The Impact of Financial Institutions Financing on Small and Medium Scale Enterprises in Nigeria

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ABSTRACT

This study tries to examine and evaluate the role and impact of financial institution lending to SMEs in the Nigerian economic environment. An Econometric functional relational model was constructed using the Ordinary Least Square method to test whether there is a significant link or relationship between the loans released by financial institution and the active growth and development of small scale business or the supposed SMEs from a period of 1992 - 2012. Within the study Augmented Dickey Fuller test (ADF) and Phillip Perron (PP) was carried out to test for unit root and stationarity of the variables: the Johansen cointegration test is explored and utilized to check if there is long run equilibrium relationship among the selected economic variables.

Based on the empirical findings, we identify that, a positive and significant relationship exist between the variables indicators, with the financial institutions coefficients having an impact on the growth of small and medium scale enterprises in Nigeria, while the foreign investment (portfolio) exert an inverse relationship. Long run integration was also found among small and medium scale enterprises, commercial banks lending to SMEs, development financing institutions financing and foreign investment (portfolio) inflows. In conclusion, we recommend that, there should be proper channel of funds into productive ventures by the small business owners.

Keywords: Cointegration, financial institutions, foreign investment, economic growth in Nigeria

ÖZ

Bu çalışmanın amacı Nijerya ekonomik ortamında KOBİlerin finansal kredi etkisini araştırmaktır. En küçük kareler yöntemi kullanılarak 1992 yılından 2012 yılına kadar olan süreçte KOBİlere sağlanan kredilerle KOBİlerin aktif büyüme ve kalkınma durumu arasında bir bağıntı olup olmadığı test edilmek istenmiştir. Çalışma boyunca Augmented Dickey Fuller Testi ve Phillips Peron Testi uygulanarak birim kök ve durağanlık durumları kontrol edilmiştir. Ayrıca Johansen eş bütünleşim testi uygulanarak değişkenler arası uzun dönem denge ilişkisi olup olmadığı araştırılmıştır.

Ampirik bulgulara dayanarak göstergeler arasında pozitif ve güçlü bir ilişki olduğunu söylemek mümkündür. Finansal kurum katsayısı ise küçük ve orta ölçekli Nijeryalı işletmelerin büyümesinde elastik olmayan büyüme etkisi gösterirken yabancı yatırımlar için bunun tersi bir durum söz konusudur. Aynı zamanda küçük ve orta ölçekli işletmelerde uzun dönem entegrasyonu ticari bankalar, KOBİlere kredi, kalkınma finansman kurumları, finansman ve yabancı yatırım girişleri arasında tespit edilmiştir. Sonuç olarak, üretken girişimlerdeki fonlar için küçük işletme sahiplerinin ayrı bir kanala sahip olması önerilebilir.

Anahtar kelimeler: Eşbütünleşme, finansal kurumlar, yabancı yatırım, ekonomik büyüme, Nijerya.

DEDICATION

To My Best Teachers

My parents;

MR. & MRS. INEBI OGOLI VALENTINE

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My utmost gratitude goes to the Almighty God for giving me wisdom, knowledge and power of understanding and above all, for sparing my life to this stage.

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LIST OF ABBREVIATIONS

SMEs   Small and medium scale enterprises

CBN   Central bank of Nigeria

SMIEIS   Small medium scale industries equity investmest

RGDP   Real gross domestic product

CBL   Commercial bank lending

DFI   Development financial institute

FDI   Foreign direct investment

OLS   Ordinary least square

COFFEC   Coeffecient

STD. ERR   Standard error

H_O Null hypothesis

H_1 Alternative hypothesis

H.R   Heteroskedasticity Robust

Chapter 1

INTRODUCTION

1.1 Background to the Study

The major contribution to the economic development process of the Nigeria economy has been well documented as plausible efforts stemming from the small business sector. The creation of more direct jobs per dollar of investment has been accredited to small and medium scale business than do big firms. As the sector survives through the continuous use of indigenous technological know-how, they tend to serve as training platforms for developing and advancing self-reliance skills, they promote inter-sectorial links especially in the area of agriculture and contribute to the changing and improving competitiveness of the economy. Several economic checks and monitoring has overtime displayed a quasi-proof of its ability to bring about social-economic development of a nation, therefore its impact and improvement is of great importance to the political regimes of countries around the globe. SMEs in both developing and developed economies of the world play crucial role in economic advancement, by effectively filling employment vacuums, wealth formation, as well as speedy development in urban and rural areas.

The two common measures for determining enterprise size and strength are the level of fixed capital investment and the number of workers employed. Economies of the world use various yard-sticks to set these criteria and what is considered small in one country may be deemed medium, large or even larger in another. In fact a high rate of arbitrariness

exists. As such, for the purpose of the work, enterprises described as small-scale are those employing fewer than fifty (50) persons. There is no specific reference made to fixed capital investment as it is felt that the wide and divers view which exists with respect to this aspect makes it difficult to come up with an all acceptable measurements. In whichever way it is juxtapose, the employment provision effect of SMEs would seem to justify concentration on the number of gainfully employed workers in the area of size. More so, in real sense, a greater portion of small-scale rural manufacturing enterprises employ not more than five persons and maintain fixed assets under 50,000 US dollars. Finance institution provides business credits, business inventory financing and indirect financial aids for consumers. These firms raise more capital by floating bonds and other instituted obligations. They also operate in several other countries as multi-national firms. Furthermore, among these are insurance companies execute transactions on risk coverage as well as indemnifying their clients when need be. Insurance companies also give business credit in form of loan to investors.

Commodity markets, future currency, stock exchange and option exchanges are other sub-functions of most financial institutions. These functions collectively build up a nation's economy. They also create and provide ownership for financial claims or benefit. They also maintain liquidity in the money market and control price dynamism. Furthermore, they create niches for investment and assist businesses to scout for funds.

Their role are sensitively important and associates with the investment sector as they undertake series of finance-base activities, such as transacting deal on securities with investors, underwriting transactions on securities, offering services and earning brokerage as well as issuing technical-base advice.

Given the ground-breaking role of small businesses regarding the Nigerian economy, various administrative management of the Nigerian government since political, social and economic independence, have fixed and concentrated its view light on several programmes and expended much in order to develop the small enterprise sector, these have however not recorded much results in line with Mambula1997 as in the case of the Nigerian economy. Small Scale Enterprises are generally vulnerable to unsuitable business conditions, as a result only a significant few breaks through the hurdles to survive. Opinions has it that, such disturbing factors to small business operations includes; bottle-necks in accessing credits from financial institutions, adverse economic conditions that stems from volatile government policies, ram-shackled state of Infrastructural aids, undercapitalization, non-transparency and expressing an off-hand attitude in supporting the SMEs sector in agreement with   Wale. A et al 2000.

