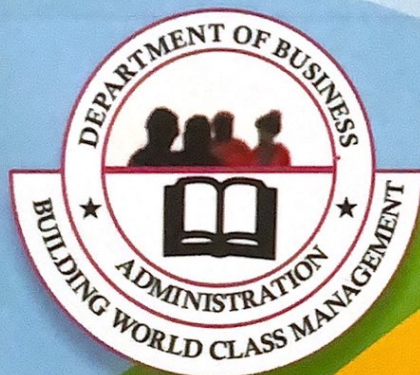




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Nexus between Deposit Money Bank Facilities and Performance of Small and Medium Scale Enterprises in Nigeria

Ezekiel Oluwale Ajayi, Ph.D.

Department of Business Administration,

Osun State University, Osogbo

(ask4oluajayi@yahoo.co.uk , ezekiel.ajayi@uniosun.edu.ng)

Kayode David Kolawole, Ph.D.

Department of Finance,

University of Ilorin, Nigeria

(kolawole.kd@unilorin.edu.ng)

Haorayau Bolaji Babalola

Department of Business Administration,

Osun State University, Osogbo

(haorayau.babalola@uniosun.edu.ng)

Wasiu Oluwatoyin Ibrahim

Department of Finance,

University of Ilorin, Nigeria

(ibrahim.wo@unilorin.edu.ng)

Abstract

The role of small and medium scale enterprises as an engine of growth and promoters for economic development in the world cannot be overemphasized. The problems bedeviling the SMEs in Nigeria are numerous such as inadequate capital and inaccessible credit facilities. It is upon this, this study examined the impact of access to finance on growth of small and medium scale enterprises in Nigeria. The study employed secondary data obtained from the Central Bank of Nigeria Statistical Bulletin. Autoregressive distributed lags model and granger causality test were used to analyze the data obtained for the study. The study revealed that deposit money banks' loans and advances are significantly related to growth of SMEs in Nigeria with coefficient value of 1.336 at 5% level of significance while the study revealed that deposit money banks' lending rates are negatively related to growth of SMEs in Nigeria with coefficient value of 1.601 at 5% level of significance. The study concluded that access to finance from deposit money banks affect growth of small and medium scale enterprises in Nigeria. It therefore, recommended that relative low interest rate finances should be provided to small and medium enterprises in Nigeria so as to enhance economic growth. The study also recommended that a national policy review that will increase the amount of bank loans to SMEs should be pursued so as to realize the desired corporate and national goals.

Keywords: Deposit money banks facilities, growth of SMES, access to finance, national policy review

Introduction

The role of Small and Medium Scale Enterprises (SMEs) in the development process of any economy had continued to be in the forefront of policy debates in the world. This is because small and medium scale enterprises (SMEs) is a crucial impetus to the growth of several countries; especially the developed countries like United States of America, Spain, United Kingdom etc. SMEs consist of over 90 per cent of the entire businesses and play a part in more than 50 per cent of employment opportunities in the world (World Bank, 2019). SMEs

contribute over 50 per cent to the Gross Domestic Product (GDP) in developed countries. The economic boom in some of these developed countries is connected to growth of SMEs which elevated millions of people from poverty and created lot of new middle-class consumers (Bhattacharya, 2018). SMEs is important in building import substituted machinery, and producing goods in small quantities to meet diverse needs, mobilization of local resources as well as encourage technological development (Ogunleye, 2000). In Nigeria, it is on record that SMEs accounts for over 95% of productive activities, employ more than 70% of work force and generated 70% of Gross Domestic Product (GDP) (Eniola, 2014). However, SMEs in Nigeria have underperformed despite the fact that the SMEs in Nigeria constitute more than 90% of Nigerian businesses, their contribution to the nation's GDP is below 10% (Nigerian Bureau of Statistics, 2018). For instance, the sub-sector employs over 70% of the industrial labour force but produces about 10-15 percent of the industrial output with a capacity utilization of slightly over 30 percent. According to Ihyembe (2000), the absence of capital has frustrated the take-off of several businesses and since personal savings, contribution from family members and peer groups are not always enough and alternative methods of financing should be improved. Other problems inhibiting the growth of SMEs are high interest rate which has increased the cost of operation of SMEs and the stringent requirement for accessing government funds. This signals a low productivity in the sub-sector and the major reason adduced for this dismal performance is the inaccessibility to source for finance majorly from commercial banks and government funds.

