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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

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Abstract

This research examines the necessity and strategies of re-positioning commercial banks in order to enhance the productive capacities of Small and Medium-Scale Enterprises (SMEs). The study was intended to determine whether or not re-positioning commercial banks has impacts on SMEs and determine the effects of enhancing SMEs activities with regards to economic growth. The Ordinary Least Square (OLS) was used. The Augmented Dicky-Faller (ADF) Unit Root Test was used. The Error Correction Model (ECM) was used in recognizing inherent errors. Augmented Engle Granger (AEG) Co-integration Test was used 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 and there was significant dispersion resulting from lending conditions and macroeconomic variables. It was concluded that the previous Global Financial Crisis really brought with it economic hazards leading to Banking Sector Crises. It was 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.

Keywords: Small and Medium-Scale Enterprises (SMEs), Commercial Banks, Economic Growth, Lending Conditions, Macroeconomic variables.

Introduction

National development is a necessity in many Countries especially in the developing nations. One of the indicators of development is the consumption pattern of the citizenry. By extension, the nature of products and/or services consumed depicts the consumption pattern. Most developing nations are characterized by series of Strata in the population make-up. Broadly, the population is usually made up of High Income Earners, Medium Income Earners and Low Income Earners. The Consumption needs of the Medium and Low Income Earners are usually met by the Small and Medium – Scale Enterprises (SMEs). In another perspective, the satisfaction of the lower strata of the population is normally accomplished through the Consumption of the home-made goods/services. The finances needed by the SMEs cannot be wholly generated by private savings instead some helping hands have to be rendered by the commercial banks.

Commercial banks are fundamentally for economic and financial growths in every economy: developing and developed. In every economy, resource surpluses or deficits exist. These resources, especially financial resources, must be bridged between economic units. The bridging processes must be covered by adequate profitability in order to create cost effectiveness. According to Ongore and Kusa (2013), commercial banks play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational costs they incur in the due course. In order words, for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. Good financial performance rewards the shareholders for their investments.

Principally, banks are concerned with Liquidity. Prominent financial and economic activities cannot be performed without liquidity-cash. The desired liquidity cannot be obtained easily from the commercial banks. By extensions Commercial banks Complain of lack f liquidity. The pain of obtaining financial facilities by Small and Medium- Scale Enterprises (SMEs) through bank lending is discouraging to entrepreneurship generally.

The Central Bank of Nigeria (2010) portrayed liquidity problem in the banking sub-sector thus: The Current liquidity issue and the inadequate lending to real sector, that could result to economic growth has generated considerable discussions while the central Bank of Nigeria (CBN) has risen up to these challenges by ensuring that liquidity in the banking system is adequate and that sectoral credit allocation to the sensitive sectors of the economy (Agriculture, Power, Aviation and SMEs) that will impact on the real sector for growth are handled with all the attention required.

The frequent changes in the Financial Management and policies of the public sector resources by the Central Bank of Nigeria (CBN) had greatly affected the sensitive sectors of the Nigerian economy. Agreed, the CBN is the Financial Organ of the Nigerian economy. It is expected to be constructive but never destructive.Within a decade ago, the CBN had come with Prudential Policy to be implemented by the Commercial banks. In another period, CAMEL assessment was performed by the CBN leading to distress, mergers, acquisitions and/or consolidations among commercial banks. Lately, it has come with cashless policy currently being implemented in some regions of the economy and many more are being expected. Which policy is to be followed and for how long?

In the developing economies, SMEs are the pillars to most developmental efforts of the governments. Unfortunately, the necessary finances cannot be accessed (Global Development Advisors, 2011).

Delberg (2011) confirmed that SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of the SMEs in developing countries rating access to finance as a major constraint. There are no meaningful or productive activities that can be embarked upon the SMEs without adequate financing. Banks' reluctant to lending should be viewed from the extent or degree of porosity of some SMEs. Banks are into business and can never allow the whole or significant proportion of the capital base to be tied-up only in the investment of SMEs.