Though several elements have posed obstacle to the growth and success of SMEs in both less developed and more developed economies, funding has been the frontier factor in line with UNCTAD, 2001,1995; SBA, 2000. When SMEs can easily access finance, the chances of developing businesses and acquiring better technologies for production activities tends to increase, therefore aiding their competitive power. However, it now poses a major bottle neck situation when it comes to scouting for expansion funds from conventional commercial banks and other financial institutions. More so, bankers today are too capital oriented and gain driven so that they focus on funding predominantly government project compared to non-governmental businessmen due to higher profit expectation, such apathy and attitude of adverse selections against SMES operators have side-lined the non-government banking clients and sky-shoot the cost borrowing for them. The picture described is replicated in Nigerian and commercial banks prefer to lend

only to the government, get involve with the exchange markets, and finance market dealings. Bank operators inappropriately insinuates that the banks are not free helping units, as such wouldn't subscribe to any form of risks with Small Scale Enterprises when they can hit big profit in other diversifications. These adverse insinuations of the commercial banks have aggravated the finance hurdles facing small businesses.

Finance agencies in a nation partly have an implied obligatory role to play in its development process. In virtually all economies, the commercial banks appears to be the front-line participators in rendering credit aids to small business, but still an unequal balance is found between supply ability of the banks and entrepreneurial demands, this also does not make sense. The situation is even less seldom sin Nigeria as noted by Olutunla et al (2008).

 Note also that with economies of scale in the industry, the production cost of a large firm can be lower than that of a small enterprise. The small scale industries help the Nigerian economy in terms of alleviating poverty, creation of employment space and the development of the economy as a whole.

1.2 Statement of the Problem

 Making credit facility available to small scale business as an highlighted problem apart from being caused by financing insufficiency may also be as a result of incomplete preparation stemming from the entrepreneurs of these small and medium scale businesses in their request for credit assistance. Information gaps between the bankers and the suppose borrowers could also be the case. Not only are that, servicing of small business account are relatively expensive and quite strenuous to monitor considering it small nature.

The front liners in the sector of small scale industry do not portray attitude of competence in preparing reasonable justification for their project. They most times come up with unreliable account statement or a balance sheet that appears attractive but are designed using personally customized system of account preparation so as to unduly win credits. For obvious reasons of this nature, incriminating proposals are out rightly rejected by bank managers. They however can be accommodated in conditions where borrowings terms are no longer in compliance with the monetary policies and credit guidelines set by the government. The researcher has captured this fact and deems it necessary to carry out study on them.

1.3 Objective of the Study

There have been facets of scholarly opinion about the causal influence of financial institution lending on small scale industries. Hence the drive and pursuit among scholars to search for policy-mix that will bring about productive economy and speedy development process of small scale businesses since its serve as a pivot area for rapid economic growth.

This study aims at investigating the impact of financial institutions financing on the small scale industries in Nigeria and placing in proximity the vital economic structure for small scale industrial progress, and uncovering the missing link which might have led to the failure and success of some of small scale business in the Nigerian economy.

Crucial of this study is to examine the place of financial institutions in the financing of small scale industries in Nigeria. Other objectives include:

1.   To know the extent to which the financial institutions has helped to finance small scale business.

2.   Identifying the problems confronting small scale industrialist in vying for business finance in Nigeria.

3.   Evaluating measures initiated to boost industrial production and its financing and how this has affected the attainment of set goals.

1.4 Organizational Structure

This study was arranged in six chapters; chapter one is built to introduce the subject matter and is accompanied by four other subsections which are the background of the study, the objectives of the study, the statement of problem and the significance of the study.

Chapter two is built to survey similar work carried out on financial institutions financing. The concept is widely explained in this chapter. A concrete theoretical framework into sound basic theory of bank capital channel model is also displayed in this chapter. Chapter three provides an overview of the Nigeria economy, the problems of small scale enterprises, and the economic importance of SMEs, focusing on its reprisal effect on growth.

The method for analyzing the study is presented in chapter four. In order to provide empirical evidence, multiple regression techniques is used in the study. The unit root test, co-integration is applied.

Analyses of the results and the findings are displayed in chapter five. Referring to the regression model specified, inference is drawn and the model is analyzed based on the regression outcome.

Finally the summary of our findings, conclusion and policy recommendation of the study

is reflected in chapter six.

Chapter 2

LITERATURE REVIEW

A survey of previous studies similar to financial institutions financing and small scale industries is carried out in order to thoroughly investigate the impact of financial institutions financing on the growth of businesses in Nigeria. Inoder to state the hypothesis, it is essential to refer to alike efforts that have been put in place by like-scholars so as to be conversant with the theoretical developments in this research area and have a guide into the new study.

2.1 Previous Survey

A thorough surveys on previous literatures provide a clue into possible causality between financial institutions financing and small scale industrial activities indicating that no general form of relationship exist between the duo concepts of interest.

Several researchers have evaluated the role of financial institutions in the development of SMEs. Oni, Paiko and Ormin, (2012) assessed the contribution of micro finance institutions to sustainable growth of small and medium scale enterprises in Nigeria. Their findings exposed that MFIs does and could contribute to the sustainable growth of SMEs in the economy. The study also revealed among others that MFIs services outreach to SMEs at present is poor.

Ojo et al (2009) examined the impact of microfinance on entrepreneurial development in Nigeria. The researcher concludes that microfinance institutions world over and especially

in Nigeria are identified to be one of the key players in the financial industry that have greatly impacted individuals, business organizations, other financial institutions, the government and the economy of the nation at large through the services they offer and the functions they perform in the economy. Oni, and Daniya, 2012 tried to investigate the development of Small and Medium Scale Enterprises and the role played by the Government and other Financial Institutions, they found out that financial institutions provide the necessary financial lubricant that facilitate the growth and development of Small and Medium Scale Enterprises, they stressed that, a lot still ought to be done by the government in terms of policy formulation in order to complement and aid the efforts of financial institutions. They suggested however that micro finance institutions be established to serve and meet the grass root financial needs.

Quaye (2011) investigated the effects of Microfinance Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs) in the Kumasi Metropolis. He examined detailed profile of SMEs in the Kumasi Metropolis of the Ghanian economy, the contribution of (MFIs) to entrepreneurial development, the challenges encountered by SMEs in reaching credit and the rate of credit utilization by SMEs. An analysis of the profile of (SMEs) reveals that most (SMEs) are at their Micro stage since they absorb less than six people and the sector is greatly dominated by the commerce sub-sector. The research also explains that (MFIs) have impacted positively on the growth of SMEs. Some of the important contributions of MFIs include; greater access to credit, improved and enhanced savings and provision of business, financial and managerial training. Irrespective of the contributions of MFIs to SMEs, there are challenges that affect the activities of both SMEs and MFIs. More pronounced among these is the cumbersome process associated with meeting up credit demands of collateral security. The MFIs on the

other hand, are faced with challenges relating to credit misappropriation, moral hazards and non-disclosure of the relevant facts of their businesses. From the findings, the research clearly reveals that MFIs have a positive effect on the growth of SMEs. In other to attain and maintain a sustained and accelerated growth in the operations of SMEs, credits should be client-targeted and not product-oriented. Extensive monitoring activities should be provided for clients who are granted loans.