Therefore, providing bank favourable credit facilities to SMEs operators would enable the SMEs provide necessary capital building, employment opportunities, raw materials to large scale industries, thereby enhances the economic growth. Thus, the thrust of this work is to examine access to finance and the growth of SMEs in Nigeria.

The next section is literature review. This is followed by methodology and discussions of findings. The last section covers the conclusion and recommendations of the study.

Literature Review

Concept of Small and Medium Scale Enterprises

The definition of small and medium scale enterprises often depends on a country's level of economic development. SMEs can be defined or classified based on assets, values and the number of employees (Onwumere, 2000). European Union Commission (2003) defined small, medium and micro enterprises as companies with less than 250 persons, not more than 50 million Euro turnover and/or have an annual balance sheet total not exceeding Euro 43 million. World Bank (2006) described small enterprises as a business with fewer than 50 staff and annual turnover of three million US dollars while medium enterprises as that with fewer than 300 work force and annual turnover not more than fifteen million US dollars.

In Nigeria, SMEs is defined as business organization with a total capital base not less than ₦1.5 million but not more than ₦200 million (Abubakar & Yahya, 2013). SME operates labor-intensive technology and they also suffer from inadequate collateral securities that hinder them from obtaining financial facilities from banking institutions.

Table 1: Definition of SME by Nigerian Institutions

Institution/Class.	Asset Value (N'm)			Annual Turnover y (N)			No of Employees		
	MSE	SSE	ME	MSE	SSE	ME	MSE	SSE	ME
Fed. Min. of	<200	<50	n.a.	n.a.	n.a.	n.a.	<300	<100	<10
Central Bank	<150	<1	n.a.	<150	<1	n.a.	<100	<50	n.a.
NERFUND	n.a.	<10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NASSI	n.a.	<40	<1	n.a.	<40	n.a.	n.a.	3 -	n.a.
NASME	<150	<50	<1	<500	<100	<10	<100	<50	<10

Source: World Bank, SME Country Mapping, 2001

According to Central Bank of Nigeria (2013), SMEs is an enterprise that has asset base (excluding land) of between N5million – N500 million and labour force of between 11 and 300. The development of Small Scale Enterprises is seen as instrument that can be used to generate sustainable development, it is the one which ensures that the general population can attain an acceptable level of welfare both at present and in the future. This is because Small Scale Enterprises approach lends itself easily as a tool in the development process. Small Scale Enterprises provide an interesting alternative for countries like Nigeria that desire the fast option for industrial development. This is because they are characterised with short-term gestation periods and high potentials for quick yield on investment. They also provide opportunities for the development of local skills and technology acquisition through adaptation (Oduntan, 2014).

Theoretical Review

This study is hinged on the unbalanced growth theory. The theory is propounded by Hirschman (1958). According to this theory, investment should be made in some selected sectors rather than simultaneously in all sectors of the economy. Unbalancing the economy according to a pre-designed strategy is the best way to achieve economic growth in an underdeveloped country. In other words, investment in some important industries of the economy will improve the investment opportunities of such economy and pave way for more economic development. According to World Bank (2018), underdeveloped countries display common features such as low levels of per capita income, inequalities in income distributions and acute poverty level, low levels of productivity and great dependence on agriculture sector. Thus, according to this theory, improvement in these selected sectors would automatically develop other sectors of the economy. "An ideal situation obtains when disequilibrium calls forth a development move which in turn leads to a similar disequilibrium and the disequilibrium continues till all sectors are developed". Hirschman (1958) observes that development has proceeded in this way with "growth being channeled from the leading sectors such as SMEs to other sectors of the economy. Hence, development of Nigerian economy should be based on this unbalanced growth strategy where small and medium scale enterprises that are the major employers of labour should be given priority in policy making.

Empirical Review.

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. Dada (2014) investigated commercial bank's credit and SMEs development in Nigeria: an

empirical review. The secondary data collected were analysed with the aid of Ordinary Least Square (OLS) technique to estimate the multiple regression model. The model revealed that, commercial bank's credit to SMEs exert a positive influence on SMEs development proxy by wholesale and retail trade output as a component of GDP. The study proffered among others that adequate savings should be mobilized from the public by emphasizing more on saving and that government should encourage banks to lend to SMEs by providing guarantee, interest rate subsidies and other incentives.