The informal nature of SMEs is not helping matters. Adequate record - keeping in not ensured by the SMEs and if ensured, they are not disclosed appropriately. Therefore, financial institutions consider SMEs as risk-prone. Kaufmann (2005) put it that small business in Africa can rarely meet the conditions set by the financial institutions, which see SMEs as a risk because of poor guarantee and lack of information about their ability to repay loans. The financial systems in most of African countries are under-developed, however and so provides few financial instruments. Although banks place emphases on lending conditions, the government through the Central Bank should adequately regulate such conditions to boost economic growth and development. This is essential considering the crucial roles of SMEs especially in terms of employments generation which is equally a matter of utmost concern to the government.

According to Safiriyu and Njogo (2012), for an economy to live up to expectation in the committee of nations' development, such economy must achieve accelerated economic growth which is since qua non for improving quality of life. Small and Medium – Scale Enterprises are strategic to attainment of economic prosperity objective of any government.

The economy depends on its working population for economic growth and development in which the youths constitute greatest percentage and this further establishes the reason why the youth should be gainfully employed.

Despite the elaborate studies on SMEs, the availability, and recognition by government through Government polices is at low ebb. The lack deserving recognition of SMEs by the government had caused apathy in terms of government formulation and implementation of financial polices of capable of deep-rooting SMEs for national growth.

Lack of government recognition notwithstanding, the SMEs still have potentials for economic growth of the developing nations. Aigboduwa and Oisamoje (2013) states that Small and Medium – Scale Enterprises (SMEs) are generally acknowledged as having huge potentials for employment generation and wealth creation in any economy. Hence, interest in their development continues to be in the forefront of policy debates. In Nigeria, however, the sector remains relatively small in terms of its contribution to GDP or to gainful employment.

The small nature of SMEs is a result of lack of recognition by the government. Government, through its policies, can make impacts in every sector of the economy: public or private but where the policy instruction has not put the recognition of SMEs in motion, other economic variables cannot do so. The government, through the Apex Bank, can empower the SMEs. Sometimes, the government can empower the commercial/Bank to enhance SMEs performances. In most developing nations, most policies are always in debates. Some polices can transcend into formulation but few of the policies are implanted.

Literatures Review

Significance of SMES

The Small and medium –scale Enterprise (SMEs) have been at the fore-front of economic development especially the developing nations. The provision of employments in the public and private sectors are insufficient. Hence, there is need for SMEs to augment the low rate of employment existing currently. Small and Medium-Scale Enterprises possess qualities peculiar to themselves and rarely found in other forms of business ownerships.

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a Limited Liability Company, the time ownership structure is that of a one-man, family or partnership business. Other common features of Nigeria's SMEs include the following among others:- Labour-intensive production processes; Concentration of Management on the key man; Limited access to Long Term Funds; High cost of funds as a result of high interest rates and bank charges; Over-dependence on imported raw materials and spare parts; Poor intra and inter-sectorial linkages – hence, they ha rdly enjoy economies of scale benefits (Ngwu, 2005).

Commercial banks' operations are usually done with high level of prudence. The prudence is highly observed in relation to cash management. Proper cash management is a necessity in the banking sector as most products and services traded revolve around cash.

Results and Discussions

Table 1: Regression Result
Dependent Variable: Lending Variables
Independent Variable: Financial Hurdles (FHs)
Method: Least Square
Date: 15/02/2014 Time: 14:05
Period of Coverage: 2007 - 2013

Variables	Coefficient	Std. Error	t-statistic	Prob.
KR	53732.32	53208.17	-0.685763	0.4325
IR	418523.03	671846.22	-0.643625	0.4838
Cs	437483.21	663472.18	-0772532	0.3935
Fs	464752.04	593642.05	-0.695347	0.3875
FHs	5.734632	0.087324	45.04773	0.000000

R – Squared	0.592534	Mean dependent Var.	743246.4
Adjusted R-Squared	0.573875	S.D dependent Var.	183563
S.E of Regression	3.948264.4	Alaike Info. Criterion	28.374241
Sum Squared Resid.	3.83E+12	Schwarz Criterion	28.43742
Log Likelihood -	463.6422	F-Statistic	2472.347
Durbin-Watson Stat.	1.427948	Prob. (F-Statistic)	0.000000

Source: e-view program

From the Regression Result shown, there is significant relationship between the lending variables and the Financial Hurdles. The Coefficient of Lending Variables are positive which indicate that for Financial Hurdles to be crossed, there must be corresponding positive movements by the SMEs in terms of their capacities to meet the lending conditions.