Adewale and Afolabi (2013) are of the opinion that inadequate funding has been the main challenge to SMEs in Nigeria since it got her independence till date. All political regime, both military and civilian governments attempted to make an issue of accomplishable wild ado out of this critical economic matter of national concern, but they were all talking and subscribing policies on paper, more than achieving results by practically implementing the policies and turning the much ado about empty storytelling to action and results. The first to the third Nigerian Economic Summits sponsored by the Babangida military Junta focused its search light more seriously on Economic Development through industrialization with increased concern for the expected impact of the Medium and Small Scale Industries in the Nigerian economy. Irrespective of all the inactivated, unproductive policy statements, establishments of various "Development Financial Institutions", and the ultimate technically unprofessional "liberalization of the banking institutions licensing", which made total mockery of the institution of banking in Nigeria, including its ethics and professionalism, the outcomes, of which the industry is yet to recover from. As a result of all the political interventions in the banking industry, and consequential failure of the financial system to provide appropriate financing for MSSI'S (the back bone of industrialization), since attaining independence in 1960, Nigeria is yet to experience any remarkable achievement in the industrial sector. On the foreign scene, the World

Bank, initiated three different tranches of subsidized credit to SMEs in Nigeria, put to work through deposit money banks, all of which totally failed to achieve their objectives. The SMEEIS was initiated and established by the Obasanjo administration, plus an additional sum of 500 billion naira budgetary provision, to support MSSI's; In spite of these and other myriads of multilateral financial supports administered through Nigerian governments and the financial system, the good motives of the foreign governments aids and multilateral financial institutions supports, were thwarted by the corruption and fraudulent elements within the Nigerian authorities, and the operators of the financial system.

The resulting outcome of this research effort displayed a positive relationship between financing of MSSI's and a systemic development and growth of industries which is also a required condition for national economic growth and development. Reduced industrialization and slow economic growth and development in Nigeria are direct consequences of the poor funding of SMEs since independence, yet there is no evidence of any promising solution in sight for posterity. However, the way out to unemployment problems and to facilitate development process, diverse efforts had been made by the government to spur entrepreneurship progress in the country.

The establishment the Nigerian Industrial Development Bank, (NIDB), the Nigerian Directorate of Employment (NDE), Peoples Bank of Nigeria, Family Economic Advancement Programme (FEAP), Community Banks and National Poverty Eradication Programme (NAPEP), are good examples of such varied efforts, (Muktar, 2009; and Oni et.al 2012, Ojo, 2009). Micro Finance Institutions (MFIs) in Nigeria were also established with the aim of assisting SMEs in providing capital for expansion, although poor assets

base and demand for collateral by banks tends to be deprival to small businesses in bid to access to capital aids, (Ormin,2012).

This has been attributed in part to the failure of credit markets. The bone of contention has been that the poor have so little to offer by way of collateral, and borrow such small amounts, that it is too risky and too expensive to lend to them, according to Aggarwal, S. Klapper, L. and Singer, D. 2012.

The inability to access credit for SMEs financing makes them unable to undertake profitable and viable investments. If this could be checked however, the greatest challenge of SMEs will be improved. This research seeks to find out the impact of financial institutions financing on SMEs and how it could be improved.

2.2 Theoretical Framework

The theoretical framework adopted for the paper involved the bank capital channel model and the capital constraint model. Also adopted in this work, is the Lifecycle approach and the Pecking-order theory that attempts to explain small-firm financial structuring.

2.2.1 Bank Capital Channel Model

The lending behaviors of bankers to entrepreneurs are greatly highlighted by this model as it concerns capital adequacy requirement. The model looks at interest rate volatility as a determining factor to their financial treatment, particularly when their credit offer is shrinked down by the strength of their capital-base. The implication is that, often, as interest rates increases, the funding cost of banks' external funding also increase, thereby reducing profit tendencies. When this happens the bankers are forced to reduce their credit issue, especially when there is capital-base constraint.

2.2.2 The Lifecycle Approach

This approach according to Weston and Brigham (1981) was conceived around the platform of speedy growth and poor access to capital market. SMEs are perceived to be starting out by exploring only the owners' resources. Whether or not the firms could make it subsequently, the threat of insufficient capital would later surface, and then the tendency to resort to other sources of funds would emerge.

The dynamic small firm prefer to choose between curtailing its growth to keep in line with its minimally generated funds, get an expensive stock market quotation, or desires an almost impossible volume venture capital according to Weston, J and E. Brigham, Mgt Finance, Hindgale: Dryden Press, 1981).

2.2.3 The Pecking Order Theory

This theory stipulated by S.Myer (1984), asserts that most firms met their financial needs in an order of hierarchy, firstly by the use of internally generated funds, secondly borrowing in form of debt and thirdly by generating funds through equity. Commonly, this practice is predominant in Small Firms and implies the inverse link between profitability and borrowings.

Chapter 3

AN OVERVIEW OF THE NIGERIAN ECONOMY

3.1 SMEs in the Contemporary Nigerian Society

The performance of small scale businesses over time has proved it to be the backbone of most economies around the world today. The Nigerian economy is not different. SME merits cannot be ignored because if boosted, has the potency to improve the economic status of the nation. Its impacts flow through all sectors of the economy, including employment, innovations, financing, loan credit operations, and others. The Nigerian economy seems to be growing, yet there is need for SMEs operations to be boosted, so as to make Nigeria a top and leading economy in Africa as well as the world at large. A functional operation of SMEs in any economy has tremendous potentials for breakthroughs in such areas as the creation of jobs and reduction of the volume of unemployed workforce. Debelen et al 2000 believe that the Nigerian economy has what it takes to lead economically in the whole of West Africa due to the fact it is the most populated country within the region and endowed with well trained workforce.

3.2 The Posing Hurdles Facing SMEs in Nigeria

There are lots of controllable and less controllable hurdles that SMEs operators face in course of running their businesses. These hurdles or challenges are not far from common constraining business factors like unfavorable political regime policy, poor credit facility, and conducive business environment to mention but few. The afore-
mentioned factors amongst others have been the major draw backs to the improvement and development of SMEs operations in most economies of the world.

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3.2.1 Financial Hurdles and Drawbacks of SMEs

Initial investment fund is now a widespread issue to take note of as most businesses operators complain vehemently about as they lack the needed capital to finance viable business venture that has the potency to boost the economic performance of a nation's economy.

