COMMERCIAL BANKS' CREDIT TO SMALL/ MEDIUM ENTERPRISES (SMES) AND SUSTAINABLE DEVELOPMENT IN NIGERIA.

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Abstract
This is an empirical study that investigates the impact of commercial banks' credit to Small and Medium Enterprises (SMEs) on sustainable development in Nigeria. The Gross Domestic Product (G.D.P) is used as proxy for sustainable development. The study makes use of secondary data generated from the Central Bank of Nigeria (CBN) Statistical Bulletin Volume 21, Dec. 2010. In the study the percentages of commercial banks' credits to SMEs were correlated with GDP rate using the Pearson's Product Moment Correlation Coefficient(r). It was found that there was a positive linear correlation between the independent variable, to wit, the percentage of commercial banks' credits and the dependent variable, the G.D.P. rate over a period of two decades from 1991 to 2010. The coefficient of correlation (r) was a strong positive 0.71 which means that as the percentage of credits to SMEs increased; the G.D.P rate also increased and as the percentage of credits decreased the G.D.P also decreased. The policy implication is that development in Nigeria will be sustained if there is an action plan to increase the quantum of credits to the SMEs. The action will give rise to employment of idle resources to increase the quantum of goods and services and increase the standard of living of the people.

Keywords: *Commercial Bank's Credit, Small and Medium Enterprises (SMEs), Sustainable Development Gross Domestic Product (G.D.P.)*

Introduction
The importance of credit delivery to the downstream sector of small and medium enterprises for the sustainable development of any economies can never be over emphasized. The Nigerian Institute of Management (NIM) in its small business management course SMPE 104 (2010) states that SMEs are the backbone of a successful economy like the USA where over 23million SMEs employ more than 50% of the private sector work force and generate more than half of the nation's Gross Domestic Product, G.D.P. It also said that one million new SMEs per year are set up in the European Union and SMEs account for 99.8% of all companies and 65% of business turn over for the economy. Even in Taiwan, the NIM Small Business Management course module has it that 70% of the jobs are generated by SMEs that employ less than 20 workers each and all together 40,000 small firms' account for 75% of Taiwanese exports. It is therefore plausible to state that SMEs are the bedrock of a nation's economy: They provide more employment per unit of capital invested because they are more labour intensive. Each enterprise for example, will need its own management team and collectively one hundred SMEs will create one hundred management teams. (Mbaegbu, 2009, Okoye, 2012) SMEs are the links between the informal micro enterprises and the formal capitalist big enterprises.

They process semi-finished or producer goods from the raw materials supplied by the micro enterprises and forward them as inputs for the manufacture of finished goods by the larger enterprises. This way they supply the missing links in the production process. Many SMEs located in the rural areas help to prevent migration to the urban areas where social infrastructures are in short supply. (Gbandi & Amissah 2012) By building bridges between the micro and the larger enterprises the SMEs quicken accelerated transfer of improved technologies and innovation and increase economic growth. In spite of the immense benefits derivable from SMEs available statistics have revealed that the SMEs in Nigeria are not given the desired support particularly with respect to funding. (Asikhia, 2009 pp 599-611). The lending institutions particularly the commercial banks have been economical in granting credit facilities to the SMEs. The conditionalities prescribed by these banks present unsurmountable hurdles for the SMEs who do not have the required collateral securities but bright ideas, business plans and feasibility reports on their projects. (Mbaegbu, 2009).

The research problem the paper seeks to address, therefore, relates to the relationship between commercial banks' credit to SMEs and sustainable development in Nigeria. The objective is to appraise the sources of funds available to SMEs and how the SMEs can leverage on the facilities to grow and increase the rate of sustainable development. The G.D.P in used as proxy for sustainable development and the apri ori reasoning is that there is a correlation between commercial banks' credit to SMEs and the G.D.P rate. Data for analysis are sourced from the Central Bank of Nigeria Statistical Bulletin. Our null hypothesis is that there is no correlation between the two variables.

Review of Related Literature

The literature reviewed in this work to resposition the study covers the following subsets: conceptual issues, theoretical frame work and the sources of finance available to the SMEs

Conceptional Issues

There is need to clarify the following conceptual issues in this paper namely the concept of commercial banks' credit, the concept of small and medium scale enterprises and the concept of sustainable development.