Ubesie, Onuaguluchi and Mbah (2017) investigated the effect of deposit money banks' credit to small and medium enterprises, credit to private sector and interest rate on small and medium scale enterprises growth in Nigeria. An ex-post facto research design which employed secondary data sourced from Central Bank of Nigeria (CBN) Statistical Bulletin 2015 and National bureau of statistics (NBS) for the period 1986 – 2015 was adopted. The ordinary least square regression method was used in the analysis of the data after conducting a stationarity test on the variables. The study finds out that deposit money banks' credit to small and medium scale enterprises has no significant effect on small and medium scale enterprises growth in Nigeria. Again, the result indicates that deposit money banks' credit to private sector has significant effect on small and medium scale enterprises growth in Nigeria. The result also indicates that bank interest rate has serious significant effect on small and medium scale enterprises in Nigeria. To this effect, deposit money banks' management should see economic development as a priority by extending more credit to the private sector which are driven by small and medium scale enterprises.

Oluwarotimi and Adamu (2017) examined the relationship between SME credit and each of Unemployment and poverty respectively, using Pearson's correlation, and further examines the impact of Deposit money bank credit to SMEs on economic growth in Nigeria using Ordinary least squares regression. Data employed for this study was annual data from 1992 to 2015 obtained from the Central Bank of Nigeria Statistical Bulletin. The Pearson's correlation revealed a negative but insignificant relationship between SME credit and Unemployment, and a negative and highly statistically significant relationship between SME credit and poverty. The results of Ordinary Least Squares regression revealed that SME credit has a negative and highly statistically significant impact on economic growth in Nigeria. Based on the results of the study it is recommended that the Nigeria government should support SMEs with necessary training in risk management so as to increase SME capability to effectively manage the risk of their operations, the Nigeria government should increase provision of infrastructural facilities in order to reduce the operating costs of SMEs, and Nigeria deposit money banks should be equipped with necessary technology to effectively assess the creditworthiness of SMEs in applying for loans, amongst other recommendations.

Aminu, Adamu and Ibrahim (2018) examined the impact of small and medium scale enterprises on economic growth of Nigeria using time series data spanning between 1986 and 2016. The data is obtained from the statistical bulletin published yearly by the Central Bank of Nigeria (CBN). Regression analysis was employed for interpretation, and analysis of the data collected for the study. The finding of the study revealed a positive and significant relationship between small and medium scale enterprises and output growth indicating that small and medium scale enterprises in Nigeria make positive contribution towards the development of Nigerian economy.

Several studies such as (Oluwarotimi and Adamu, 2017; Ubesie, Onuaguluchi and Mbah, 2017 and Aminu, Adamu and Ibrahim, 2018) were carried out to investigate the impact of deposit money banks loans on performance of small and medium scale enterprises. Most of these studies concentrated on banking loans neglecting the lending rates charged for these loans thereby creating a gap. Furthermore, the previous studies neglected the causality that exists between banking loans and SMEs growth in Nigeria. Similarly, ordinary least square

(OLS) method and fully modified OLS (FMOLS) were used to estimate the multiple regression models of previous studies. However, this study uniquely employed autoregressive distributed lags model (ARDL) to achieve the objectives of the study. Autoregressive distributed lags model (ARDL) is the most appropriate because of the presence of lagged values of the dependent variable and also the presence of long-run relationships that exist between the economic time-series, hence the standard Ordinary Least Square estimator produces bias and incorrect regression estimates which may mislead the researcher to incorrect conclusions.

Methodology

This study examined access to finance and growth of small and medium scale enterprises in Nigeria. The data used for the study is secondary in nature. The secondary data such as contribution of SMEs to gross domestic product, banking credit to SMEs and Gross Domestic Product were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin within the time frame of 1987-2018. The estimation technique was based on the nature of data used for the study. Autoregressive distributed lags model (ARDL) technique and Granger Causality Tests were applied to achieve the objectives of the study. In evaluating the results of the regression, econometric tests and statistical tests were employed.

