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COMMERCIAL BANKS' FACILITIES AND SMALL AND MEDIUM SCALE ENTERPRISES GROWTH IN KWARA STATE

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Abstract

Small and medium scale enterprises are engines of growth and catalysts for socio-economic development in both developing and developed countries. However, it has not performed admirably well because of inadequate banking facilities. This has affected the growth of small and medium scale enterprises in Kwara State. Hence, this study examined the effect of commercial banks on the growth of Small and Medium Scale Enterprises (SMEs) in Kwara state. Specifically, the study examined (i) the influence of commercial bank credit on SMEs growth in Kwara State and (ii) the impact of advisory services of commercial bank facilities on the growth of SMEs in Kwara State. The study employed primary data obtained through administered questionnaire to operators of small and medium scale enterprises. The study made use of both descriptive and inferential statistics such as frequencies, percentages and ordered logit and ordered probit regression to analyse the obtained data. At 0.05 level of significance the results of both the ordered logit and ordered probit regressions reveal that, commercial bank facilities such as loans, advisory services, collateral requirement, interest rate and banking inspection of SMEs are determinants of the growth of SMEs in Kwara State. The study therefore concluded that commercial banking facilities are significant determinants of the growth of SMEs in Kwara State. Hence, interest rate and other charges should be managed in a way that it will favor the growth of SMEs in Kwara state.

Keywords: SME, enterprise growth, commercial banks, Kwara State.

1. Introduction

Since SMEs are a vital catalyst for the development and expansion of many nations, their growth continues to be at the centre of policy discussions on a global scale. SMEs have a major influence on the production of raw materials that may be substituted for imports, the reduction of rural-urban drift, the production of specialised goods in small quantities to satisfy a range of demands, the mobilisation of local resources, and the promotion of technological advancement and innovation (Ogunleye, 2000). According to Fashola (2013), SMEs are the primary engine of job creation, export revenue, wealth generation, poverty alleviation, income redistribution, and income inequality reduction in any country. SMEs help make resource allocation more effective.

Nevertheless, Anyanwu (2001) attributed the low contribution of SMEs to the overall GDP to a number of factors, including a lack of credit facilities, a lack of skills among entrepreneurs, inadequate infrastructure, the incapacity of SMEs to turn ideas into reality, low demand for completed goods, limited access to land, challenges obtaining inputs, and a lack of continuity following the death of their owners. With a capacity utilisation of just over 30%, the sub-sector generates roughly 10-15% of the industrial output while employing more than 70% of the industrial work force. This indicates low sub-sector productivity, and the main explanation offered for this poor performance is the inability to obtain financing from commercial banks.

Numerous variables, including access to credit, research and development (R&D), age, startup capital, education level, size (employee strength and net asset), and annual sales, have been the subject of previous studies on the factors that contribute to the growth of SMEs. One of the main factors influencing the success and expansion of SMEs is recognised to be innovation. Following a positive economic shock, firms are willing to enhance their R&D operations, according to Coad and Rao (2010). However, the majority of research comes to the conclusion that firm size and particular industries have an impact on business growth. Hart and Oulton (1996) investigated the connection between size and growth and found that firms' size had an impact on their growth.

The change in the number of employees since the company's founding is the common indicator of growth used in research on SMEs. It is not necessary to deflate this variable because it is comparatively simple for respondents to recall (USAID, 2002). According to some observers of small business growth, it is necessary to define employment effects in relation to the context and

goals of the potential beneficiaries. SME growth is influenced by a number of characteristics, such as credit availability, company age, staff count, total investment, total income, sales output, educational attainment, startup capital, asset base, and more (see Ahiawodzi and Adade, 2012). Ihyembe (2000) asserts that a lack of funding might hinder the launch of any enterprise and that peer and family contributions are sometimes insufficient due to personal savings. As a result, giving SMEs bank credit would allow them to supply raw materials to large-scale enterprises, employment possibilities, and the capital construction that they need. The knowledge gap that frequently exists between lending institutions and SMEs can be used to explain why commercial banks are reluctant to credit SMEs. Notwithstanding the efforts of commercial banks, small and medium-sized businesses continue to face numerous obstacles since the subsector's potential has not yet been fully realised due to insufficient access to financing and other banking services. Thus, the thrust of this work is to examine the impact of commercial banks facilities to the growth of SMEs in Kwara State.

