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Does Bank Loans Crowd-out Small and Medium Scale Enterprises? A Case of Nigeria

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Abstract
The main purpose of this paper is to investigate the extent to which deposit money bank loans crowds-out deposit money bank loans to small and medium scale enterprises (SMEs) in Nigeria using regression model on data from January 2007 to March 2013. The results provide evidence to show that deposit money bank loans to small and medium scale enterprises are not significant in relation to total deposit money bank loans in Nigeria. The implication is for the money authorities to provide incentives to encourage SMEs funding in Nigeria, as no economy achieves sustainable development without vibrant SMEs.
Keywords: Small scale enterprises, Large scale enterprises banking sector credit, regression model, Nigeria

1. Introduction

There is a saying that the poor know when the rich make their money, but they are helpless" (Mensah, 2000: 123). This saying, which is known in many African localities, demonstrates the hopelessness of the African peasant with regard to gaining access to funds for their small scale enterprises (SSEs). Studies carried out by Eze (2006), Ernest (2002), Aderibigbe (2001), indicate that the poor are incapacitated because they do not have what it takes to attract capital. Similar studies earlier conducted by the World Bank (1993); Yaron (1994), indicate that the very poor hardly have access to even the funds provided by the traditional micro credit institutions. The reality of the situation has been that the well-to-do possess the means to approach the banks and other financial institutions for their support in project funding.

Unfortunately, this situation still persists in many African countries despite the global effort to combat poverty by empowering the deprived members of the world community through functional micro credit and micro finance schemes. Although, the Central Bank of Nigeria (2006) puts the informal sector in Nigeria at 65 percent, some studies had shown that the formal financial system in Nigeria provides services to just about 20 percent of the economically active population. According to Eze (2006:2), what "makes Nigeria's experience quite peculiar is that no less than 70 per cent of the population, which basically engaged in agriculture and SSEs, remain excluded from access to formal financial services". The nation's past efforts to encourage SSEs and lift the poor through subsidized agricultural credit yielded only little results. In separate studies, which assessed the past and subsisting performance of the experiment with agriculture and industrial development banks, hardly succeeded because of higher transaction costs, corrupt practices, high default rates and policy disconnect with the needs of the people.

Sometimes loans were disbursed to cronies and friends bank managers, in a manner that did not suggest that it was meant for business but what has become known in local parlance as "free money". Loan scheme for the poor failed because of inappropriate designed features and politicization of the process which denied fund and the unbelievable that less than one percent of the targeted poor had access to such funds (Youssoufou, 2002). It is important to underline the fact that easy access to credit is more critical to this category of borrowers than interest rate subsidy.

Yaron (1994) and Aderibigbe (2001), argue that whenever the targeted public sector rural credit programmes are subsidized, the non-poor benefit far more than the poor. The primary need of the poor is to have access to credit that is available on acceptable terms and accessible when needed. However, there is a general consensus, in the literature, that access to credit schemes is not easily achieved.

The main purpose of this study is to investigate the extent to which to which banking sector credit to large scale enterprises (LSE) crowd-out small scale enterprises (SSE) in Nigeria. The evidence from this study will not only be useful to SSEs but will also assist monetary authorities in making policies relating to SSE funding in Nigeria and other developing economies. The remainder of this paper is organised as follows. Section 2 presents brief literature review. Section 3 provides methodology and data. Section 4 presents results, and section 5 provides the conclusion.

2. Conceptual Framework and Brief Review of Empirical Literature

The theoretical basis for investigating the extent to which to which banking sector credit to large scale enterprises (LSE) crowd-out small scale enterprises (SSE) in Nigeria is the import of SSE in sustainable economic development. For some decades now, the governments of many developing countries have been concerned with promoting their small-scale enterprises (SSEs). The rationale for helping those enterprises could

be summed up neatly in the often-heard saying "small is beautiful'.

Historical facts show that prior to the late 19th century, cottage industries mostly small and medium scale enterprises controlled the economy of Europe. The industrial revolution changed the status quo and introduced mass production. The twin oil shocks during the 1970s undermined the mass production model, which triggered an unexpected reappraisal of the role and importance of small and medium sized enterprises in the global economy (Markson, 1996). Many economies, developed and developing, have come to realize the value of small businesses. They are seen to be characterized by dynamism, witty innovations, efficiency, and their small size allows for faster decision-making process.

Besides these characteristics, there are no streamlined approaches on the operations of small-scale enterprises (SSEs). This reason arises mainly due to varieties of criteria used in describing SSEs. Different countries use different parameters especially employment generation, asset accumulation or base, rate of turn over in describing enterprises that are small, medium or large (Markson, 1996, Richard & Richard, 2001). For a small-scale enterprise that employs between 10 to 50 workers, decision-making may be flexible resulting in small span of control and chain of command. But SSE that has over 50 workers in its employment may not be able to have a narrowed span of control, which enables quick decision-making process.