Model Specification

The model specification for this study is stated as:

$$GSMEs = f(DMBL, INT) \dots \dots \dots (i)$$

$$GSMEs = \beta_0 + \beta_1 DMBL + \beta_2 INT \dots \dots \dots (ii)$$

$$GSMEs_t = \beta_0 + \beta_1 DMBL_t + \beta_2 INT_t + \mu \dots \dots \dots (iii)$$

The model can be transformed into ARDL form as:

$$\Delta \ln GSMEs_t = \beta_0 + \beta_1 \Delta \ln GSMEs_{t-1} + \beta_2 \Delta \ln DMBL_t + \beta_3 \Delta \ln INTR_{t-1} + \mu_t \dots \dots \dots (iv)$$

Where:

GSMEs = Growth of SMEs (Proxy with Contribution of SMEs to Gross Domestic Product)

DMBL = Deposit Money Banks Loans and Advances to SMEs

INT = Interest Rate

μ = Error term

$\beta_0 = \beta_1 = \beta_2$ = Coefficient Parameters

The second model which serves as the major gap of the study was used to examine the direction of causality between deposit money banks' loans and advances and growth of SMEs in Nigeria. The Granger causality shall be used to test for the direction of causality between deposit money banks' loans and advances and growth of SMEs specified in the model. The Granger causality test equation for growth of DMBL granger cause SMEs is specified as;

$$GSMEs_t = \alpha + \sum_{i=1}^n \beta_i DMBL_{t-i} + \sum_{i=0}^{b-1} \theta_i \ln GSMEs_{t-i} + \Omega t \dots \dots \dots (v)$$

So also, the Granger causality test equation for GSMEs granger cause DMBL is specified as

$$DMBL_t = \alpha + \sum_{i=1}^n \beta_i GSMEs_{t-i} + \sum_{i=0}^{b-1} \theta_i \ln DMBL_{t-i} + \Omega t \dots \dots \dots (vi)$$

Following the model specified above, the granger causality method is adopted to capture the hypothesis.

Where:

GSMEs = Growth of SMEs (Proxy with Contribution of SMEs to Gross Domestic Product)

DMBL = Deposit Money Banks Loans and Advances to SMEs

Apriori-Expectation

The following are the expected relationship between dependent variables and each of the independent variables used for the study.

- (i) A positive relationship is expected between Deposit Money Banks Loans and Advances and Growth of Small and Medium Scale Enterprises in Nigeria; and
(ii) A positive relationship is expected between Interest Rate and Growth of Small and Medium Scale Enterprises in Nigeria.
A-priori expectation, β_1 and $\beta_2 > 0$

Results and Discussion of Findings

Result of Unit Root (Stationarity) Test for PSMEs

Table 2: Result of Unit Root (Stationarity) Test for GSMEs

Variables	Augmented dickey- fuller (ADF)	5% Critical level	Order of integration
			ADF
GSMEs	-4.695907	-3.710482	I(0)
DMBL	-6.200026	-3.603202	I(1)
INT	-4.339465	-3.612199	I(1)

Source: Authors' Computation (2020)

Non-stationary is a common feature of time series data. The problem with non-stationary or trended data is that the standard Ordinary Least Square estimator produces bias and incorrect regression estimates which mislead the researcher to incorrect conclusions. In other words, the application of OLS on non-stationary series leads to spurious regression results. It is vital therefore, to perform unit root test to examine the order of integration of the series and avoid spurious regression. Regression becomes spurious when both the dependent and independent variable (s) are not stationary at critical level. A spurious regression usually has a very high R^2 , t statistics that appear to provide significant estimates, but the results may be intuitively meaningless. This is because the OLS estimates may not be consistent, and therefore the tests of statistical inference are not valid. To avoid the aforementioned problems, Augmented Dickey Fuller (ADF) unit root test was conducted in this study and the result is presented in Table 2.

The result for Augmented Dickey Fuller test revealed that GSMEs is stationary at level. That is integrated of order zero [I(0)] while DMBL and INT are stationary at first difference which mean that they are integrated of order one, that is I(1). To estimate these series with combination of I(0) and I(1), the ARDL Bound Test of cointegration is conducted and the result is presented below.