2. Literature Review

Theoretical Review

Financial Growth Theory

According to the financial growth theory put forth by Berger and Udell (1998), small businesses' funding requirements and options evolve as they expand, gain expertise, and become less opaque about their information. Additionally, they propose that enterprises are based on a continuum of size, age, and information, with smaller and more opaque firms depending on trade credit and/or initial insider financing. According to the growth cycle model, as a company expands, it will have access to mid-term loans for intermediate debt and venture capital (VC) for intermediate equity. In the last phase of the growth paradigm, the company will probably be able to obtain long-term finance or public equity (PE) as it gets older, more seasoned, and more informationally transparent. Small businesses rely more on the unofficial financial market, which restricts the kind of funding they may obtain, therefore their capital structures differ greatly from those of larger businesses. Due to the limited financing choices, the tiny firm's early use of internal financing generates a unique circumstance where judgements on capital structure are made. It is commonly

acknowledged that small businesses are financed by a variety of sources at different phases of their organisational life and have varying ideal capital structures.

Empirical Review

Numerous studies on the financing of SMEs and the different financial institutions accessible to SMEs globally have been conducted. Researchers' assessments and opinions cover everything from the factors that led banks to refuse to lend money to some economic sectors while lending significantly more to other important sectors to the effects of such decisions on the economy. However, some highlighted the negative effects of extending loans to certain economic sectors, including agriculture, small and medium-sized enterprises, and others. Therefore, a brief discussion and analysis of some of these research' conclusions and recommendations are provided below.

A study on the impact of financing SMEs on Nigeria's economic growth was conducted by Onyeiwu (2012). Analysis of the quarterly data collected from 1994 to 2008 was done using the Ordinary Least Squares Method (OLS), Error Correction, and Parsimonious models. The outcome demonstrated that, aside from money supply and deficit financing, loans to SMEs and other factors had a favourable effect on GDP growth. Therefore, the study suggests that in order to ensure the growth of SMEs, the government should figure out how to incentivise financial institutions to lend to them.

Afolabi (2013) conducted a study on the impact of funding for small and medium-sized businesses (SMEs) on growth in Nigeria. To estimate the multiple regression model, the study used the Ordinary Least Square (OLS) approach. The findings indicate that, at the 5% crucial level, the output of SMEs and the credit extended to them by commercial banks were important drivers of economic growth in Nigeria. Therefore, it is recommended that the central government provide an atmosphere that supports the growth of SMEs.

Similarly, Imoughele and Ismaila (2013) conducted research on the relationship between sectoral production performance and the availability of commercial bank loans in the Nigerian economy during the 1986–2011 timeframe. The ordinary least squares (OLS) methods were used to estimate

an enhanced growth model. The outcome verified that there is a long-term correlation between Nigeria's sectoral production performance and the different commercial banks' credit supply.

Idowu (2014) conducted study on the financial accessibility of SMEs in Nigeria, examining the situation since the 2005 bank consolidation. The mean, standard deviation, and t-test statistical analyses were used to analyse the collected data. During the post-consolidation period, banks' lending riskiness to SMEs was shown to have significantly decreased, averaging less than 1%.

Nwosa and Oseni (2013) looked at how bank loans to SMEs affected Nigerian industrial output between 1992 and 2010. Using an error correction modelling technique, the study found that bank loans to the SME sector had a major short- and long-term influence on manufacturing output. Based on their research, they recommend that the government offer more careful consideration and deliberate effort to guarantee that loans are granted to the end users, which are SMEs.

The role of commercial banks on the expansion of small and medium-sized businesses in Nigeria was examined by Safiyyah and Garba (2013). According to the report, commercial banks help fund small and medium-sized businesses, but their share has decreased since the government eliminated the requirement that banks provide credit through CBN orders. Therefore, it is advised that commercial banks loosen their strict guidelines so that SMEs can take advantage of loan advances in the same way as big businesses.

