on foreign currency borrowing decisions and the associated currency mismatches of firms' balance sheets in six Latin-American countries. The results indicated that a change from fixed to floating exchange rate regimes helps to minimize vulnerability to exchange rate shocks as well as percentage of share of debt incurred in foreign currency. Using Vector Error Correction Mechanism (VECM),

Umoru and Oseme (2013) explored the J-curve effect in Nigeria between 1970 and 2011. The results obtained by the authors showed that the J-curve hypothesis has not been in existent in Nigeria. What this implies is that the short-run deterioration of the country's trade balance shouldn't be blamed on its fluctuating exchange rate, despite the indication of cyclical feedback between the real exchange rate deprecation of the local currency, and the trade balance.

A research by Herrera and Kouamé (2017) revealed that an adverse business environment can limit the development of a business, which also increases the operational costs of such business at the same time. But the authors observed that a good business environment enhances the growth of a business establishment. Nigeria like every other developing country is still being confronted by some institutional barriers, which are also impacting negatively on the country's business environment.

METHODOLOGY

This study adopted survey method. The population of this study are business men/women in Ibadan North Local Government, Oyo State. A total number of 120 respondents were selected. The irespondents were selected using simple random sampling technique. The data was collected using the questionnaire as a research instrument. The questionnaire was designed by the iresearcher. Data analysis was done after the data gathered are coded and managed using the Statistical Package for Social Sciences (SPSS). Data analysis was done using Inferential and Descriptive statistics. The descriptive statistics was used because it involves simple percentages, frequencies, bars which usually indicate the composition of respondents in the population with specific responses to the given questions in the questionnaires administered. Also, hypothesis was tested using Pearson Correlation Analysis.

DATA AND RESULTS

A total of 120 questionnaires were administered and all the 120 copies of questionnaire administered were returned.

Research Question One: Will lending to SMEs encourage self-employment thereby reducing the rate of unemployment in Nigeria?

Table 1: Lending to SMEs will encourage self-employment

S/N	Statements	SA	A	D	SD
1	Lending to SMEs will encourage self-employment thereby reducing the rate of unemployment in Nigeria.	33(27.5%)	70 (58.3%)	16 (13.3%)	1 (0.8%)
2	Lending to SMEs will not encourage self-employment thereby reducing the rate of unemployment in Nigeria.	6 (5.0%)	4 (3.3%)	46 (38.3%)	64 (53.3%)
3	Lending to SMEs will partially encourage self-employment	85 (70.8%)	22 (18.3%)	11(9.2%)	2 (1.7%)
4	Bank loans has significant effect on the growth rate of SME’s	54 (45.0%)	25 (20.8%)	23 (19.2%)	18 (15.0%)
5	Bank lending rate has no significant effect on the growth rate of SMEs	21 (17.5%)	2 (1.7%)	38 (31.7%)	59 (49.2%)

The table shows that 70 (58.3%) and 33(27.5%) of the respondents agree and strongly agree respectively that lending to SMEs will encourage self-employment thereby reducing the rate of unemployment in Nigeria, 85 (70.8%) of the respondents strongly agree that lending to SMEs will partially encourage self-employment, 25 (20.8%) and 54 (45.0%) of the respondents agree and strongly agree that bank loans has significant effect on the growth rate of SMEs, 23 (19.2%) of the respondents disagree while 18 (15.0%) strongly disagree. Also, 59 (49.2%) and 38 (31.7%) of the

respondents disagree and strongly disagree that bank lending rate has no significant effect on the growth rate of SMEs.
Research Question Two: Will Bank Lending boost SMEs growth in Nigeria?

Table 2: Bank Lending will boost SMEs growth

S/N	Statements	SA	A	D	SD
1	Lending will make SME businesses to grow in Nigeria	59 (49.2%)	58 (48.3%)	3 (2.5%)	-
2	Lending to SMEs boost industrialization as well as improving economic situation in Nigeria.	73 (60.8%)	46 (38.3%)	1 (0.8%)	-
3	Lending with low interest rates will enhance business growth in Nigeria	105 (87.5%)	9 (7.5%)	1 (0.8%)	5 (4.2%)

Table shows that 58 (48.3%) and 59 (49.2%) of the respondents agree and strongly agree that lending will make SME businesses to grow in Nigeria, 46 (38.3%) and 73 (60.8%) of the respondents agree and strongly agree that lending to SMEs boost industrialization as well as improving economic situation in Nigeria and 105 (87.5%) of the respondents strongly agree that lending with low interest rates will enhance business growth in Nigeria.

Hypothesis: There is no significant relationship between banks lending and SMEs growth

Table 3: Pearson Correlations between Bank Lending and SMEs Growth

		SMEs Growth	Bank Lending
SMEs Growth	Pearson Correlation	1	.225*
	Sig. (2-tailed)		.014
	N	120	120
Bank Lending	Pearson Correlation	.225*	1
	Sig. (2-tailed)	.014	
	N	120	120

*. Correlation is significant at the 0.05 level (2-tailed).

The hypothesis was tested using Pearson Correlation. The result shows a positive correlation between Bank lending and SME growth ($r = .225$, $p<.05$). This implies that bank lending significantly enhances the growth of SMEs in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study examined the impact of bank lending on business growth in Nigeria. A total number of 120 business men and women were selected randomly from Ibadan North Local Government Area of Oyo State and adminsitered questionnaire. From the findings, majority of the respondents agreed that lending to SMEs will encourage self-employment thereby reducing the rate of unemployment in Nigeria. Also, many of the respondents agree that lending to SMEs boost industrialization as well as improving economic situation in Nigeria. The result of the hypothesis showed that there was a positive correlation between Bank lending and SME growth which implies that bank lending significantly enhances the growth of SMEs in Nigeria. It is believed that if government, banks, other financial institutions and the private sector team together in the area of infrastructural, technical and financial support facilities to SMEs, there is no doubt that the sub-sector will occupy their place of importance in developing the economy of the country. This will be achieved through job creation, diversification of the country's mono-product source of foreign earnings. They will also encourage backward integration through their roles as manufacturers of raw materials for large-scale industries and will effectively reduce regional economic imbalance through rural development which will forestall rural-urban migration and its attendant vices. The following recommendations are made for this study:

i. The study therefore suggests that government should make adequate financial provision available through grants, loans and various empowerment programmes.
ii. Government at all levels in Nigeria should be encouraged to float Microfinance institutions in order to enable SMEs access enough funds for their businesses. This will enable the poor in their areas to have access to credit facilities.

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