

Impact of Bank Credit on Profitability of Micro, Small and Medium Scale Enterprises in Gombe State

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Abstract

This study examined the impact of bank credit on the profitability of MSMEs in Gombe State. The profitability of MSMEs is the dependent variable while the credits activities are the independent variables. The population of this study is Five Hundred and Thirty-Nine Thousand, One Hundred and Nine (539,109) Micro, Small and Medium Enterprises (MSMEs) in Gombe State according to SMEDAN and NBS, (2017) and a sample size of 400 MSMEs in Gombe State. The study used both descriptive and regression analysis in the analysis of the variables. From the result the volume of bank credits to MSMEs and the low interest bank credits to MSMEs have positive and significant impact on the profitability of MSMEs in Gombe State. However, the R^2 of 0.75 percent suggested a strong explanatory power of the model in explaining the variation in the profitability of MSMEs in Gombe State. Therefore, study recommends that the MSMEs in Gombe State should carefully choose the best credit facilities that best suit their businesses and that can increase their profitability and government should design a better mechanism for easy access of bank credits by MSMEs.

Keywords: *Profitability, Credits, Low Interest*

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Background to the Study

In the light of the important role MSMEs play as engines of growth, it is critical to ensure that MSMEs in Nigeria have access to the necessary credit they need to expand and continue to perform their function in investment, growth, innovation and employment. In a country where underemployment is estimated at 70.5%, MSMEs finance is important in supporting growth and reducing poverty through employment creation. Nigeria needs to support the sector given its potential opportunities for growth and poverty reduction (SMEDAN, 2013).

According to the National Bureau of Statistics (NBS) and Small and Medium Enterprises Development Agency (SMEDAN) Collaborative study report of 2017, Micro, small and medium enterprises are globally recognized as engine of socio economic transformation just as have become well established in both developing and developed economies. They drive jobs and wealth creation as well as income redistribution within the society. The need to finance the development and growth of SMEs in Sub-Saharan African (SSA) economies has been of concern to many policy makers. For SSA to be able to compete effectively in the increasingly globalized environment, its micro and small enterprises should grow and transform into thresholds where they will be able to adapt efficient production techniques.

The World Bank estimates, as of 2012 has it that only 5 percent of MSMEs can access a loan, despite the fact that 80 percent of them sought financing. Furthermore, financing constraints seems to depend on the size of the firm. An estimated 59 percent of small firms' report difficulties in accessing finance compared to 35 percent of medium firms and 11 percent of large MSME firms. Financial sector reforms began in Nigeria with the deregulation of interest rates in 1987 (Duru and Lawal, 2012). Since then, far reaching policy measures had been initiated and implemented, among these measures are the licensing of new banks, the capital market reforms, and the direct monetary controls undertaken by the central bank. The last few years have witnessed the creation of new banks through mergers and acquisition, which were intended to help mobilize domestic savings, deepen and broaden intermediation, improve allocation of resources and help mobilize foreign investments and facilitate business credit availability (Achugo and Jemilohun, 2015). Finance has been described as a major factor constraining the growth and survival of MSME's in Nigeria (Ayeni-Agbaje, 2015). NBS and SMEDAN (2012) reported that MSMEs accounts for over 60% of Gross Domestic Product (GDP) and over 70% of total employment in developing countries, but in Nigeria they contributed 46.54% of the GDP. They further revealed that MSMEs provide employment for 32.4 million people while only 2.63% of goods produced by them are exported and this is attributed to lack of access to finance which should be their main priority area of assistance.