The banking institutions in their mode of operation most times seeks for the surest form of financial security, if they must grant loan credits to business operators that vehemently need funds. However, as the nature of the SMEs is, in most cases, they tend to be deficient in meeting up the demands of the bankers. This in fact is a major challenge to SMEs in Nigeria today. Most scholars view this phenomenon as a deliberate act of apathy towards small business operators by the bankers. While others still argues that sometimes, the problem of small business owners' inability to access finance easily stems from them.

3.2.2 Infrastructural Hurdles of SMEs in Nigeria

Every form of business survives within a given enabling environment. Small business also can do well is in an economy if and only if they operates within these environment. Infrastructures are like well-functioning telecommunication devices, well-structured road networks; constant water supply etc. They are the needed platforms upon which business operations can function maximally. Omotola 2008 in his work contributed immensely in this area of infrastructure. He pointed out that the reason behind the collapse of most SMEs outlets is the much expenditure cost associated with power supply in the Nigerian context.

3.2.3 Inconsistent Government Policies

When government policies are not effectively or efficiently reliable as a result of frequent volatility in policy formation, the tendencies for failures of SMEs operations becomes

more pronounced. The reason is that these policies were originally intended to catalyzed and engine economic activities that will enhance SMEs operations in Nigeria, a negative outcome is the case if the set policies keeps changing and thus will not yield positive result as expected by the policy makers. More so, it is also observed that when the budget is amended and approved, it implementation is slow as a result of administrative measures, thus slowing investment plans; payment of taxes and tariffs of SMEs. The investment environment have been threatened and rendered unpredictable and uncertain for SMEs operators.

3.2.4 Internal Problem of Small and Medium Scale Enterprise

As we progress on the causal interactions between SMEs and it surrounding financial environment, we would also see some of the challenges facing the small scale enterprise may also stem from the internal structure or setting. It however would not be strange if found out that some SMEs are actually struggling with internal problems. Scanning through available literatures on this reveals that the likely internal problems faced by SMEs could be categorize into controllable (such as the structure of the organisation, the channels of production, production skills and know-how as well as market relation) and uncontrollable (such as availability of basic infrastructures). But as regarding the aspect of the work, these internal problems have their major pointers towards the controllable internal problems. To buttress this point, Basil 2005, Omotola 2008 and Fatai 2010 in their work also pointed out that the internal problems lies between inefficient management methods, poor functional accounting methods and system, insufficient manpower, unclear organizational set up, poor entrepreneurial innovative and initiating skills, improper strategic business plan, lack of financial discipline and the existence the monster of corruption.

3.3 The Relevance of SMEs to the Economy

The tidings of capital account liberalization and globalization has contributed to the offshoot SMEs establishment in the economy of Nigeria. SMEs creation will foster economic growth and generate a large volume of employment opportunities thereby aiding the government to alleviate the present rate of poverty in Nigeria. Thus, the government ought to also assist SMEs activities in the Nigerian economy if it really seeks manpower development and considerable distribution of wealth.

3.4 SMEs Operations and Financial Institution Role

The responsibility of aiding SMEs operation in Nigeria does not lie only in the shoulder of the government as most scholars argue. Financial institution, whose operations centers around the crux of discuss, ought to be more concerned about the plight of small business owners. Bankers have by virtue of their mode of operation benefited a lot from business activities over time. If this is true, they can equally set up viable schemes that can accommodate the financial need of small business owners.

Chapter 4

DATA AND METHODOLOGY

4.1 Research Design

This research is quantitative in nature; the OLS regression analysis was used to arrive at the objective result via STATA software. The study employs the econometrics technique in analyzing the secondary data on the variables of interest covering the period from 1992-2012. The appraises the impact of financial institution lending on the development of SMEs and output growth in Nigeria which covering the period of twenty years.

4.2 Source of Data

Time series secondary data from the World Bank database, CBN (Central Bank of Nigeria) statistical bulletin, SMIEIS (Small and Medium Scale Industries Equity Investment), NBCI (Nigeria bank for commerce and Industry) were used. The data we analyzed cover the chosen variables to be tested as below.

- Log of Real Gross Domestic Product

- Log of Commercial Bank Lending to SMEs

- Log of Foreign Direct Investment (control variable)

- Log of Development Financial Institution Lending to SMEs

4.3 Method of Data Analysis

We present the data in tables and subject it to empirical analysis aimed at drawing a reliable inference on the impact of financial institutions lending to SMEs and output growth in Nigeria, and providing a quantitative basis for policy recommendations. For this

purpose, a multiple regression analysis model of the functional relationship between the growth of SMEs proxied by (log of RGDP) on one hand and log of Commercial Bank Lending to SMEs, log of Development Financial Institution lending to SMEs with log of FDI (as control variable) on the other hand, is postulated. The model is used as an abstract, specified to forge a link between these two sets of proxies.

4.4 Model Estimation Techniques

The model is estimated using OLS analysis. The regression output yields the model parameters estimates. The rationale for this technique is based on its Best Linear Unbiased Estimator (BLUE) properties. The OLS yields numerical values of the parameters of the model and other relevant statistics for further analysis and evaluation. The parameter estimates will therefore be analyzed based on the apriori expectations to gain insight into the nature and magnitude of the relationship between the dependent and explanatory variables.

4.4.1 Model Specification

This research attempts a quantitative measure of financial institution lending's to SMEs and output growth in Nigeria. Thus, we specify a model of an assumed functional relationship between the growth of SMEs proxied by (log of RGDP) on one hand, and log of Commercial Banks lending to SMEs, log of development financial institutions lending to SMEs with log of FDI (as control variable) on the other hand. This is to enable us to examine the impact of financial institutions lending on the development of SMEs in Nigeria. To achieve this, we consider these proxies. The linear relationship between the dependent and independent variable in this study is functionally expressed thus:

LogRGDP = f(LogCBL, LogDFI , LogFDI)

$LogRGDP = \beta_0 + \beta_1 LogCBL + \beta_2 LogDFI + \beta_3 LogFDI + U$ ………....(1)

Where:

LogRGDP = Log of Real Gross Domestic Product

LogCBL = Log of Commercial Bank Lending to SMEs

LogDFI= Log of Development Financial Institution

LogDFI= Log of Foreign Direct Investment

β_0= Intercept

$\beta_{1,2,\,3}$ = Slope of the linear equation

u = Error term (Stochastic Variable)

4.4.2 Apriority Expectation

It is grounded on economic theoretical explanations and conventions, each of the model parameter estimates are, a priori, expected to have a positive sign. Therefore, the orthodox sign of the model parameters are:

$\beta_0 > 0$, $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$.

By implication, commercial banks' lending to SMEs, development Financial institution lending to SMEs and FDI are correlated positively and, thus, exert significant effect on RGDP.