The Concept of Commercial Banks' Credit

Spencer (1997) notes that a credit is a promise to pay back in the future money borrowed in the present time or a promise to pay at a future determinable time the value of goods and services received. The promise constitutes an agreement and a binding contract which makes the receiver of value a debtor and the giver a creditor. A commercial bank credit, ipso facto means loans and advances (facilities) given by a commercial bank in the process of performing its financial intermediary roles. (CBN, 2012; Mc Naughton, 1994 p.4) The banking business thrives on credit: banks borrow short from their savings customers (surplus units) funds recognized as deposits for which they promise to pay on demand in the case of current accounts or pay back at short notice in the case of savings accounts even though in practice no notice in given by the savers

to withdraw their money. It in from the deposit liabilities that the banks meditate credit or lend money to their debtor customers as term loans, advances on "uncleared effects", over draft facilities and so on. It is because the commercial banks theoretically borrow short terms from depositors that they also lend short term loans to their customers. Generally, therefore, commercial bank credits are short term. From the interests, fees and other charges they collect in their financial intermediation role they pay their workers, incur expenses and make profit. To ensure that depositor's money lent to deserving customers as credits is paid back they demand collateral securities by way of legal or equitable mortgages on landed properties pledged by the borrowers. Sometimes they demand a third party guarantee to ensure they have assets they can string to the mortgages. (Mbaegbu, 2005)

The banking system's credit is thus the conduit pipe through which finances are channeled to the productive or real sectors of the economy, namely agriculture, manufacturing/construction and commerce in other to increase the G.D.P, generate employment and reduce poverty. If the SMEs are well positioned to leverage from commercial banks' credit they will boost the economy at a faster rate because they are invariably single business units that are strategic in themselves. As individual strategic business units they relatively need the least amount of finance compared with the larger organizations but collectively they generate more employment for the sustainable development of a country. (Mbaegbu, 2009)

The Concept of Small/Medium Enterprises (SMES)

The concept of the SME varies from country to country and even in the same country it varies from time to time depending on changes in the environment particularly the time value of money. The definition given by the Small Business Act of the United States in 1853 still stands the test of time and recent definitions revolve around the concept of SMEs as conceived by the Act. The Act defined a small business as a business independently owned and operated and which business was also not dominant in its field of operation. The Small and Medium Industries Equity Investment Scheme (SMIEIS) 1999 in Nigeria defined the SME as an enterprise with a maximum asset base of N200 million excluding land and working capital and with not less than 10 or more than 300 employees. The equity investment scheme was a voluntary initiative of the Nigerian Bankers' Committee which required licensed banks in Nigeria to set aside 10% of their profit before tax (PBT) for equity investment in, and promotion of SMEs. The Companies and Allied Matters Act (CAMA) 1990 section 35 (1) had described a small business as one with business turnover of not more than N2million and assets value of not more than N1 Million. CAMA also adds that for such a business none of its members must be a government of the federation or a government corporation or agency and not an Alien .Also, according to CAMA the directors must hold between them not less than majority share of 51%.Other organizations such as the Bank of Industry (BOI), have their own definitions.

In Australia, as noted by Okoye (2012) the Australia Bureau of Statistics classified as SME any outfit employing fewer than 20 persons while the Australia tax office uses an average annual turn

over of less than $1million and net assets of less than $3million. So even in the same country the criteria used in classifying SMEs vary. In Canada, SMEs are those businesses with less than 100 employees in the manufacturing sector and less than 50 employees in the services sector. In the UK, SMEs are business outfits with annual turnover of £2million or less and with less than 200 paid employees (Ekpenyong &Nyang 1992 p.4). Other countries –Japan, China etc use various criteria that include Paid Up Capital/Assets, Annual Turn Over and number of employees.