According to Hayatu (2004), small-scale business operations are propelled by the dynamic theory, which makes them efficient and prone to constant change. He gave a comparative statistics using developed countries on how SSEs create employment, increase job growth, induce change, innovation and competition.

However Hayatu (2004) discusses the operations of the SSEs based on the above facts. One of the major claims for the SSEs concerned their employment potential. This claim was based initially on the belief that these enterprises have higher labour requirements (per unit of output) than do other enterprises. However, empirical research has shown that SSEs do not always have higher unit labour requirements (Homi, 2001). Moreover, even where they do have higher unit labour inputs, the underlying reason could be that they are less efficient in the use of both labour and capital, and/or because they are exempt from labour union pressures that face the larger enterprises. The implication is that higher labour intensities per se are not argument for supporting SSEs. A further point is that SSEs employment potential depends also on their level and growth of output, and these aspects may compare unfavourably with the medium and large-scale enterprises (Homi, 2001).

There are claims by SSEs that are conflicting with each other. Consider the argument that SSEs are independent, and so can be located in geographically dispensed areas, far from large urban centre. If those SSEs were to sell their output mainly in their small markets, they would have limited sales and hence, limited employment potential. On the other hand, if they aimed to sell in the large urban markets, they would have a location disadvantage vis-à-vis some of their large competitors and consequently would not be able to check the market domination of the latter.

Recognition of all these facts has led to research into new roles and policies for the SSEs. There is now greater interest in those enterprises contribution to overall economic welfare, both through improvements in their own efficiency as well as through their competing - complementary relationships with medium and large scale enterprises (Kavic, 2003). These issues have acquired considerable relevance recently as many countries have introduced wide-ranging economic reforms, shifting away from the earlier inward-looking and regulatory policies to a more outward-looking and market-orientated approach. Ahiabor (2013) assesses the impact of Microfinance on Small and Medium Enterprises (SMEs) in Ghana. He reports among others, that the SMEs have the knowledge of the existence of MFIs and some acknowledge positive contributions of MFIs loans towards promoting their growth. He recommends that microfinance institutions should at all-time give professional advices to SMEs since proper professional advice will inform the lending microfinance institutions whether the amount the SME requested for is too much for the project or less.

In Nigeria, the SMIEIS and the Central Bank of Nigeria (CBN) have both introduced regulatory framework to help stabilize the operations and growth of small and medium scale enterprises. SMIEIS have made it mandatory for members to set aside 10% of their Profit before Tax (PBT) for equity investment in, and promotion of Small and Medium Scale Enterprises (SMEs). SMIEIS, intended to stimulate economic growth and development, develop local technology and generate employment. The participating banks for equity investment under this scheme have currently set aside over ₦5 billion for alternative approach to financing SMEs. The goal of this scheme is to reduce SMEs borrowing and consequently relieve them of interest and other bank charges that are not favourable to their capital structure. It also espouses the provision of financial, advisory, technical and managerial support to SMEs by banks.

On her own part, the Central Bank of Nigeria has introduced Micro Finance Policy, Regulatory and supervisory framework for Nigeria. A micro Finance Policy, which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability but also expand the financial infrastructure of the country, to meet the financial requirements of the micro, small and medium enterprises (MSMEs). Such policy would create a vibrant micro finance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and

development (CBN, 2005).

According to Mitchee (2004), the difficulty in obtaining credit is consistently rated by firms as one of the greatest barriers to operation and growth. Well-intended protection of borrowers, such as interest rate caps or restrictions of pledging collateral, can backfire and prevent borrowers from financing their business projects.

Thomson (2005), argues that in particular, small-scale businesses, women and the poor face the greatest difficulties in obtaining finance. Analyses show that broader sharing of credit information and stronger legal rights in and out of bankruptcy lead to more credit. This database covers two sets of issues-credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending (Bush, 2006).

Credit registries are institutions/firms that gather and disseminate information on credit histories, which helps creditors assess risk and allocate credit more efficiently. Bush (2006), further argues that lending is also easier when borrowers are allowed to pledge their assets to lenders. But creating and registering collateral can be quite expensive and lengthy. Doing business also investigates how well collateral and bankruptcy laws are designed, to facilitate access to credit.

According to Wood (2003), five indicators are developed for helping the administration of micro credit lending:

i. Cost to create and register collateral
ii. Index of legal rights of borrowers and lenders
iii. Index of credit information availability
iv. Coverage of public registries (number of individuals and/or firms that have a record in the registry, scaled to the adult population size).
v. Coverage of private bureaus (number of individuals and/or firms that have a record in the bureaus, scaled to the adult population size).