4.5 Model Evaluation Technique

This deals with the reliability of the results from the OLS. The evaluation concerns itself with deciding whether the estimates of the parameters are theoretically meaningful and statistically satisfactory. The students T- tests, co-efficient of determination (R^2) and Adjusted R^2, and unit root test would be employed in evaluating the model.

4.5.1 T-test

The student T-test will measure the individual statistical significance of the coefficient in the model at 1%, 5% and 10% level of significance (α); the t- test will be used to determine the statistical significance of the parameter estimates. The t- statistic will be given in parenthesis under the associated parameter estimates. We then compare the

computed t- statistics with the given tabulated t- statistics to establish significance. When the calculated t-value is less than the tabulated t-value then the parameter is not statistically significant and vice-versa.

4.5.2 Co-efficient of Determination (R^2)

Co-efficient of determination (R^2) and Adjusted R^2 shows the percentage of the total variation of the dependent variable that can be explained by the independent variable(s). The higher the R^2, the greater the percentage of the variation of the dependent variable that is explained by variations in the explanatory (independent) variables; vice versa. Also the adjusted R^2, which measures the same thing as the R^2, will be used. This is because it gives a better measure of the goodness of fit having been adjusted for the loss in degree of freedom as more explanatory variables are added.

4.5.3 F-Statistics Test

Analysis Of Variance Test (ANOVA) comprises of the F- statistics and the F-table. F-test is used to test the overall significance of the regression equations. The regression equation is adequate if the F-statistics gives a value higher than the appropriate tabulated F-statistics but if the calculated F-statistics is less than the appropriate tabulated figure (with chosen level of significance) found from the F-table with K-1 and N-k degrees of freedom, then the regression is insignificant.

Durbin-Watson Test is used to test for the presence of autocorrelation in the variable. However, this test is appropriate only for the first-order auto regressive scheme. The decision rule for the DW statistics is if there is no auto correlation, then $d = 2$. Likewise if $d = 0$, we have a perfect auto correlation. However, if $0 < d < 2$, then there is some degree of positive auto correlation (which is stronger if d is closer to zero). Also, if $d = 4$ there

exist perfect negative autocorrelation. And if d lies between 2 and 4, i.e. $2 < d < 4$, there is some degree of negative auto correlation.

Unit Root Test: The time series data employed should be stationary according (Gujarati, 2009). Therefore, it becomes necessary to achieve stationary for each variable of interest so that we can infer that there is consistency in the data.

Augmented Dickey Fuller: The Dickey-Fuller test to check for stationary which is used to ascertain stationarity. It is formulated thus;

$$\Delta Y_t = \beta_1 + \beta_2 p + \delta^* p_{p-1} + \sum_{i=1}^{n-1} \alpha_i \Delta Y_{p-i} + \in_p \tag{2}$$

$$\alpha_i = -\sum_{k=i+1}^{n} \delta k \qquad \text{and} \qquad \delta^* = \left(\sum_{i=1}^{n} \delta_i\right) - 1$$

Given that $\in_p$ stands for Gaussian idea of white noise, Y stands for the regressand, $p =$ time; $\beta =$ value for the intercept; and $n =$ the level of lag. "n" is the time lags, its merit is that it takes care of higher-order autoregressive process according to (Greene 2003).

Phillips-Perron test: the Phillips and Perron test (1988) is another option to explore other than the Augmented Dickey-Fuller test. It aids the generating process of a simple first order autoregression, i.e. AR(1). The residual variance employing is also estimasted using this test. Thus the formular is given as;

$$d_k = \frac{1}{p}\sum_{h=k+1}^{p} \ell p \ell p_{\backslash -h} \qquad k = 0,\, p = k^{\text{th}} \text{ autocovariance of residuals}$$

$$d_0 = (|p - m)/p\, \underline{\bar{h}}^2 \qquad \text{when} \quad h^2 = \frac{\sum_{p=1}^{p} \ell^2_p}{p - m}$$

$$\gamma = d_0 + 2\sum_{k=i+1}^{n}\left(1 - \frac{m}{n+1}\right)d_k \tag{3}$$

n as appear in the equation above indicates the restricted lag form for estimating the perron test statistic. d_k stands for the correlation coefficient in residuals.

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In this case, H_O argues there is no unit root (null hypothesis), i.e, the series is non-stationary and vice versa. It is further tested and validated with the MacKinnon (1991) table for critical values of unit root coefficient. If the test statistic is greater than the MacKinnon critical values at level order, then the null hypothesis can be rejected but the value must be negative. In this instance, we accept the alternative hypothesis and adopt the series at level form as having no unit root, a pure condition for stationarity and long run model.

4.5.4 Cointegration Test

The Johansen and Juselius (1990) trace statistics is used to fine-tune the presence of cointegrating vectors among multiple variables. The Engle-Granger (1987) is another unique technique to establish co-integration. Co-integration is therefore established when the trace value is greater than the Maximum Eigen value. Concerning VAR, Johansen and Juselius trace statistic is used to tackle issues of endogeneity of predictors with lag restrictions. For the purpose of short run relationship, the VAR technique for cointegration can also be used especially for variables that are not integrated in same order. It is formulated as e lags:

$$Xn = p_1 X_{n-1} + p_2 X_{n-2} + ... + p_e X_{n-e} + \mu n$$

...........(4)

This could also be expressed as a first differenced, transforming into;

$$\Delta X_n = \phi_1 \Delta X_{n-1} + \phi_2 \Delta X_{n-2} + ... + \phi_{e-1} \Delta X_{n-e+1} + \phi_e X_{n-e} + \mu_n$$

Where $\phi_i = -J + p_1 + p_2 + ... + p_i; i = 1,2,...e.$ J is to denote identity matrix (specified long run target) and p is the rank of matrix coefficient which signals the count of long run equilibrium between variables in the cointegrating system.

Chapter 5

RESULTS AND DISCUSSION

5.1 Introduction

This chapter discusses the econometric regression results of the impact of financial institution lending to small scale businesses in Nigeria. To arrive at a logical and scientific conclusion, 20 years period data was used. This is achieved with the use of OLS multiple regression analysis to explain the change in dependent variable (Y) (RGDP) in relation to the independent variables.

5.2 Data Presentation

The table below shows the RGDP as the dependent variable (Y) while Commercial bank lending, Development Financing Institution lending to SMEs and Foreign Direct Investment (control variable) are the independent variable β_1 , β_2, and β_3, respectively. The data estimated is from (1992 – 2012).