What is clear, therefore, is that there is no universal definition of an SME but we can easily differentiate an SME from a large corporation such as the Nigerian Breweries PLC. According to Galbraith (1975, p.87) a large corporation has the following characteristics: The ability to assemble and use the capital of several or numerous persons and in consequence it can undertake task beyond the financial reach of any single person. Additionally, such a corporation protects those who supply capital by limiting their liability to the amount of their original investment, ensuring them a vote on the significant affairs of the enterprise, defining the powers and responsibilities of directors and officers and giving them access to courts to redress grievances. Any business without all of these qualities is certainly a small or a medium enterprise. Since their bulk of finance comes from owners, friends and family members SMEs can take various forms as Sole Proprietorships, Co-operatives, Partnerships and Private Companies such as those owned by husband and wife. Another conceptual issue to note is that it has not been easy to differentiate between a small enterprise and a medium enterprise. It is like they fall on a continuum from small enterprise on the one end and a medium enterprise on the other.

The Concept of Sustainable Development

Sustainable development as the concept goes is development that can be sustained over a long time period. Development implies better condition of life including economic, social, political and technological life. One of the measures of this overall well being of the citizenry is the Gross Domestic Product (G.D.P) (Iyoha &Igbatayo, 2008) .The G.D.P is usually the money value of all the goods and services produced over a period of time invariably within one financial year. It is computed from two perspectives: the income approach sums up the earnings of the people within the year while the expenditure approach sums up the expenses incurred by everybody during the period. (Samuelson.1997, Iyoha & Itsede, 2002).The two approaches are presumed to be identical. They are two sides of the same coin. (Lawal & Ijaiya, 2007)

A related concept of sustainable development is economic growth measured by G.D.P. There in sustainable development when there is a steady increase in G.D.P through ways that protect the rights and opportunities of future generation so that they are not disadvantaged (Sullivan & Sheffrin, 2003). In order words if Nigeria exploits oil in the Niger Delta through ecological degradation to better the life of present generation without putting back anything it does not imply development. The G.D.P as a measure of development in faulted because of its inability to measure instanta all the indices of socio-economic and technological progress e.g. the level of literacy, longitivity, access to safe water, electricity consumption, inequality etc. More critical

analysts prefer to use the Human Development Index (H.D.I) which captures expost facto those more critical aspects of life including the percentage of the population living above the world banks' poverty line of $1.00 (N1.60) a day. According to Akinyemi (2004) 70% of Nigerians live on or below this poverty line compared with Ghana, 45% and Kenya 23%. The "Giant" of Africa by this measure in less developed than many African countries and has more than 70% of its population living in abject (absolute) poverty (Olu & Adenuga, 2006). However because of the ease of getting data on G.D.P compared with other measures we still use it for the purpose of analysis and academic exercise.

Theoretical Framework

This study is couched on the various theories of sustainable development, growth and economic development which conceptually are used to describe the level of socio-economic, political-legal and technological wellbeing of the citizenry. The theories prescribe the determinants of Gross Domestic Product (GDP) used as proxy for sustainable development. In its simplest form, the Classical Theories propounded by the classical economists of the C18, Adam Smith, David Ricardo etc., believed that labour and capital used in agreeable proportions determined the level of G.D.P and full employment in an economy. They assumed that the economy had an inbuilt self equilibrating mechanism through the price system and the interplay of demand for and supply of labour and capital used as substitutes. The doctrine of laissez- faire prevailed and there was no intervention from the government.

However, it was when the economy could not be restored to the full employment level by the "self balancing mechanism" during the Great Depression of the 1930's that the Monetarist Theory emerged. The monetarists were represented chiefly by Lord John Maynard Keynes who espoused the monetarist approach in his book: General Theory of Employment Interest and Money 1936. Keynes (1936) encouraged governments to intervene in their economic systems by increasing the level of aggregate demand, if possible through deficit financing and injection of credits to the economic system. Governments responded and credits were made available for public works to be undertaken to increase investment in infrastructure (fiscal policy). These way business environments became friendlier and the private sector (SMEs) generated massive employment and output increased. The monetarists, therefore, believed strongly that employment generation, wealth creation and economic development depended on the availability of credit to investors and purchasing power of consumers (monetary policy).