Hence, there must be 55%, 54% 56% and 50% satisfaction of the conditions before lending can be done. The coefficient of determinant (R^2) showed a good fitness with the regression of the observed samples of both dependent and independent variable with a value of 59%. Durbin-Watson Test value of 1.43 is significant for evaluation purposes and it was positive in the first-order correlation. F-Statistics of the model showed that the model was statically significant. The S.E of Regression of 3.95 was statistically significant too. The critical value for testing the hypotheses is 5%. The Augmented Dicky-Fuller (ADF) Test showed a value of -3.376532 which is less than -3.2521 at 5% critical.

Table 2: Regression Result
Dependent Variables: Economic Variables
Independent Variables: Access to Bank Loans
Method: Least Square
Date: 15/02/14 Time: 14:36
Period of Coverage: 2007 – 2013

Variables	Coefficient	Std. Error	t-Statistic	Prob.
ΩA	547323.15	73137.11	-0.635213	0.5462
Bf	534613.09	674895.07	-0.643733	0.51530
Gp	556739.11	663853.04	-0.664310	0.57325
V_R	501473.01	713635.16	-0632518	0.531092
A_B	5.819365	0.083653	43.04528	0.000000

The Regression Result presented above show high level of correlation between the Economic variables and Access to Bank Loans. The coefficient of dependent variables are positive depicting that to have Access to Bank Loans; the Resource Availability, Bank Funding and Government Policies

R-Squared	0.734653	Mean dependent var.	643582.6
Adjusted R-Squared	0.714386	S.D dependent Var.	1846352
S.E of Regression	332561.4	Alaife Info. Criterion	26.215323
Sum Squared Resid.	3.43+12	Schwarz Criterion	26.38523
Log likelihood	-530.2432	F-Statistic	2517.624
Durbin-Watson Stat.	1.285351	Prob. (F-Statistic)	0.000000

Source: e-view program

Inflation Rate must be considered.

Hence, there must be 55%, 53%, 56% and 50% tendencies of Economic Variables stability be Access to Bank Loans can be guaranteed by the SMEs. Again, the coefficient of determinant (R2) showed a good fitness with the regression of the observed samples. F-statistics of the model showed that the model was statistically significant.

Durbin-Watson Test value of 1.29 is a positive first – order correlation.

Table 3: ADF Result

ADF Test Statistic	-3.376532	1% Critical Value	-3.2521
		5% Critical Value	-2.5923
		1% Critical Value	-2.04383

Mackinnon Critical Values for rejection of hypothesis of a Unit Root.

Source: e-view program

Summary of Findings, Conclusions and Recommendations

The study was on re-positioning of commercial Banks to enhance the productive capacities of the Small and Medium –Scale Enterprises (SMEs) .The needed financial facilities are so large enough that only the Commercial Banks can provide them. It was also discovered that the lending conditions offered by the Commercial Banks were so stringent for the SMEs and that some of the lending conditions are dependent on economic variables that are purely macroscopic to the SMEs.

To properly re-position the Commercial Banks for the enhancement of productive capacities of the SMEs, the government has a very big role to play; the government, through its financial policies, should play-down on the stringent conditions as put forward by the Commercial Banks to the SMEs. The government should equally ensure the re-vitalization of the Capital Markets in order to ensure enhanced or robust financial activities in the markets and allow for transcend of financial flows to the Commercial Banks. The governments should priotize the SMEs as functional economic organs that can contribute meaningfully to the economic growth (GDP).

The recent global financial crisis has caused untold hardships in the banking sector as well as the capital markets. Illiquidity has come to stay in the various banks. Bonafide customers cannot obtain cash in some banks let alone the banks giving them loans. There is overall 'jack-up' on lending conditions. There is constant down-sizing of staff (work force) thereby making banking sector jobs un-interesting with the resultant impacts on the labour turnover.

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