According to World Bank Report (2005), Enron, Parmalat, Bank of Credit and Commerce International are high profile cases of failures in corporate governance in developed countries. But Wood (2003), notes that good corporate governance is just as relevant for entrepreneurs in our countries that seek equity from business partners. Preventing expropriation and exposing it when it occurs, requires legal protection of shareholders, enforcement capabilities, and disclosure of ownership and financial information. Investors benefit greatly from much legal protection. If expropriation remains unpublished, few would dare invest in business partnerships or public listed companies.

According to Roche (2004), four types of ownership disclosure reduce expropriation: information on family indirect ownership, beneficial ownership and voting agreements between shareholders. Two types of financial disclosure help investors: an audit committee that reviews and certifies financial data, and a legal requirement that an external auditor be appointed. Finally, disclosure is most effective when ownership and financial information are available to current and potential investors. Idowu and Oyeleye (2012) examine the impact of microfinance banks on poverty alleviation in selected Local Government Areas of Oyo State. The results revealed that poverty index of the respondents reduced from 0.1668 to 0.1551 after collection of loans which implied that microfinance banks has impacted positively on their living standards. The extent at which women has benefitted from microfinance banks ranges from 65% to 74% between 2007 and 2010. The result indicated that women are increasingly benefitting from microfinance activities in contrast to yester years when there was gender disparity skewed against women. Moreover, the relationship between size of loan, asset acquisition and profit after loan were positive and significant with P = 0.085 and r = 0.152, this revealed that as the size of loan increases, asset acquisition and profit also increases. They recommend that the size of loans given to customers should be increased in order to enhance their standard of living and consequently alleviate poverty. Microfinance banks should encourage formation of cooperative societies through which they can give out loans to customers.

3. Data and Methodology

3.1 Methodology

This adopted the ordinary least square (OLS) method in investigating the extent to which to which banking sector credit to large scale enterprises (LSE) crowd-out small and medium scale enterprises (SME) in Nigeria. The model parameters are estimated as follows:

$$TDMBt = \beta o + \beta_1 LSMEs + \mu_t \quad (1)$$

Where:

TDMB = Deposit money bank total allocation of credit

LSME= Loans to SMEs

βo = Constant term

β_1 = Coefficient of parameter

μ_t = Stochastic error term

The *a priori* expectation is that there should be a positive relationship between deposit money bank credit total allocation of credit and the deposit money bank allocation of credit to SME.

3.2 Data

The data for this study are monthly observations of the Deposit Money Banks (DMBs) allocation of credit to SMEs and monthly and the total DMB loans obtained from the CBN statistical database. The data begins from January 2007 and ends on November 2013.

4. Results and Discussions

4.1 *Descriptive Statistics*

Figure 1 displays a relationship between Deposit Money Bank (DMB) loans to Small and Medium Scale Enterprises SMEs and the total DMB loans. From this figure, it appears that there is no linear relationship between DMB loans to SMEs and total DMB loans. In other words, it appears that DMB loans to other sectors crowds-out financing to SMEs in Nigeria.

Descriptive statistics of the data are presented in Table 1 below. From table 1, we can see that the average DMB loans and average DMD loans to SMEs are 7200583.36 and respectively 46366.87 for the sample period. However, the sample mean for change in DMB loans and DMD loans to SMEs are 0.017 and respectively 0.062. The standard deviation is 0.053 for total DMB loans and 1.22 for DMB loans to SMEs. The skewness and kurtosis coefficients under normality assumption are 0 and 3 respectively. But the skewness coefficients for total DMB loans and DMB loans to SMEs are 0.27* and 1.61 respectively, and the kurtosis coefficients for total DMB loans and DMB loans to SMEs are 7.39 and 10.10 respectively. The *p*-values show that the coefficients of the skewness for total DMB loans is zero, and excess kurtosis of both series are zero are not significant at 95% confidence, suggesting that series are leptokurtic. In the same vein, the Jarque-Bera statistics for both series suggest that may not be normally distributed at 5% significance level.