Table 1: RGDP, CBL and DFI lending to SMEs and FDI for the period of (1992– 2012)

YEAR	RGDP (N'Million)	CBL (N'Million)	FDI (%)	DFI (%)
1992	337288.60	20400.11	2.73	38.45
1993	342540.51	15462.93	6.36	226.27
1994	345228.56	20552.57	8.28	644.78
1995	352646.23	32374.55	3.80	506.97
1996	367218.13	42302.14	4.58	567.79
1997	377830.82	40844.37	4.20	227.80
1998	388468.13	42260.75	3.29	402.19
1999	393107.23	46824.14	2.80	83.60
2000	412332.01	44542.30	2.45	56.20
2001	431783.26	52428.48	2.46	416.70
2002	451785.70	82368.40	3.14	45.2
2003	495007.25	90176.53	2.92	102.52
2004	527576.20	54981.25	2.14	9.11
2005	561931.41	50672.63	4.45	67.33
2006	585821.66	25713.72	3.37	2587.17
2007	634251.16	41100.42	3.64	1652.51
2008	672202.63	13512.22	3.98	1787.71
2009	718977.35	16366.58	5.07	18274.11
2010	776332.26	12550.30	2.67	55922.64
2011	834000.85	34583.16	3.20	34610.87
2012	8888939.34	14699.90	0.39	11811.56

5.2.1 Data Analysis

The sorted data was collated and presented in tables. The RGDP, Commercial Bank Lending to SMEs, Development Financial Institution lending to SMES and Foreign Direct Investment present the functional relationship between RGDP and loans granted to small scale businesses in Nigeria. The dependent variable and the independent variables will be put to empirical statistical analysis aimed at presenting a reliable inference on the impact of financial institution lending to SMEs in Nigeria, and providing a quantitative basis for policy recommendations. For meaningful research findings, a multiple regression analysis model of the functional relationship between indicators of loans granted to SMEs and its impact on RGDP is postulated. The model is used as an abstract, specified to express a link between these two sets of indicators.

5.2.2 Model Specification and Estimation

The multiple regression analysis method which defines the strength and direction of relationship among the three variables is specified to explain the relationship between RGDP, Loans granted to SMEs and Foreign direct investment.

There are other factors that could affect the Log of RGDP positively, like agricultural improvement and quality education, savings rate, capital accumulation, government sector. These omission could however render the regression result bias due to their expected and apriori nature of importance to the model of interest. But this study was limited to the data available used , thus omitted variables were classified as part of the remaining 27% that explains the variation in Log of RGDP, but not captured in this model.

The dependent variable here is RGDP while loans to SMEs and Foreign direct investment output are the explanatory variables. This model is in this form

$$\text{LogRGDP} = \beta_0 + \beta_1 \log\text{CBL} + \beta_2 \log\text{DFI} + \beta_3 \log\text{FDI} + u$$

Where LogRGDP =Log of Real Gross Domestic Product (RGDP)

LogCBL = Log of Commercial Bank Lending to SMEs

LogDFI = Log of Development Financial Institutions Lending to SMEs

LogFDI = Log of Foreign Direct Investment (net inflows as control variable)

β_0 = Autonomous component when β is zero intercept

β_1 = Coefficient of Log Commercial Bank Lending to SMEs (β_1)

β_2 = Coefficient of Log Development Financial Lending to SMEs (β_2)

β_3 = Coefficient of Log Foreign Direct Investment (β_3)

u = Stochastic element

The model explains the relationship between RGDP, loans given to SMEs and foreign direct investments were analyzed using OLS multiple regression and equation. The following results were obtained.

Table 2: Regression result summarized

RGDP	COF.E	Sy7TD.ERR	T-STAT	P-VALUE	F-STAT	R^2
CBL	0.0968	0.101	1.19	0.249	20.83	0.6277
DFI	0.1011	0.025	4.47	0.003		
FDI	-0.1853	0.076	-3.50	0.000		
CONST	11.6825	1.169	12.57	0.000		

Source: Research Stata Software Computation

The regression estimated equation is as follow with heteroskedasticity robust standard error. The estimated regression is in its natural logarithm form. The coefficient estimate expresses the elasticity relationship between the dependent and the independent variables.

Y = 11.6825 + 0.0968logCBL + 0.1011logDFI − 0.1853logFDI
S.E.   (0.101)   (0.025)   (0.076)   (1.169)
H.R   (0.929)   (0.081)   (0.022)   (0.052)

5.3 Results and Discussion

The standard error test gives the opportunity to determine the degree of confidence in the validity of the estimate. That is, it enables us to know whether the estimate β_0, β_1, β_2, β_3 are significantly different from zero.

Standard Error Test

For S.E (β_0)

$\beta_0 >$ Se (β_0)

11.6825 > 0.929

Since, (β_0) > S.E (β_0), therefore we do not reject alternative hypothesis H_1 while null hypothesis H_0 is rejected, and conclude that, the parameter estimate β_0 which is the intercept term is statistically significant.

For S.E (β_1)

$\beta_1 <$ se (β_1)

0.0968 < 0.101

Since, $\beta_1 <$ se (β_1) then we do not reject the null hypothesis H_0, while alternative hypothesis is rejected, therefore and conclude that, the parameter estimate β_1 which

is the coefficient estimate for commercial bank lending to the SMEs is not statistically significant.

For S.E (β_2)

$\beta_2 > $ se (β_2)

0.1011 > 0.025

Since, $\beta_2 > $ se (β_2) then the null hypothesis is rejected, while we do not reject the alternative hypothesis, therefore we conclude that, the parameter estimate β_2 which is the coefficient estimate of development financial institution lending to SMEs is statistically significant.

For S.E (β_3)

$\beta_3 > $ Se (β_3)

0.1853 > 0.076

Since, $B_3 > $ Se (β_3), then the null hypothesis is rejected H_1, while we do not reject the alternative hypothesis H_0, therefore we conclude that, the parameter estimate β_3 which is the coefficient estimate of foreign direct investment as a control variable to SMEs is statistically significant.

The results above suggest that the standard error test for the parameter estimate X_1 is not statistically significant, while β_0, β_2 and β_3 are statistically significant respectively.

T-test

The formula to calculate the T- test is

Ti (β_j) = β_j/ S.E (β_j)

T_T is used for T-statistics, while T_C represent T-critical (i.e. the tabulated value using t-distribution table)

The hypothesis to use under this test is as follow:

H_0 β0: = 0 Null hypothesis

H_1 β0: ≠ 0 Alternative hypothesis

If T_C is found to be greater than the T_T, we reject null hypothesis (H_0) and accept alternative hypothesis (H_1), and conclude that, the parameter estimate is statistically significant and vice versa.

Therefore:

For T (β_0)

$T_C (\beta_0) = \beta_0 / SE (\beta_0)$

From the software result table above the T-statistics was found to be 12.57, while the T-critical using T-distribution table for 1%, 5% and 10% (for a one tail test) significant level with a degree of freedom (n-k) 17, was found to be (2.6), (1.74) and (1.33) respectively. T-statistics was found to be statistically significant for the parameter estimate β_0 , because, the $T_C > T_T$, then we do not reject the alternative hypothesis H_1 while the null hypothesis H_0 is rejected and therefore we conclude that, the parameter estimate X_0 which is the intercept term is statistically significant.