By 2017 there is an estimated, 41,543,028 million MSME'S in Nigeria out of which 41,469,947 million are micro enterprises. 71,288 are small and 1,798 are medium scale enterprises. There is an estimated 539,109 micro small and medium enterprises operating in Gombe state which has provided employment to 35,652 persons (NBS and SMEDAN, 2017). Recognizing the significance of MSMEs as well as finance being the major constraint of MSMEs' growth, the government at one time or the other have introduced and implemented a number of measures and funding schemes. Interventions or schemes at national and at state levels have been introduced in a bid to increase profitability and performance of MSMEs and

the schemes include Rural Banking Programme, the Peoples' Bank of Nigeria (PBN), the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN); schemes like the Community Banking Scheme, Small and Medium Enterprises Equity Investment Scheme (SMEEIS), Commercial Agriculture Credit Scheme (CACCS) among others, as well as the establishment of the government development finance institutions like Bank of Industry (BOI), Infrastructure Bank Plc., Nigeria Export Import Bank (NEXIM) among others (Olawepo and Ariyo, 2011). Current efforts by government to stimulate MSME sector includes; establishment of collateral registry for MSMEs by CBN, establishment of Development Bank of Nigeria which started operations in 2017, establishment of MSME rating agency, Npower scheme, Trader money scheme, Anchor Borrower Scheme, Conditional grant scheme, Incentivizing business registration compliance for MSMEs.

The Gombe State government established the Buba yero Micro Finance bank and have partnered with the bank of industry in addition to already existing SHONGOM Micro Finance Bank, Tangale Microfinance Bank and other banks operating in the area in order to provide increased access to credit for the MSMEs This study therefore seeks to investigate the impact of bank credit on the profitability of MSMEs in Gombe State- Nigeria. To achieve the main objective these research hypotheses were formulated as follows:

- H₀₁:** Volume of bank credits to MSMEs has no significant impact on profitability of the MSMEs in Gombe State
- H₀₂:** Low interest bank credits to MSMEs has no significant impact on profitability of the MSMEs in Gombe State.

Literature Review

Conceptual Review

Micro Enterprises are those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira with a workforce not exceeding ten while Small Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira with a total number of workforce above ten, but not exceeding forty-nine. Medium Enterprises are those enterprises with total assets excluding land and building) above Fifty Million Naira, but not exceeding Five Hundred Million Naira with a total number of employees between 50 and 199. According to this definition, in case of a conflict on classification between employment and asset criteria the employment-based classification will take precedence. (SMEDAN, 2015). Central Bank of Nigeria in its 2005 guideline on small and medium enterprise investment scheme (SMEIS) describes MSMEs using asset criterion as any business that has a maximum capital base of 200 million Naira excluding loan and working capital with no upper or lower limit of staff). In Nigeria, the definition of MSMEs is more of an asset based than employee level based. The federal ministry of commerce and industry defines MSMEs as firms with a total investment (excluding cost of land, but including the cost of capital) of up to N750, 000 and paid employment of up to fifty persons.

Profitability

Profits are necessary for survival in a competitive environment. Long term profitability derives from the relations between cost and revenue. Maximisation of profit is a very crucial objective for a firm to remain in business and to withstand competition from firms operating in similar industry. It is a major prerequisite for long term survival and success of a firm and also a key precondition for achievement of the financial goals of a business entity (Gitman and Zutter, 2012). According to Shosha (2014) Profitability can be defined either as an accounting or economic profit. Often, profitability is mistaken with cash flow. Although they are closely linked to each other, they are two different things. Sometimes, people think that a profitable business has no problems with cash flow. The Income Statement which is also referred as the performance statement (thus, the success of an undertaking) reflects income and expenses, while the Cash Flow Statement reflects cash inflows and outflows. Thus, the Income Statement somehow shows the profitability of an undertaking, while the Cash Flow Statement shows liquidity thereof.

Measuring profitability is the most important means of measuring the success of an undertaking. An undertaking that is not generating profit/ revenues, cannot survive. On the contrary, if an undertaking is much profitable, it has the capacity to pay back the owners in the form of return on investment made. Profitability in this study is defined as the gain realized from the difference between earnings and expenditure incurred by the enterprise within a period of time in the course of delivering on its goals.