In other words, fiscal and monetary policies applied at the appropriate times could be used to jack up the G.D.P, in the monetarist model. Later Keynesians, Shaw (1973) and Mc Kinnon (1973) were essentially monitarists also. Shaw (1973 pp 3-4) used the concept of financial deepening of the economy as against shallow finance in his analysis of the Ghanaian economy in the 1960s where real growth was stalled because the economy lacked the necessary depth of finance needed to leverage it up. On his part, Mckinnon (1973 pp5-8) advocated for holistic and synergistic liberalization of all sectors of the economy rather than fragmented approaches focusing on different markets: capital market, money market, commodity export and so on. To Mckinnon, this approach had an advantage of reducing the burden on banks as providers of credit.

In recent times we have seen the monetarist approach work. The US was able to recover because of the financial bailout and empowerment of the private sector following the financial meltdown of 2008. Even in the U.K the reform agenda focused on encouraging retail banking so that credit could be extended to SMEs. However, some scholars in the mould of Todaro (1985) believe that for the monetarist or the Keynesian approach to work in the third world countries like Nigeria some entrenched interest like corruption, infrastructural bottlenecks, structural and institutional constraints in the production line have to be removed. These are the apostles of Neo-Classical Models. They are dubbed neo-classical because they still believe in the use of labour and capital as substitutes in injecting growth in the economy. They prescribe labour intensive production technique in the third world countries where labour is abundant and cheaper than capital which is scare. Notable Neo-classical Models include the Harrod-Domar Model and the Robert Solow Model which essentially postulate the causal relationship: Y= f (K,L) where Y is the total out or G.D.P, K is Capital Stock and L is Labour Supply. In other words used in the right proportion G.D.P is a function of Labour and Capital, baring entrenched interests and bottlenecks in the third world production functions. (Perkins, 2001, Tutu, 2011).

Sources of Finance Available to SMEs

In spite of the theories positing the importance of finance and credits in economic growth and sustainable development, the truth of the matter in Nigeria, is that the SMEs that form the bulk of business enterprises in Nigeria are terribly starved of credits. A report by the Nigeria Institute of Social and Economic Research (NISER) (1983 pp 22) has shown that about 73% of small businesses obtained their funds from personal savings while only about 2% obtained their funds through financial institutions. The World Bank (2001) survey on Nigerian firms has also shown that although 85% of the firms had relationship with banks most of them had no access to banking credits. The reason is that the credit organizations consider lending to SMEs a very risky venture. And, who will blame them? Of all the old generation indigenous banks formed prior to and after Nigerian Independence to liberalize credits to Nigerian Businesses which in the main were SMEs only Wema Bank (Agbemagbe Bank) still exits. The others- National Bank of Nigeria, African Continental Bank, Co-operative and Commerce Bank, New Nigerian Bank Pan African Bank, Mercantile Bank and so on have been liquidated through imprudent lending to SMES and corrupt regional and state governments and their agencies. No prudent banker, therefore, will lend out the depositors money without taking adequate security and assurance of the repayment of principal sum and interest; the SMES do not have such collateral securities to present. (Mbaegbu; 2005 pp 21 – 27)

However, there are basically two sources of funding available in Nigeria: Internal and external sources i.e. owners' equity and debt equity. The internal sources include the proprietor's owned personal funds used as equity capital. Given the high cost of living in many places it is not easy to save from personal income to grow a small/medium enterprise. There are also funding from friends and relatives but these are also not easy to come by for the same reason they are a function of the level of saving; also friend and relatives can promise and fail. However, where they are

available, credits from these sources can be cheaper and quicker to arrange and repayment terms maybe more flexible than that of a bank. The best source of funding lies in pooling resources as partners or in incorporating a private company with some willing investors as shareholders. SMEs do not want the option because it dilutes the proprietor's ownership hold on the business. Other private sources include trade credits (bills payable), hire purchases, inheritance, endowments; retained earnings ploughed back, accrued taxes not yet paid and so on. The relief got from these sources depends on the prudence and managerial ability of the proprietor to harness scarce resources (Mbaegbu, 2005).