For T (β_1)

For $T_C (\beta_1)$ T-statistics was found to be 1.19, while the T-critical for 1%, 5% and 10% (one tail test) significant level with a degree of freedom (n-k), was found to be (2.6), (1.74) and (1.33). T-statistics was found to be statistically insignificant for the parameter estimate X_1, because, the Tc < T_T, then we do not reject the null hypothesis H_0 while the alternative hypothesis H_1 is rejected and conclude that, the parameter estimate β_1 which is the coefficient estimate of the commercial bank lending to SMEs is not statistically significant.

For T (β_2)

For T_C (β_2) T-statistic was also found to be 4.47 the T-critical using 1%, 5% and 10% (a one tailed test) significant level with a degree of freedom (n-k), was found to be (2.6), (1,74) and (1.33). T-statistics was found to be statistically significant for the parameter estimate , β_2 because, the $T_C > T_T$, then we reject the null hypothesis H_1 while we do not reject alternative hypothesis, and conclude that, the parameter estimate β_2 which is the coefficient estimate for development financial institution lending to SMEs is statistically significant.

For T (β_3)

For (β_3) T-statistic was also found to be -3.50 the T-critical using 1%, 5% and 10% (a one tailed test) significant level with a degree of freedom (n-k) where n = 17 and k = 4, was found to be (-2.6), (-1.74) and (-1.33). T-statistics was found to be statistically significant for the parameter estimate, β_3 because, the $T_C > T_T$, then we reject the null hypothesis H_1 while we do not reject alternative hypothesis, and conclude that, the parameter estimate, β_3 which is the coefficient estimate for foreign direct investment which is employed as a control variable to SMEs is statistically significant.

This implies that parameter estimates β_0 , β_2 , β_3 , are statistically significant while that of β_1 is statistically insignificant. It shows that, part of the explanatory variables agrees with a prior expectation.

We can therefore assert from the regression that there there is a positive interaction between RGDP and the loans given by commercial banks and development financial institutions to SMEs, while an inverse relationship exist between RGDP and the foreign direct investment (control value).

Coefficient of Determination (R^2)

Also, the value of coefficient of determination $R^2 = 0.6277$, implies that about 63 per cent variation in RGDP is caused by changes in loans given to SMEs and foreign direct investment for the period of 1992 – 2012.

F- Statistic Test

F- Statistics is used for joint and overall significance of the OLS regression analysis. F is used for F-statistics, while F_c represent F-critical (i.e. the tabulated value using f-distribution table)

The decision rule for the F-Statistics is as follows:

If F is found to be greater than the F_c, we reject null hypothesis (H_0) and conclude that, one or all the variables is statistically significant and vice versa.

The F-statistics shows that, the overall regression is statistically significant.

i.e. H_0: $\beta_1 = \beta_2 = \beta_3 = 0$

H_1: At least one of them is not zero

The hypothesis to be tested is as follow:

H_0: =0 that, log of commercial bank lending, log of development financing institution and log of foreign direct investment has no significant impact on the development of small scale enterprise in Nigeria (1992 – 2012).

The F calculated (20.83) is greater than the F_c tabulated using 1%, 5% and 10% (a two tailed test) significant level with a degree of freedom v_1 (k-1) 3 and v_2 (n-k) 17, (where k = 4 and n = 21) is found to be (5.2), (3,2) and (2.4) respectively, therefore, we reject the null hypothesis (H_0) and do not reject the alternative hypothesis (H_1) and conclude that, the log of financial institutions lending and the log of foreign direct investment has significant impact on the development of small scale industries in Nigeria over the period of 1992 – 2012.

Table 3: Unit Root Test Summary Statistics (Augmented Dickey Fuller)
at 5% significant level

VARIABLE	ADF 5% T-STATISTICS		CRITICAL VALUE		PROBABILITY VALUES		LAG
	Level	First diff	Level	First diff	Level	First diff	
LRGDP	-1.88	-3.90	-3.60	-4.38	0.0118	0.0118	I(1)
LCBL	-1.92	-6.81	-3.60	-3.60	0.355	0.0000	I(1)
LDFI	-2.31	-4.27	-3.60	-3.60	0.027	0.0034	I(1)
LFDI	-1.84	-4.68	-3.60	-3.60	0.001	0.0007	I(1)

Source: Stata Software Computation

Table 4 Unit Root Test Summary Statistics (Phillips Perron) at 5% significant
level

VARIABLE	PP T-STATISTICS		CRITICAL VALUE		P-VALUE		LAG
	Level	First Diff	Level	First Diff	Level	First Diff	
LRGDP	-1.95	-19.18	-17.90	0.62	0.01	-	I(1)
LCBL	-5.96	-29.40	-17.90	0.72	0.00	-	I(1)
LFDI	-22.90	-30.69	-17.90	0.26	0.00	-	I(1)
LDFI	-6.97	-19.47	-17.90	0.66	0.00	-	I(1)

Source: Stata Software Computation

Table 5: Co-integration results for the model overalls.

Null Hypothesis	Eigen-value	Max-Eigen Statistic	Trace Statistic	Critical Value(Trace)		Critical Value (Max-eigene)	
				5%	1%	5%	1%
r = 0	0.01	36.61	76.48	47.21	54.46	27.07	32.24
r = 1	0.83	26.33	39.86	29.68	35.65	20.97	25.52
r = 2	0.73	9.11	13.56*	15.41	20.04	14.07	18.63
r = 3	0.36	4.42	4.42	3.76	6.65	3.76	6.65
r = 4	0.19	-	-	-	-	-	-

Source: Stata Software Computation

The table above explains that the whole variables are non-stationary at level. This suggests the need to difference the series to obtain stationarity. At first difference, however all the variables are integrated of the same order, cointegration is established at r=2 where the trace statistic is less than the trace critical.

5.4 Model Evaluation and Test of Hypothesis

From the result, the parameter estimates are statistically significant. A prior expectation, of the financial institutions(Commercial Banks and Development Financing Institutions) financing (lending) which is the major independent variable of the research, expresses a positive impact on the growth of the small scale industries in Nigeria. Foreign direct investment was employed as a control variable to check the impact of capital flow, which is an integral component of capital account liberalization aspect of economic dimension of globalization. It was found to have an inverse relationship with the growth of small scale industries in Nigeria, the reason which is not far-fetched.