Bank Credit

Fatoki (2013) believed that bank credit is an agreement between banks and borrowers where banks make a loan to a borrower based on their assessment of the borrower's creditworthiness. The bank is essentially trusting a borrower to repay funds plus interest for either a loan, credit card or line of credit at a later date. Bank credit also refers to money that banks lend or have already lent to customers. Bank credit for individuals has grown considerably during the past half-century as consumers have become used to having multiple credit cards for various needs. However, businesses also use bank credit. Many businesses need funding to pay startup costs, to pay for goods and services or supplement cash flow. As a result, startups or small businesses use bank credit as short-term financing. The volume of bank credit refers to the quantum of money released as loans and is used as an indicator to the participation of the banking sector in the economy of a country through their lending activities. It can influence MSMEs activities through their borrowing which can impact on their profitability and growth. Also the cost of such loans has to be such that MSMEs can afford by way of low interest on money borrowed so that repayment is done with minimum stress. Bank credit in this study therefore refers to the money that banks have lent to MSMEs based on an assessment of their needs, capability and ability to pay back which is either secured or mostly unsecured.

Empirical Review

In this study, recent and related studies were reviewed among them is the work of Abdesamed and Wahab (2014) who identified the major challenges of financing Micro, Small and Medium Enterprises (MSMEs) in Nigeria and to what extent these challenges have served as hindrances to the growth of MSMEs in Nigeria. This study employed descriptive analysis and deductive

method to describe the financing problems experience by the MSMEs. The study found that most financial institutions such as Deposit Money Banks (DMBs), Microfinance Banks (MFBs) among others regard most MSMEs as high risk borrowers with no credit worthiness. The informal nature of most MSMEs as they are not duly registered enterprises makes financial institutions reluctant to give them loan. This study further identifies that the conditions for accessing loans from the formal sector still seem to be stringent and most financial institutions are unwilling to give out loans. The key finding of this study is that the financial support in term of loans given to MSMEs by the financial institutions has been declining continuously over the years. Therefore, the federal government should formulate policies that would encourage MSMEs to begin to source funds from the capital market such as the introduction of the third - tier market since there is an increasing growth in the number of MSMEs in Nigeria especially micro enterprises. This study examined challenges faced by MSMEs and have identified how difficult it is for MSMEs to secure credit and how the quantum of credit have been declining but have not measured the impact of the credit received on their growth

Okolo (2015), assessed the implications of bank consolidation on the performance of small and medium scale enterprises in the Nigerian economy. Multiple linear regression technique and correlation matrix test were employed to measure the extent to which small and medium scale enterprises asset size, survival and access to credit were influenced. The result showed that bank deposit and bank credit impacted asset size and survival of small and medium scale enterprises. None of the variables had significant impact on SMEs access to credit. There is a shift of focus by commercial banks away from small and medium scale enterprises (small customers), which is evidenced by the significant negative influence of bank credit to both the survival and asset size of small and medium enterprises. While micro finance banks work hard at providing funds to small and medium scale entrepreneurs, their capacity to meet the needs of these entrepreneurs is constrained. CBN should make policies that will boost microfinance bank's capital and also monitor closely the management of the banks to ensure prudent financing of small and medium scale investments. This study This study measured the impact of bank consolidation (credit) on asset size but has not been able to measure the impact of such credit particularly on profitability.

Zhiri (2017) examined the impact of Microfinance services on Performance of Small and Medium Scale Enterprises in Zaria metropolis. The research design used was cross sectional and descriptive. A sample of 300 SMEs operating with Cred Microfinance bank within Zaria Metropolis was selected. Primary data was used while questionnaire was the data collection instrument adopted. Data was analyzed using regression analysis where SPSS 20.0 was used to process the data. The study revealed that the microfinance services have significant impact on the level of entrepreneurship activities of SMEs in Zaria metropolis. The study recommends that the amount of loan given by MFIs to SMEs should be increased and they should also be encouraged to save to enable them grow and propel their enterprises. This study concentrated on measuring impact of microfinance services on level of entrepreneurship activities.