Omika (2014) considered re-positioning commercial banks to enhance the productive capacities of Small and Medium Scale Enterprises (SMEs) for economic growth of developing Nations: A focus on Nigeria. The study employed Ordinary Least Square (OLS), Augmented Eagle Granger (AEG) Co-integration Test to test for the impacts of commercial banks relationship with the capacities of the SMES. The results showed that there was co-integration between re-positioning of commercial banks and capacities of SMEs to deliver products/services. It was therefore recommended that, government should relax the conditions for lending offered by the Commercial Banks through the Central Bank, revitalize the Capital Markets and Prioritize the SMEs in order to contribute to Economic Growth.

Alexander et al. (2014) investigated the growth of micro and small businesses in Ghana. The government and other non-governmental organisations should regularly host seminars for prospective and current small and medium business operators on how to plan, organise, direct, and

control their businesses. This is because the study found that financial limitations and a lack of management skills hinder the efficient performance of micro and small scale enterprises in Ghana. Imafidon and Itoya (2014) conducted a study on an analysis of the contribution of commercial banks to SMEs on the growth of the Nigeria economy. Co-integration and error correction model was used to analyse the secondary data collected.

Dada (2014) conducted an empirical review of commercial banks' credit and the growth of SMEs in Nigeria. In order to estimate the multiple regression model, the secondary data was examined using the Ordinary Least Square (OLS) technique. The model showed that the development of SMEs as measured by wholesale and retail trade output as a percentage of GDP is positively impacted by commercial banks' lending to SMEs. The report suggested, among other things, that the government should encourage banks to lend to SMEs by offering guarantees, interest rate subsidies, and other incentives, and that the public should be encouraged to save more.

3. Methodology

This study adopts a positivist research design as it implies a survey of SMEs in Kwara State. Quantitative research designs method was used to collect information from various small and medium entrepreneurs in Kwara State. This method enables the researcher to measure the attitude options of the respondents towards the evaluation of Contributions of Commercial Banks' Facilities to the Growth of Small and Medium Scale Entrepreneurs in Kwara State. The study population is indefinite, however comprises of randomly selected small and medium scale enterprises in Kwara State. Since the population is indefinite, it is practically impossible to study all the SMEs in Kwara State. Hence, this study adopted non probability sampling is adopted. In view of this, a total number of 300 samples consisting of both manufacturing and services enterprises were randomly selected for this study. 100 copies of questionnaires were administered to the randomly selected SMEs in each senatorial district of Kwara State using convenience sampling method to solicit the data needed. The various SMEs selected for this study include; printing press, restaurants and food vendors, bakery, transport services, fashion designers, medicine and provision stores and salon in Kwara State.

Ordered Logistic Regression analysis was employed for inferential statistical analysis of the study. The Log Likelihood ratio test was used to assess the joint significance of the independent variables and the adequacy of the fitted model. It must be pointed out that in a cross section data analysis of this nature, the significance of the Log Likelihood ratio is crucial as compared to the value of R^2.

Model Specification

The model is specified as follows:

GSMEs = $\alpha+\beta 1Xi1+\beta 2Xi2+\beta 3Xi3+\beta 4Xi4+\beta 5Xi5+\beta 6Xi6+\beta 7Xi7+\beta 8Xi8+\beta_9 Xi9+\mu 1$.. eqn (i)

Where

GSMEs = Growth rate of Small and Medium Scale Enterprises (Dependent variable)

i is a subscript for observation

Xs are the covariates (Independent variables: Amount of loan obtained, Mandatory savings, Annual turnover, Hire purchase facilities, Advisory facilities, Training facilities, Collateral facilities, Interest rate facilities, Agency facilities)

α is a constant and

β = is the vector of parameters to be estimated or the regression coefficients which determine the contribution of the independent variables.

The predictor variables are given as X1, X2, X3, X4, X5, X6, X7, X8, and X9;

X1 = Amount of loan obtained (ALO),

X2 = Mandatory savings (MSAV),

X3 = Annual turnover (ATO),

X4 = Hire purchase facilities (HPS),

X5 = Advisory services (ADVS),

X6 = Training facilities (TRAIN),

X7= Collateral facilities (COLS),

X8 = Interest rate facilities (INTR),

X9 = Agency facilities (AGENS).