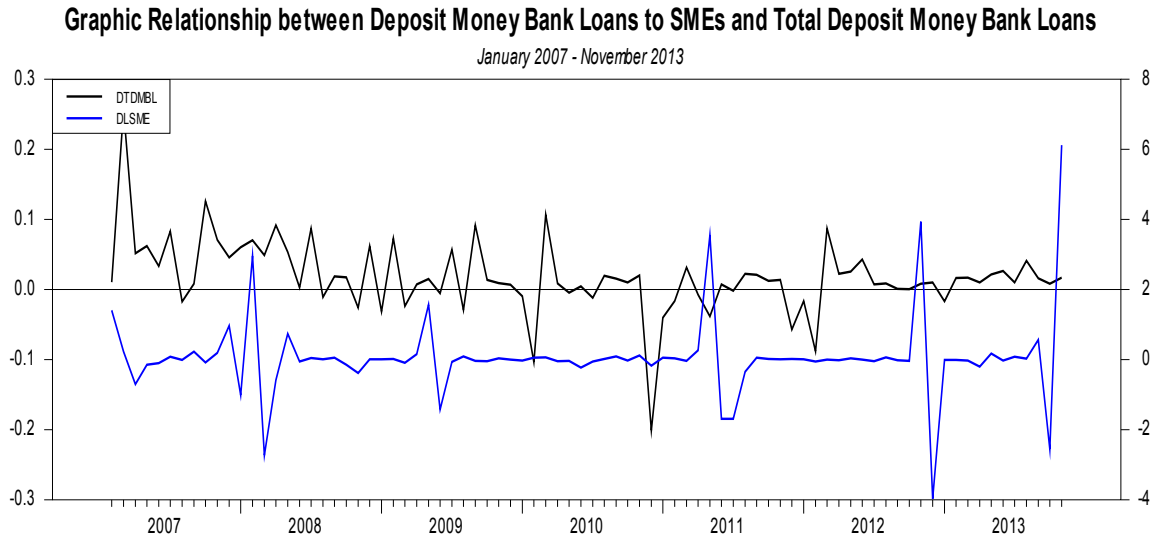

Table 1: Descriptive Statistics

Variable	Mean	Std Dev	Skewness	Kurtosis	J-B Stat.	Obser.
TDMBL	7200583.36	1836783.6	-1.22	0.73	22.64	83
LSME	46366.87	138956.9	4.889	23.76	2283.4	83
Panel B: First Differenced Series						
DTDMBl	0.017	0.053	0.27*	7.39	187.67	82
DLSME	0.062	1.22	1.61	10.10	384.74	82

Note: TDMBL is total deposit money bank loans. LSME is deposit money bank loans to small and medium scale enterprises. DTDMBL is the change in total deposit money bank loans and DLSME is the change in deposit money bank loans to small and medium scale enterprises.

4.2 Stationarity Tests Results

The augmented Dickey-Fuller (ADF) unit root test was used to examine the level of the variables and their first difference. The null hypothesis of the ADF test is that a time series contains a unit root. We can see from Table 4 that the computed values of the ADF test statistics has do not contain unit root at the 5% significance level. Similarly, in the case of their first difference, the statistics reject the null hypothesis of unit root at the 1% significance level, implying that both the level and the first difference are stationary for the two series.

Table 2: Augmented Dickey Fuller Unit Root Test

	Level Series		**First Differenced Series**	
Variables	Critical Value 5%	Computed value	Critical Value 5%	Computed value
TDMBL	-3.463	-3761*	-3.464	-9332**
LSME	-3.463	-8.280**	-3.463	-13.056**

Note: TDMBL is toatal deposit money bank loans. LSME is deposit money bank loans to small and medium scale enterprises. ** is significant at 1% level. ** is significant at 5% level.

4.3 Regression Results

The summary of the results for the OLS model specified in equation (1) are presented in Table 3 below. As table 3 shows, there is a positive relationship between the total DMB loans and the DMB loans to SMEs; the coefficient of the regression is 0.000009. The t-statistic stood at 0.002, implying that the variable is not significant at conventional levels.

The value of the coefficient of determination (R^2) stood at 0.1028. This indicates that only 10.28% of the total variation is accounted for by the independent variable while the remaining 89.72% of the variation is accounted for by other variables. The positive but insignificant level of the coefficient shows that the independent variable (TDMBL) may essentially be contributing to the variation in the dependent variable (LSME) but the contribution appears insignificant. The Durbin-Watson coefficient (1.878) indicate that there is no first order serial correlation in both series under consideration

The positive relationship between total deposit money bank loans and deposit money bank loans to small and medium scale enterprises implies that as the former increases, the latter also increases but the increase is insignificant. The R^2 coefficient shows the insignificant size of deposit money bank loans to the small and medium scale enterprises despite the fact the SME is the engine of economic growth.

Table 3: Result of Regression of TDMBl on LSME

Variable	**Coefficient**	***t*-value**	**Prob.**
Constant	0.0179	3.024	0.0033
DLSME	0.000009	0.0019	0.998

$R^2 = 0.10$, F(1, 80) = 3.9654e-006 [0.998], DW= 1.878

5. Conclusions

This paper uses the regression model approach to study the relationship between deposit money bank loans and deposit money bank loans to small and medium scale enterprises in Niger. It uses data obtained from the Central Bank of Nigeria statistical database from January 2007 to November 2013. The results from the regression model provide evidence to show that the deposit money bank loans to small and medium scale enterprises are not significant in relation to total deposit money bank loans in Nigeria. One major economic implication is for the money authorities to provide incentives to encourage SMEs funding in Nigeria, as no economy achieves sustainable development without vibrant SMEs.

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