Mairana (2018), examined the relationship between access to finance from Bank of Industry (BOI) and the growth of MSMEs in Gombe Metropolis. The data for this study were obtained using a survey design. 97 questionnaires were administered to the customers of Bank of Industry in Gombe metropolis, using purposive and convenience sampling method. The sample size was determined by visiting and administering questionnaires to the customers. Linear Regression was used to test the formulated hypothesis. It was concluded that there is no significant relationship between access to finance from Bank of Industry and the Growth of MSMEs in Gombe metropolis. It was recommended that the bank should monitor the loans, to ensure that loans given to MSMEs' owners is used appropriately and banks should increase access to finance to enhance growth.

John-Akamelu and Muogbo (2018), examined the role of commercial banks in financing small and medium size businesses in Nigeria. Structured questionnaire was distributed to the respondents which includes the commercial banks staff and selected SMEs staff in Anambra State Nigeria. Three research hypotheses were tested using the chi-square. However, the 109 questionnaire administered to the bankers and SMEs were analyzed and presented in tables with the use of percentage and chi-square method. The study found that small and medium size businesses encounter problem in the procurement of loans from commercial banks; also commercial banks have contributed immensely to the development of SMEs through their loans and advances. The research therefore recommended that for small and medium enterprises to survive, there have to be collective effort between them and banks. Also the government should engage more in the development of small and medium size enterprises by creating and embarking on various incentives to encourage both small scale enterprises and commercial banks.

The work of Johnny and Ayawei (2018), investigated deposit money bank loans to small and medium enterprises and its effect on economic growth in Nigeria from 1992 to 2016. The study employed two predictor variables (deposit money bank loans to small and medium enterprises and bank lending rate), one predicted variable (gross fixed capital formation representing economic growth) and one controlled variable (inflation rate). Test carried out include unit root test, co-integration test and ordinary least square. The findings revealed that: there is positive significant relationship between deposit money bank loans to small and medium enterprises and gross fixed capital formation in Nigeria, there is negative and significant relationship between bank lending rate and gross fixed capital formation in Nigeria, and there is negative insignificant relationship between inflation rate and gross fixed capital formation in Nigeria. Based on the findings, the study recommends that, Since deposit money banks are scared of granting loan facilities due to the nature of small and medium enterprises, to be more secure and to attain the desired economic growth, government should put policies that will enable deposit money banks to be part or stakeholders in every small or medium sized enterprise that seeks loan facility, so that granting of credit facilities could be made easier and more secured. Also government should make policies that favor small and medium sized enterprises by fixing a lower lending rate to enable the subsector to strive maximally. This study is focused on gross capital formation as a means of measuring growth but growth can also be measured using profitability.

McGuinness, Hogan and Powell (2018), examined how trade credit helped financially constrained SMEs to survive the recent financial crisis. Using data for 202,696 SMEs across 13 European countries over the period 2003–2012, they observed that trade credit had a large positive impact on firm survival, such that a one standard deviation increases in trade credit results in a 21% decrease in the likelihood of distress. They also reported evidence of a significant redistribution effect, with cash rich or unconstrained SMEs extending significantly more net trade credit than their less financially resourced counterparts. In conclusion, none of the studies reviewed specifically examined the impact of bank credits on MSMEs growth in Gombe State.

Theoretical Framework

The study adopted the Financial intermediation theory which was developed by Gurley and Shaw (1960). The financial intermediation theory described the process where surplus units (savers) give funds, i.e. through deposits, to intermediaries who include financial institutions such as banks, credit unions, mutual funds and insurance companies) who in return channel out the funds to deficit units (spenders or borrowers) (Saunders and Cornett, 2011). Financial intermediation therefore refers to the transfer of funds from entities with surplus to entities with deficit through financial intermediaries (Andries and Thomas, 2009). Financial intermediaries can therefore be described as the financial institutions specialized in buying and selling of financial capital. Gorton and Winton (2002) describe it more; financial intermediaries borrow from surplus entities and lend deficit entities. The borrowing and lending groups are large and this enhances diversification on each side of the balance sheet, and that the claims issued to the borrowers and to the lenders have different state contingent payoffs.