μ1 = residual or stochastic term (which reveals the strength of b1x1 … bnxn; if e is low, this implies that the amount of unexplained factors is low, then the residual R and R2 will be high and vice versa.

A-priori, β1 > *0;* β*2 > 0;* β3 > *0;* β*4 > 0;* β*5 > 0;* β6> 0; β7 > 0, β8 > 0 and β9 > 0.

4.Analysis of Data and Presentation of Results

This chapter presents the findings based on the methodology discussed in Chapter Three. The Chapter consists of data presentation, analysis, interpretation of data collected and discussion of findings. To achieve the objectives of this study, simple percentages, ordered logistic and ordered probit, were employed and the results are presented in the tables below.

Table 4.1: Estimates of Ordered logit regression and the marginal effect

	Dependent variable is growth of SMEs (GSMEs)	
INDEPENDENT VARIABLES	coefficients of ordered logit (1)	Marginal effect after ordered logit (2)
Amount of loan obtained (ALO)	-0.001980	-2.939e-04
	(0.2514)	(0.03732)
Mandatory savings (MSAV)	-0.05845	-0.008677
	(0.2004)	(0.02975)
Annual turnover (ATO)	0.5412***	0.08035***
	(0.1741)	(0.02551)
Hire purchase service(HPS)	0.8063***	0.1197***
	(0.1957)	(0.02807)
Advisory service(ADVS)	0.7219***	0.1072***
	(0.2035)	(0.03026)
Training(TRAIN)	-0.5762***	-0.08554***
	(0.2064)	(0.03056)
Collateral security(COLS)	-0.4720*	-0.07007*

	(0.2578)	(0.03841)
Interest rate(INTR)	0.1929	0.02864
	(0.2414)	(0.03585)
Agency service (AGENS)	0.5648***	0.08385***
	(0.1377)	(0.02042)
Constant cut1	0.8272	
	(2.8911)	
Constant cut2	2.7254	
	(2.8850)	
Constant cut3	8.4512***	
	(2.9945)	
Observations	263	263
Fitness statistics	81.46	
Probability of fitness statistics	0.0000	

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 denotes 1%, 5% , 10% level of significance respectively.

Source: Author's Computation

Table 4.2 shows the ordered logit regressions estimates for the investigation of the contribution of commercial banks' facilities to the growth of SMEs (GSMEs) in Kwara State. Column 1 and column 2 contain the ordered logistic regression and its marginal effect respectively. The coefficient estimates of the regressions are used to examine the nature of relationship and significance of the independent variables while the marginal effect is used to evaluate the extent (magnitude or size) of impact of the independent variables on the dependent variable. In the model, growth of SMEs (GSMEs) is the dependent variable while commercial banks' facilities (RPL, ACPI, AMP, ELE, TCAP, CLO, ALO, MSAV, ATO, HPS, ADVS, TRAIN, COLS, INTR and AGENS) are the independent variables.

The result of the ordered logit regression in column 1 and 2 revealed that RPL, AMP, CLO, ALO, MSAV, TRAIN and COLS are inversely related to the GSMEs while all other variables (ACPI, ELE, TCAP, ATO, HPS, ADVS, INTR and AGENS) are positively related to the GSMEs. This is because the values of the coefficient of RPL, AMP, CLO, ALO, MSAV, TRAIN and COLS are

negative while those of the other variables (ACPI, ELE, TCAP, ATO, HPS, ADVS, INTR and AGENS) are positive. It means there is less likelihood of increase in GSMEs with increase RPL, AMP, CLO, ALO, MSAV, TRAIN and COLS. On the other hand, there is more likelihood that GSMEs will increase with rise in other variables (ACPI, ELE, TCAP, ATO, HPS, ADVS, INTR and AGENS).