The external sources of funding relate to funding from banks and other financial institutions. This source is of two types also. The money market and the capital market. The money market is the market for short term credits which are used to augment working capital needs at very high rate of interest, sometimes more than 20% p.a. The credits available include short term loans/ overdrafts and other short term credits like Bankers Acceptances, (BAs) and Commercial Papers (CPs) generally referred to as bonds payable on due dates or as stipulated. (VanHorne, 2006). Normally these credit facilities do not last more than one financial year (see Mbaegbu, 2003). The operators in the money market are the commercial banks and the microfinance banks. They also include the discount houses and merchant banks that discount bills of exchange and arrange for equipment leasing facilities respectively. Credits from the money market cannot be invested in the acquisition of fixed assets unless they are in the form of equipment leasing. Money market operations are regulated by CBN; the rules change from time to time based on fiscal and monetary policies. The financial institutions borrow short and lend short. Their facilities cannot be sunk into fixed assets. They are used to acquire inventories and to fund current liabilities like accrued expenses, bills payable e.t.c. Their benefits to SMEs are therefore limited and short term. The SMEs need long term financing or capitalized debt in order to expand capacity, increase employment and increase G.D.P. They hardly get this facility. (Olartan, 2006)

The capital market is the market for long term funding regulated by the Securities and Exchange Commission (SEC). Investors are those with huge savings like the pension fund managers and the insurance companies. Big public limited companies go to the capital market to float shares and acquire capital to expand capacity. SMEs hardily qualify to access the capital market funds unless they are listed on the Stock Exchange and backed up by under writers such as investment bankers. But investment bankers do not take such risk (Initial Public offers IPO) from SMEs until they grow. Debentures are privately arranged long term credit for companies with formidable assets which are stringed in the loan agreements. SMEs in need of fixed assets do not qualify. The best financing option lies in venture capital or in pooling resources together.

Methodology

This work is basically a correlational study making use of secondly documentary data generated from the Central Bank of Nigeria Statistical Bulletin volume 21, December, 2010. The analysis made use of the computer software, the Statistical Programme for Social Science (SPSS). This was combined with trend anal

Data Analysis

To underscore our review of literature we present in table 1 data showing the percentage of Commercial Banks' Credits to SMEs for a 20 year period from 1991 to 2010 and the related G.D.P at 1990 Constant Basic Prices. For correlation and regression analysis using the Statistical Programme for Social Science. (SPSS).

Table 1 : G.D.P Rate and Percentage of Commercial Banks' Credit to SMEs

S/N	Year	G.D.P @ 1990 Constant Basic Prices	G.D.P Rate %	Commercial Banks Credit (%)
1	1991	265.379.10	-0.81	Not Available
2	1992	271.365.50	2.25	48.80
3	1993	274.833.30	1.29	32.20
4	1994	275.450.60	0.22	22.20
5	1995	281.407.40	2.16	22.90
6	1996	293.745.50	4.38	25.00
7	1997	302.022.50	2.18	17.00
8	1998	310.890.10	2.93	15.50
9	1999	312.185.50	0.41	13.30
10	2000	329.178.70	5.44	8.70
11	2001	356.994.30	8.43	6.60
12	2002	433.203.50	21.34	8.60
13	2003	477.533.00	10.34	7.50
14	2004	527.576.00	10.47	3.60
15	2005	561.931.40	6.51	2.70
16	2006	595.821.60	6.03	1.02
17	2007	634.251.10	6.45	0.85
18	2008	672.202.60	5.98	0.17
19	2009	718.977.33	6.96	0.16
20	2010	775.525.70	7.87	0.17

Source: CBN Statistical Bulletin Vol 21. Dec. 2010

Trend Analysis

A critical look at table 1 shows that the percentage of commercial banks credits to SMEs has been going down over the years. In 1992 it was 48.80% and it decreased more or less steadily until it came to 0.17% in 2010. If the SMEs cannot access commercial banks' credits, how much more can they access the capital market? It is also interesting to note that there is a positive correlation between the percentage of commercial banks' credits to SMES and the GDP rate. In 1992 when the percentage of commercial banks' credit to SMEs was 48.80% the G.D.P rate was 2.25%. when the percentage of credit decreased to 22.20% the G.D.P rate also came down to 0.22%. When the percentage of credits picked up to 22.90% G.D.P rate rose to 2.16%. This trend continued more or less till the end of the period when the percentage of credits rose from 0.16% to 0.17 and the G.D.P also rose from 6.96% to 7.87%, pari pasu.