According to Andries and Thomas (2009), the financial intermediation theory can be traced to the works of Gurley and Shaw and is based on the theory of information asymmetry and the agency theory. Allen and Santomero (1998) intimate that these theories are built on models of resource allocation based on perfect markets and that it is the transaction costs and a symmetric information that are important in understanding financial intermediation. Andries and Thomas, (2009) states that the theory highlights financial intermediaries' functions such as reduction of liquidity, reduction of transaction costs, information provision, and debt renegotiation. Financial intermediaries bring together the depositors and the borrowers matching their transaction needs and providing other services and as a result reduce the transaction costs and eliminate information costs.

Financial intermediaries also act as delegated monitors (on behalf of the depositors) and therefore help lower monitoring costs hence eliminating would be agency costs, lower liquidity costs, and lower price risks. Depositors entrust their funds with these intermediaries who in turn invest them through loans and other investment projects, with the depositors able to liquidate (through withdrawals) their savings at any given time (Andries and Thomas, 2009). SMEs engagement with the financial institutions can therefore be summarized from the roles played by the financial institutions as financial intermediaries. SMEs can both be depositors and or borrowers and are bound to receive, from the financial institutions, such services including transactions services, provision of liquidity, financial consultancy, analysis

and evaluation of assets, issuance of financial assets, loan granting, monitoring services, risk management, insurance services, and other services (Andries and Thomas, 2009, Diamond and Dybvig, 1983, Allen and Santomero, 1998).

Methodology

The population of this study is the Five Hundred and Thirty-Nine Thousand, One Hundred and Nine (539,109) MSMEs in Gombe State as reported by SMEDAN and NBS Collaborative Survey Selected findings (SMEDAN and NBS, 2017). The stratified sampling technique was used across Gombe State for the survey using questionnaires administered to owner managers of MSMEs and to ensure a more realistic result using primary data obtained. Yamane formula for calculating sample size of a finite population was used. i.e.

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = Sample Size, N = Population, 1 = Constant and e = exponential (usually 5% or 0.05).

$$\therefore n = \frac{539109}{1 + 539109(0.05)^2} = 399.704 = 400$$

Using Taro Yamane's formula, the sample size is approximately 400 respondents are the MSMEs owner managers in Gombe State who are the entrepreneurs will be involved in the survey.

Instrument is said to be valid when it measures what it is intended to be measured (Creswell, 2012). To ensure the face and content validity of the items on the instrument measuring the different variables in the study, the questionnaire was submitted to two experts in educational research and statistics and one expert in test and measurement, to ascertain whether the items measured what they purported to measure. These experts in conjunction with my supervisor certified the instrument as being valid to measure what it set out to measure at least in content and face validity.

During this process, their comments and corrections led to changes being effected on the items in the questionnaire in terms of appropriateness and precision of words, sentences and expressions. Flaws and errors in terms of phraseology, tautology, grammar and organization of the instrument were identified and the necessary corrections were affected.

Method of Data Analysis and Model Specification

To test the hypothesis, a linear multivariate regression model as adapted from John-Akamelu and Muogbo (2018) which express MSM growth as a function of profitability, return on assets and return on capital employed was used and modified as thus: The regression model on the impact of Bank Credit and the Profitability of MSMEs in Gombe State

$$PRF = f(VBC, LTBC) \tag{1}$$

Where:

PRF = Profit of the MSMEs (Profitability) in Gombe State.

VBC = Volume of Bank Credits to MSMEs in Gombe State.

LTBC = The low Interest Bank Credits to MSMEs in Gombe State.