However, the result indicates that only ELE, ATO, HPS, ADVS, TRAIN, COLS and AGENS are statistically significant. ELE is significant at 5%, COLS at 10% and other variables (ATO, HPS, ADVS, TRAIN, COLS and AGENS) are significant at 1% each. This is indicated by the standard errors of the coefficients of the variables which are less than half the values of the coefficients.

Therefore, the result in column 1 shows that there is a significant negative relationship between GSMEs and TRAIN and COLS while ELE, ATO, HPS, ADVS, and AGENS have significant positive impact on GSMEs. Hence, ELE, ATO, HPS, ADVS, TRAIN, COLS and AGENS are significant determinants of the growth of SMEs in Kwara State.

The values of the marginal effect of the logit regression (in column 2) indicate that the probability of the growth of SMEs falls by 0.08554 and 0.07007 with the increase in TRAIN and COLS respectively. On the other hand, increase in ELE, ATO, HPS, ADVS, and AGENS increases the likelihood of rise in GSMEs by 0.05903, 0.08035, 0.1197, 0.1072 and 0.08385 respectively. This is an enormous impact because the highest value of probability is one (1)

The coefficients of the cut parameters are used to examine the essence of the response categories (strongly agreed, agreed, undecided disagreed and strongly disagreed). If the cut values are statistically significant, the categories are maintained in the interpretation otherwise insignificant categories are collapsed to for a category. In table 1 all the constant cut values except cut 3 are statistically insignificant therefore we can collapse all other categories apart from category 3 and 4. This means the responses undecided disagreed and strongly disagreed are not being distinguished by the respondents but strongly agreed, agreed are clearly defined.

To examine the goodness of fit of the model, the log likelihood chi-square statistics of the model is reported. The fitness statistics of the ordered logit is 16.9 with the P-value 0.0000. Since, the probability values of the fitness statistics is less than 5% level of significant, the model is good fits. So, the result of the model is viable for tenable conclusion and recommendation.

Table 4.2: Estimates of Ordered probit regression and the marginal effect

	Dependent variable is growth of SMEs (GSMEs)	
INDEPENDENT VARIABLES	coefficients of ordered probit (1)	Marginal effect after ordered probit (2)
Amount of loan obtained (ALO)	-0.02445	-0.006712
	(0.1486)	(0.04081)
Mandatory savings (MSAV)	-0.01565	-0.004296
	(0.1147)	(0.03150)
Annual turnover (ATO)	0.3253***	0.08928***
	(0.09900)	(0.02683)
Hire purchase service(HPS)	0.4195***	0.1151***
	(0.09848)	(0.02680)
Advisory service(ADVS)	0.4314***	0.1184***
	(0.1125)	(0.03067)
Training(TRAIN)	-0.3294***	-0.09042***
	(0.1237)	(0.03394)
Collateral security(COLS)	-0.2628*	-0.07212*
	(0.1513)	(0.04169)
Interest rate(INTR)	0.09739	0.02673
	(0.1287)	(0.03534)
Agency service (AGENS)	0.3064***	0.08410***
	(0.07299)	(0.02002)
Constant cut1	0.4760	
	(1.6650)	
Constant cut2	1.4314	
	(1.6682)	
Constant cut3	4.6318***	
	(1.7164)	
Observations	263	263

Fitness statistics	83.39
Probability of fitness statistics	0.0000

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1 denotes 1%, 5% , 10% level of significance respectively.

Source: *Author's Computation*

In a similar vein, the ordered probit regression result is contained in column 1 with its marginal effects in column 2 of table 3. The growth of SMEs (GSMEs) is still the dependent variable while commercial banks' facilities (RPL, ACPI, AMP, ELE, TCAP, CLO, ALO, MSAV, ATO, HPS, ADVS, TRAIN, COLS, INTR and AGENS) are the independent variables

Just like the ordered logit model. The coefficient estimates of the ordered probit model indicate that ACPI, ELE, TCAP, ATO, HPS, ADVS, INTR and AGENS are positively related to the GSMEs while RPL, AMP, CLO, ALO, MSAV, TRAIN and COLS are negatively related to the GSMEs.