Table 3: Cointegration Test (Bound Testing Approach)

Model	F-statistic	Lower Bound (at 5%)	Upper bound (at 5%)	Remarks
GSMEs	4.273	2.22	3.37	Significant

Source: Authors' Computation (2020)

The result of the unit root tests show that some variables are integrated of order one I(1) while others are stationary at level I(0). So, the most appropriate test of cointegration is the Autoregressive Distributive Lag (ARDL) Bound test. This is employed for the model on effect of access to finance on growth of SMEs in Nigeria (GSMEs model) estimated in this study. The result is contained in Table 3. The null hypothesis of the test is that there is no long-run relationship (no cointegration) between the variables. The decision rule is to reject the null hypothesis when F-statistics of the test is greater than the Critical Value of upper bound at a chosen level of significance (5% in this study). On the other hand, the null

hypothesis is not rejected when the F-statistics is less than that of the Critical Value of the lower bound. When the F-statistics falls between the upper and the lower bound, the test is inconclusive.

The results of the test indicate that the F-statistics of GSMEs model is 4.273 with Critical Values of upper bound 3.37. This shows that the F-statistic of the model is higher than the Critical Value of the Upper Bound in the model. It implies the rejection of the null hypothesis. Hence, the test shows that there is cointegration in the model. In short, the ARDL bound test of cointegration shows that there is a long-run equilibrium relationship between the variables in the model. This leads to the modelling of long-run relationship using autoregressive distributed lags (ARDL).

Table 4: Regression Result of the Growth of SMEs

Δ GSMEs	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.042621	0.071537	-0.595785	0.5624
Δ GSMEs(-1)	1.262397	0.152043	4.067665	0.0000
$\Delta \ln$ DMBL(-1)	4.191330	1.467900	2.174078	0.0451
$\Delta \ln$ (DMBL))	5.048559	2.058013	2.967217	0.0310
Δ INTRA	-1.311050	0.009049	-2.221141	0.0193
Δ INTRA(-1)	-0.166771	0.066081	-2.523736	0.0064
ECTGSMEs(-1)	-0.620553	0.259510	-2.391248	0.0074
R-squared	0.767281	F-statistic		9.082335
Adjusted R-squared	0.738810	Prob(F-statistic)		0.007763
Log likelihood	48.30698	Durbin-Watson stat		2.006693

Source: Authors' Computation (2020)

Table 4 shows the results of access to finance and growth to SMEs which was estimated to assess the effect of access to finance on growth of SMEs in Nigeria. The R-squared of 0.76 indicates that the model is of good fit. This implies that 76% of systematic variations in growth of SMEs were accounted for by deposit money banks loans to SMEs (DMBL) and interest rate (INT).

Also, as indicated in the table, the coefficient of error correction term (ECTGSMEs(-1)) is -0.620553. Given the t-statistics of -2.391248, the value is statistically significant at 5%. Since it is negative and significant, it implied that growth of SMEs (GSMEs) respond slowly to shocks from the access to finance variables considered. This means that GSMEs is getting adjusted at a speed of 62% from state of disequilibrium in the short run to the state of equilibrium in the long run.

Another look at Table 4 indicates that previous value of growth of SMEs (GSMEs(-1)) and its current value are positively related with a coefficient of 1.262397. Given the t-statistic of 4.067695, the relationship is statistically significant at 1% level of significance. The results also indicate that change in GSMEs is positively related to change in natural log of deposit money banks loans ($\Delta \ln$ DMBL) and first lag of change in natural log of deposit money banks loans ($\Delta \ln$ DMBL(-1)) with coefficients of 5.048559 and 4.191330, respectively. The t-statistic of 2.967217 and 2.174078 implies that the null hypothesis that deposit money banks loans have no significant influence on growth of SMEs can be rejected at 5%. This means that increase in deposit money banks loans would lead to increase in growth of SMEs (GSMEs).

On the other hand, the results obtained show that AGSMEs has inverse relationship with interest rate ($\Delta \ln INT = -1.311050$ and $\Delta \ln INT(-1) = -0.166771$). The t-statistic of -3.331141 and -2.523736 shows that we can reject the null hypothesis of no significant effect of interest rate on growth of SMEs at 5% level of significance.

In general, the overall significance of the ARDL model is established by the F-statistic of 9.082. This implies that the null hypothesis that the variables are jointly simultaneously equal to zero can be rejected at 1% level of significance. Thus, it can be concluded that all access to finance variables have significant impact on growth of small and medium scale enterprises in Nigeria.