μ = Error Term or Other variables

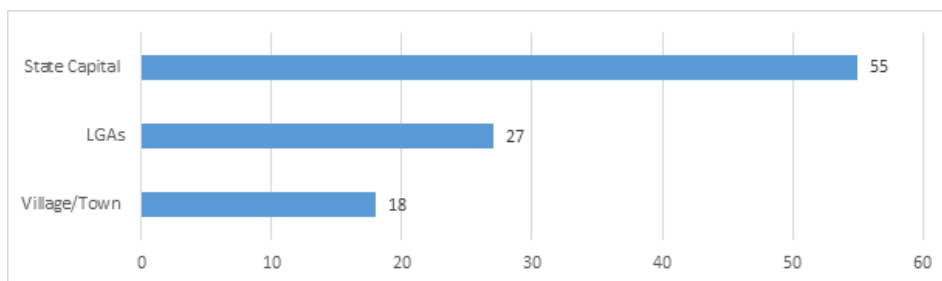
However, the model is specified in econometrics format as:

$$PRF = \beta_0 + \beta_1 VBC + \beta_2 LTBC + \mu \quad (2)$$

Data Presentation and Analysis

Data Presentation and Analysis

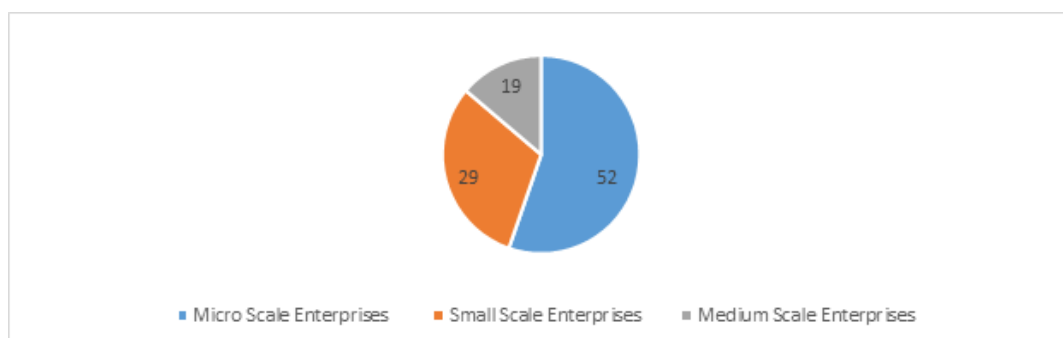
Figure 1: The Locations of MSMEs in Gombe State



Source: Administered questionnaire 2019

Figure 1 shows the locations of MSMEs in Gombe State. The result shows that 55% of the total MSMEs are located in the State Capital and 27% of the total MSMEs are located in the Local Government Areas. While 18% of the total MSMEs are located in the Towns and Villages of the State. This implies that majority of the MSMEs are located in the State Capital and this is due to the fact that the State Capital has more social amenities and infrastructural development.

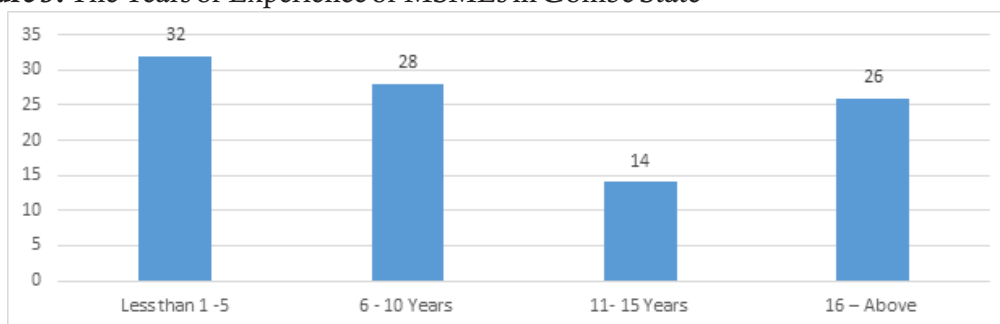
Figure 2: The Business Types of MSMEs in Gombe State



Source: Administered questionnaire 2019

Figure 2 shows the business types of MSMEs in Gombe State. The result shows that 52% of the total MSMEs in Gombe State, are Micro Scale Enterprises, 29% are Small Scale Enterprises and 19% Medium Scale Enterprises. This implies that majority of the MSMEs are Micro Scale Enterprises.