Meaning, the more ACPI, ELE, TCAP, ATO, HPS, ADVS, INTR and AGENS), the more likelihood that the GSMEs will increase. Also, the more RPL, AMP, CLO, ALO, MSAV, TRAIN and COLS, the less likelihood of rise in GSMEs. Equally, the result point out that ELE, ATO, HPS, ADVS, TRAIN, COLS and AGENS are statistically significant while other variables are not significant. ELE is significant at 5%, COLS at 10% and other variables (ATO, HPS, ADVS, TRAIN, COLS and AGENS) are significant at 1% apiece. This is illustrated by the fact that half the values of the coefficients are greater than the standard errors of the coefficients.

The marginal effect of the ordered probit model in column 2 shows that, on the average, increase in TRAIN and COLS will bring about reduction in the probability of people strongly agreeing to increase in GSMEs by 0.09042 and 0.07212 respectively. Conversely, it is strongly agreed by the respondents, that there will be 0.06394, 0.08928, 0.1151, 0.1184 and 0.08410 increase in the probability of high GSMEs with increase in the ELE, ATO, HPS, ADVS and AGENS respectively. this indicates that the magnitude of impact of the variables on GSMEs is huge.

The coefficients of the cut parameters shows that all the constant cut values except cut 3 are insignificant. Therefore we can maintain response category 3 and 4 and collapse all the other categories. The fitness statistics (83.39) of the ordered probit model with the P-value 0.0000 shows that the model has good fits. Thus, the results of the model are valid for inferences and suggestions.

Succinctly, the results of both the ordered logit and ordered probit regressions reveal that ELE, ATO, HPS, ADVS, and AGENS have significant positive impact on GSMEs while TRAIN and COLS negatively influence the GSMEs. Therefore, ELE, ATO, HPS, ADVS, TRAIN, COLS and AGENS are the fundamental determinants of the growth of SMEs in Kwara State.

4.3 Discussion of Findings

The finding in this study is in line with most of the studies on this subject matter. Previous studies like Duru and Lawal (2012) examined the impact of financial sector reforms on the growth of small scale enterprises in Nigeria. The results indicate that variables such as firm's characteristics, firm's ownership and credit facilities through the financial sector have positive and significant impact on the growth of SMEs in Nigeria. Also, Wanambisi and Bwisa (2013) investigated the effects of microfinance institutions lending on micro and small enterprises performance within Kitale Municipality. The study show that amount of loans is significantly and positively related with performance of MSEs in the Municipality. Other studies with similar result from Nigeria and abroad are; Ngugi and Kerongo (2014), Safiyyah and Garba (2013), Idowu and Salami (2010), Omika (2014), Shamsudeen (2014) and Afolabi (2013).

However, a few studies also found out that commercial banks loans do not impact on the performance of SMEs. Terungwa (2011) worked on evaluation of small and medium scale enterprises equity investment scheme in Nigeria. It was discovered that there is no significant difference between the loans disbursed by banks to SMEs before and after the introduction of SMEEIS and Kadiri (2012) observed that the sector was unable to achieve this goal due to its inability to obtain adequate business finance for the sector and that virtually all the SMEs that were sampled relied on the informal sources of finance to start their business.

5. Conclusion and Recommendations

SMEs have been identified as an engine of growth and catalysts for socio-economic development in both developing and developed countries. The study has concluded that commercial banking facilities are significant determinants of the growth of SMEs in Kwara State. The study recommends that there is need for banks management to pay attention to advising SMEs operators

in the appropriate sources and application of funds that will contribute to smooth business running and thereby enhance and encourage resources utilization. Regular seminars and workshops on capacity building such as technical skills and entrepreneurship training organised by Government, Banks and SMEIES for SMEs' operators will improve their product quality, attract investment for expansion and upgrade their operations to international standard. Commercial banks should improve on the inspection of SMEs records in such a way that it will boost the growth of SMEs. Interest rate factor is known to affect the growth of SMEs therefore the interest rate should be managed in a way that it will be favorable to the growth of SMEs in Nigeria. Entrepreneurs should also be aware of varieties of commercial bank's facilities and learn to access them especially banks financial facilities such that will result in their business expansion and growth.

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