Table 5: Result of Diagnostic Test for the Model

Models	Breusch-Pagan-Godfrey Heteroscedasticity Test:		Breusch-Godfrey Serial Correlation LM Test	
	F-statistic	P-value	F-statistic	P-value
GSMEs Model	2.825285	0.1022	0.479229	0.6306

Source: Authors' computation, (2020)

Breusch-Pagan-Godfrey test of Heteroscedasticity and Breusch-Godfrey Serial Correlation LM test were conducted for the model in this study and the results are presented in Table 5. Heteroscedasticity test is usually conducted to test the presence or otherwise of heteroscedasticity (variability of variance of the series) in the model. The null hypothesis of the test is that the series are homoscedastic (there is no heteroscedasticity). The null hypothesis is rejected when the probability value of the F-statistics of the test is less than a chosen level of significance (usually 5%). In this case, the result of the Breusch-Pagan-Godfrey test of heteroscedasticity presented in Table 5 shows that the F-statistics of test is 2.825285 with p-value 0.1022 for the model on GSMEs. Since, the P-value is greater than 5%, the null hypothesis is accepted. So, the test shows that there is no heteroscedasticity in all the models.

Another test conducted is the Breusch-Godfrey Serial Correlation LM test. Its null hypothesis implies that there is no serial correlation. That is, the error terms of different periods are not correlated. The null hypothesis is rejected when the probability value of the F-statistics of the test is less than a chosen level of significance (usually 5%). In this study, the F-statistics for serial correlation test for the model is GSMEs = 0.479229. Since the probability values of the F-statistics of the model is greater than 5% level of significance, the null hypothesis is accepted and we conclude that there is no serial correlation in all the models. Therefore, the results of all the models are free from the problem of heteroscedasticity and serial correlation (autocorrelation).

Table 6: Pairwise Granger Causality Tests

Null Hypothesis:	F-Statistic Prob.	
GSMEs does not Granger Cause DMBL	16.4068	0.0004
DMBL does not Granger Cause GSMEs	13.4939	0.0011

Authors' Computation, (2020)

The result of the granger causality test presented in Table 6 shows bidirectional causality between GSMEs and DMBL. The F-statistics of the two hypothesis (GSMEs does not Granger Cause DMBL and DMBL does not Granger Cause GSMEs) are 16.407 and 13.494 with P-values 0.0004 and 0.0011, respectively. This implies non-rejection of both hypotheses. Hence, GSMEs granger cause DMBL and in turn DMBL granger causes GSMEs. So, deposit money banks' facilities promote growth of SMEs which in turns attracts facilities from deposit money banks.

Autoregressive distributed lags model was employed in this study. The finding of the study revealed that deposit money banks' loans to SMEs have significant impact on the growth of SMEs which is in agreement with the work of Aminu, Adamu and Ibrahim (2018). Based on this, the null hypotheses which state that deposit money banks' loans do not significantly affect the growth of small and medium scale enterprises should be rejected.

The study also revealed that bank lending rates significantly affect growth of small scale enterprises in Nigeria. This outcome agrees with the outcome of the work of Oluwarotimi and Adamu (2017). Therefore, the null hypotheses that state that bank lending rates do not significantly affect the growth of small and medium scale enterprises should be rejected.

Furthermore, the study revealed that there is a bi-directional causality between deposit money banks' facilities and growth of small-scale enterprises in Nigeria. The finding of this study is in consonance with the a-priori expectations and also in line with the unbalanced growth theory which states that investment in strategically selected industries of the economy will lead to new investment opportunities and so pave the way for further economic development.

Conclusion and Recommendations

SMEs remain the footing as well as the building block in the realization of any meaningful and sustainable growth in an economy. Hence, financial market, other institutional improvements and direct government financial support to SMEs can boost economic growth and development. The study therefore recommends that regulatory bodies such as the Central bank of Nigeria (CBN) should ensure relative low interest rate finances are provided to small and medium enterprises in Nigeria so as to enhance economic growth. Finally, national policy should be reviewed to encourage increase in the amount of bank loans to SMEs so as to realize the desired national goals of improved SMEs' performance.

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