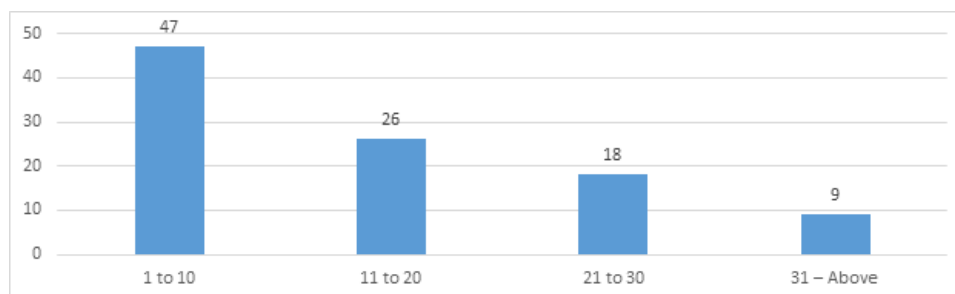
Figure 3: The Years of Experience of MSMEs in Gombe State



Source: Administered questionnaire 2019

Figure 3 shows the years of experience of MSMEs in Gombe State. The result shows that 32% of the total MSMEs are between less than 1-5 years in business, 28% of the total MSMEs are between 6-10 years in business, 14% of the total MSMEs are between 11-15 years in business while 26% of the total MSMEs are between 16-above years in business. This implies that a quite number of MSMEs have been in business for many years.

Figure 4: The Number of Employees of MSMEs in Gombe State



Source: Administered questionnaire 2019

Figure 4 shows the number of employees of MSMEs in Gombe State. From the result 47% of the total MSMEs have 1 to 10 employees, 26% of the total MSMEs have 11 to 20 employees, 18% of the total MSMEs have 21 to 30 employees and 9% of the total MSMEs have 31 to above employees. This implies that majority of the MSMEs in Gombe State have 1 to 10 employees.

Figure 5: The Sources of Fund for Startup Capital of MSMEs in Gombe State



Source: Administered questionnaire 2019

Figure 5 shows the sources of fund for startup capital of MSMEs in Gombe State. The Figure 5 revealed that 8% and 45% of the MSMEs in Gombe State got their startup capital funds from friends and family members and bank loans (Commercial and Microfinance Banks) respectively, 8% and 7% of the total MSMEs in Gombe State got their startup capital funds from government assistance (Agencies and Institutions) and Corporative Societies while 28% and 3% of the total MSMEs in Gombe State got their startup capital funds from Personal Savings and other sources of funds. This implies that bank loans (Commercial and Microfinance Banks) and Personal Savings are the highest sources of MSMEs startup capital funds in Gombe State in Nigeria.

Table 1: Volume of Bank Credit to MSMEs in Gombe State

Average Loan	Reponses	Percentage
Less than – 999,999	024	06
1,000,000-4,999,999	112	28
5,000,000-9,999,999	168	42
10,000,000 and above	096	24
Total	400	100

Source: Administered Questionnaire, 2019

Table 1 shows the average bank credit to MSMEs in Gombe State in Nigeria. Thus, 6 percent of the MSMEs took an average bank credit of less than 999,999 Naira, 28 percent of the MSMEs took an average bank credit of 1,000,000 to 4,999,999 Naira, 42 percent of the MSMEs took an average bank credit of 5,000,000 to 9,999,999 Naira while 24 percent of the MSMEs took an average bank credit of 10,000,000 Naira and above.

Table 2: Average Profit after Bank Credit by MSMEs in Gombe State

Average Loan	Reponses	Percentage
Less than 999,999	144	36
1,000,000-1,999,999	096	24
2,000,000 and above	128	32
Total	400	100

Source: Administered Questionnaire, 2019

Table 2 shows the average profit after bank credit to MSMEs in Gombe State in Nigeria. Thus, 36 percent of the MSMEs made an average profit after bank credit of less than 999,999 Naira, 24 percent of the MSMEs made an average profit after bank credit of 1,000,000 to 1,999,999 Naira, while 32 percent of the MSMEs made an average profit after bank credit of 2,000,000 Naira and above.