Regression and Correlation Analysis

For inferential purposes it in pertinent to find out the strength of the positive correction between the percentage of commercial banks' credit (Y) as independent variable and the G.D.P rate (X) as the dependent variable. This is done in tables 2 and 3. using the Statistical Programme for Social Sciences (SPSS)

Model	R	R Squared	Adjusted R squared	Std. Error of the Estimate	Changes Statistics			
					R Squared Change	F Change	df1	df2 Sig. F Change
1	.483a	.234	.189	.38822	.234	5.186 1	17	.036

a. predictors: (Constant), BankCr

The model summary on table 2 above provides information about the regression analysis. The 'R' column shows the correlation between GDP rate and Commercial Banks' Credit (i.e, Predicted by the regression equation.) The value is .483. This implies that a positive relationship exists between GDP rate and percentage of Commercial Banks' Credit. The 'R' squared is the square of R and is also known as the 'coefficient of determination'. It states the proportion or percentage of the sample variation in the GDPr that can be attributed to commercial bank credit. In this study 23.4% variation could be accounted for by commercial banks' credit.

Table 3: Summary of ANOVAa

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	99.870	1	99.870	5.186	0.36b
1 Residual	327.360	17	19.256		
Total	427.230	18			

a.Dependent Variable: GDPr
b.Predictors: (Constant), BankCr

Table 3 shows that Commercial Banks' Credits to SMEs contribute to GDP. R=0.483, $R^2 = 0.234$, $F_{(1, 18)} = 5.186$; p< 0.5 We, therefore, reject the null hypothesis that Commercial Banks Credit to SMEs does not contribute to the GDP and accept that Commercial Banks' Credit to SMEs' contribute to the GDP growth and Government should put up machineries and polices that will ensure that SMEs' are given adequate credit facilities.

Findings

The correlation of coefficient of 0.483 gives us a good positive linear coefficient of correlation. The inference is that the GDP rate is very much dependent on the percentage of commercial banks' credits to SMEs as credits to SMEs increase the GDP also increases.

Discussion of Findings

The findings of the empirical study making use of secondary data show that the SMEs have very significant roles to play in the economic development of Nigeria. Increased mediation of credits to the SMEs will impact positively on sustainable development in Nigeria. This is consistent with the monetarist theory (Kenynes,1936, Gold Smith 1969, Shaw 1973 & Mc Kinnon 1973). However, to ensure that increased exposure of the commercial banks to the SMEs will yield effective results entrenched interests and corruption should be eradicated as prescribed by the neo-classical theorists (Todaro, 1985). Insider abuses by the bank executives should be checked through constant inspection by CBN. Credit officers should also monitor the performance of the SMEs to check mate diversion of funds or credit made available to them.

Conclusion

This study investigated the relationship between Commercial Banks' credit to the Small and Medium Enterprises (SMEs) and the Gross Domestic Product (GDP) used as proxy for sustainable development. The study made use of secondary data generated from the Central Bank of Nigeria (CBN) Statistical Bulletin, volume 21, December, 2010 for the purpose of correlational analysis. The findings was that there is a strong positive linear correlatin between the percentage of Commercial Banks' Credit to the SMEs and the GDP rate. The conclusion, therefore, is that SMEs have significant roles to play in the sustainable development of Nigeria. To support the SMEs in these roles credit facilities to the SMEs should be stepped up.

Policy Implication & Recommendation

Based on the above conclusion we recommend that Policy makers should be more creative in coming out with policy initiatives that will increase funding to the SMEs. Venture capital as initiated by the Bankers Committee through the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) of 2001 should be encouraged to provide credit and management advice to the SMEs. Also interest free loans of Islamic banking should be encouraged. Interest rates should be regulated. In spite of all that is said about de-regulation no economy in the world operates in a state of laissez-faire. Nigerian banks including the microfinance banks charge usurious interest rates. Interest rates to the real economic sector in Japan are not more than 6%. In Nigeria it hovers around 20%. If a small enterprise has to pay back N20.00 for every N100.00 received and take care of other over heads including personnel cost of about 50% of total outlay how can it survive and contribute to sustainable development?

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