Also, the standard error test was applied to determine the statistical significant of the parameter estimates between this period. In the test, the researcher discovered that not all the parameter estimates are statistically significant. The coefficient estimate of the intercept term was found to be statistically different from zero. While that of commercial bank lending to the SMEs was insignificant, meaning it shows no significant impact on the development of SMEs in Nigeria over the period. Coefficient estimate of the explanatory and control variable was found significant and they express a significant impact on the development of SMEs.

The student t-test is an equivalent test of the standard error test. The aim of this test was to buttress the result gotten from the standard error test earlier conducted. The researcher discovered that by using the t-test at 1%. 5% and 10% significant level, the parameter estimates had the same outcomes. The T-statistics was found preferable (greater than) to its T-critical, using various econometrics tools.

The test for the goodness of fit (R^2) which is 63 per cent was aimed at measuring the dispersion of observation around the regression line. From, the computation R^2 was 0.6277. This tells us that, 63 per cent changes in small business growth in Nigeria are caused by changes in the explanatory variable of financial institutions financing and the control variable of foreign direct investment respectively. The remaining 37 per cent were in the stochastic terms, that is, variables which determine small business growth in the Nigerian economy within the period, which were not covered by the model.

With regards to the F-test, this was aimed at determining the overall significant of the regression estimated model. From the computation of the value of F-calculated, the

researcher discovered that the estimated model is statistically reliable. This means that, the financial institutions financing has impact on the growth of small scale industries in Nigeria between the periods which the research covered.

In conclusion, it has been discovered from this analysis that, the financial institutions financing to the small scale industries in Nigeria has a positive impact on the growth of the small scale industries. A proper channel of the lending would help the small businesses to grow and contribute their quotas to set goals and objectives of the economy at large. In the aspect of foreign direct investment, an inverse relationship emerged. Short-term foreign direct investment in form of capital flows would only hamper the growth of the small scale industries as the capital flow within a limited time and not for a long term basis.

The analysis, using the F-statistic and by accepting the alternative hypothesis shows that, the financial institutions financing (lending) has significant impact on the growth of small scale industries.

5.5 Economic Implication and Policy Relevance of the Results

From the analysis, it was discovered that financial institutions lending has significant impact on the growth of small scale industries in Nigeria, and that if this loans are directed mainly to productive economic activities, it would have a multiplier effects in alleviating poverty, creating jobs and reduce the gangs of unemployed youths in Nigeria. This will stimulate activities in the economic sectors and, perhaps, reverse the imbalance in the whole economy, as people would be engaged in productive ventures, which will kill the urge for idle tendencies. This would in turn help the

small scale businesses and government to achieve their respective set goals and objectives.

The foreign direct investment was employed as a control variable in the model. The essence is to ascertain and investigate, if short term capital flow, which is one of the economic policies introduced by the IMF to developing countries to liberalize their capital account, would have any effect on small business growth. As capital flows, from the rich to the poor countries was meant to redistribute capital and increase investment returns in the capital scarce (developing) countries. But it was found that, an inverse relationship exist between the short term capital flow of foreign direct investment and the small scale businesses in Nigeria. If the foreign capital that flows into the small scale industries are in short term (portfolio investment in bond and stocks), this would create a capital flow reversal. Instead of helping these businesses to grow, would create more havoc and crash the sector. Therefore, the higher the short term capital flow of foreign direct investment, the lower would be the growth of the small scale industries. Though, it is statistically significant according to the test conducted above.

 The proportion of lending going to the small scale businesses should be increased, since these components exert significant positive influence on the growth of small scale industries, using real gross domestic product as a proxy. Foreign direct investment should be encouraged more on a long time basis, rather than on a short term which has nothing good to offer for the growth of small scale industries, than to create more havoc than it is expected.

The existence of a relationship between financial institutions lending and the growth of small scale industries necessitates the continued use of fiscal and monetary policy instruments to pursue macroeconomic objectives in Nigeria.

Chapter 6

CONCLUSION AND POLICY RECOMMENDATION

6.1 Conclusion

It is almost a truism in our contemporary economic world that one of the major catalysts to a nation's economic growth and development is the presence of an active system of small scale industries; as they possess economic growth tendencies in their nature and mode of operations. It is on this platform that growth -seeking and capital creation - oriented economies engage in small and medium scale business ventures. SMEs in both developing and developed economies of the world exert great impact on the economic growth of small businesses. SMEs have to a great extent, contributed to employment stimulation, wealth formations and speeding development in the urban and rural areas of a nation's economy. Financial institution loan to SMEs are the potential boosters of the impact the SMEs exert on a nation's economic performance. There have been facets of scholarly opinion about the causal influence of financial institution lending on small scale industries. Hence the drive and pursuit among scholars to search for policy-mix that will bring about productive economy and speedy development process of small scale businesses since its serve as a pivot area for rapid economic growth.

The study aims investigating the impact of financial institutions financing on the small scale industries in Nigeria, placing side by side functional economic platforms for small scale industrial progress, and the possible causes which might have led to

the failure of SMEs in Nigeria. The study hypothetically identifies the relationship between financial institutions financing to small and medium scale enterprises in Nigeria.

Empirically, the research could establish a link between financial institution lending and small and medium scale enterprises using real gross domestic product as a proxy, which is an indicator of economic growth. The OLS regression result and the level elasticity coefficient reveal that, the commercial banks and development financial institutions lending exert a positive impact on small business growth in Nigeria. It was also found that, the foreign direct investment, which was employed as a control variable to test the external influence of the model, has an inverse relationship on SMEs. These results in line with trends and economic outcome explains that commercial banks that ought to be the financial backbone to SMEs operation in the Nigerian economy is failing in it role and that SMEs operators or owners are in one way or the other not meeting up with credit requirement. However, if a greater volume of financial aids flows from commercial banks to SMEs, the outcome will be positive. The reverse is the case for development financing institutions; it shows that SMEs gets better funding from these institutions in Nigeria. In the case of FDI, the inverse relationship result is due to short term effect of its operations in the economy of Nigeria and probably other parts of the world. The Johansen integration test results imply that there is a long run link among commercial bank lending, development financing institution and foreign direct investment.

6.2 Recommendation

This study supports policies engendered towards promoting SMEs activities in order to attain speedy economic growth. Drastic and efficient banking policies that will

directly enhance access to available credits from commercial banks should be laid down in the Nigerian banking sector. The small scale businesses operators should properly channel loaned fund to viable and lucrative business ventures, so that for every reasonable amount of fund released by the said financial institutions, there will be a remarkable impact on the growth of small scale enterprises as well as the RGDP of the Nigerian economy. The essence of this is to ensure that there is positive degree of responsiveness on small business growth as it continues to get funding from financial institutions. More so, the multinationals that invest in Nigerian businesses should economically be enjoyed or encouraged to do so on direct business basis rather than on portfolio basis as the latter is predominantly on short-term basis, which poses unwanted shocks on the business operation unlike the direct system.

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