Table 3: Responses on Bank Credit Activities on Profit of MSMEs in Gombe State

S/N	Indicators	Yes	No	No Idea
1	Volume of Bank Credits to MSMEs	226	151	023
2	The low Interest Bank Credits to MSMEs	167	216	017

Source: Administered Questionnaire, 2019

Table 3 shows bank credit activities on profit of MSMEs in Gombe State. 226 out of the total MSMEs agreed that volume of bank credits to MSMEs have positive effect on profit, 151 out of the total MSMEs disagreed that volume of bank credits to MSMEs has effect on profit and 23 out of the total MSMEs have no Idea on effect of volume of bank credits to MSMEs on profit. Also, 167 out of the total MSMEs agreed that low interest bank credits by MSMEs have effect on profit, 216 out of the total MSMEs disagreed that low interest bank credits to MSMEs has effect on profit and 17 out of the total MSMEs have no Idea on effect of low interest bank credits to MSMEs on profit.

Regression Analysis and Discussion

Table 4: Linear Regression Results

Dependent Variable: Profit

Variable	Coefficient	Std. Error	t-Statistic	Prob.
(Constant)		169755.218	3.092	0.002
VBC	0.139	99503.590	2.218	0.027
LTBC	0.125	95395.947	2.022	0.044
R-squared	0.75			
Adjusted R-squared	0.71			
F-statistic	10.959			

Source: Output from SPSS 24.0 (2020)

The linear regression results of the impact of Bank Credit and the Profitability of MSMEs in Gombe State revealed that all the variables in the model have a positive impact on profitability of MSMEs in Gombe State. The result further shows that a unit increase in the volume of bank credits to MSMEs (VBC) and the low interest bank credits to MSMEs (LTBC) will lead to 0.14 and 0.13 – unit increase in the profitability of MSMEs in Gombe State respectively, which implies that there is a positive and significant impact of bank credit activities on profitability of MSMEs.

However, the probability suggested that the Volume of bank credits to MSMEs (VBC) and the low interest bank credits to MSMEs (LTBC) have positive and significant impact on the profitability of MSMEs in Gombe State at 5% level of significance. The R^2 of 0.75 percent indicates that 75 percent of the variations in the dependent variable are explained by variations

in the independent variables this suggested a strong explanatory power of the model in explaining the variation in the profitability of MSMEs in Gombe State. Also, the F-Statistics of 10.959 suggested that the model has a good fit in explaining the profitability of MSMEs in Gombe State. The results also is in tandem with the theory of financial intermediation which establishes a functional relationship between bank credit and the output of firms.

Conclusion and Recommendations

In conclusion, it is clear that the bank credit activities such as volume of bank credits to MSMEs and the low interest bank credits to MSMEs have positive and significant impact on the profitability of MSMEs in Gombe State at probability values less than 5% level of significance. The adjusted R^2 of 0.71 percent suggested a strong explanatory power of the model in explaining the variation in the profitability of MSMEs in Gombe State. This study agrees with the study of Johnny and Ayawei (2018) who revealed that there is a significant relationship between bank lending rate and gross fixed capital formation of firms in Nigeria.

Therefore, the study recommends among others the following:

Since, the result revealed that volume of bank credits to MSMEs and the low interest bank credits to MSMEs have positive and significant impact on the profitability of MSMEs in Gombe State, government should improve the mechanism for improving on the volume of bank credits to MSMEs and the low interest bank credits to MSMEs in Gombe State.

The MSMEs in Gombe State should carefully choose the best credit facilities that best suit their businesses and that can increase their profitability since the easy access of credit support to MSMEs has insignificant impact on profitability of MSMEs in Gombe State.

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