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Role of Bank of Industry on Small Scale Entrepreneurial Development in Nigeria

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ABSTRACT:- The study investigated the role of Bank of Industry (BOI) on small scale entrepreneurial development in Ekiti State, Nigeria with a view to establish the extent to which the bank has contributed to the financing of small scale business in Nigeria; identify the problems confronting small scale entrepreneurs in the procurement of finance from the bank of industry in Nigeria; evaluate measures initiated by the bank to boost Small scale entrepreneurial development in Nigeria. The study was born out of the need to ascertain whether Bank of Industry played a significant role in financing small scale entrepreneurial development in Nigeria. Data on contribution of Bank of Industry, problem of SMEs and measures initiated by the bank were sourced primarily through questionnaire. The study was achieved through *t*-test of regression statistics. The study found that contribution of Bank of Industry in financing small scale business affect the problem confronting SMEs, the study also found that measures initiated by BOI affect the contribution of bank of industry in financing small and medium scale enterprises in Nigeria. The study therefore inferred that bank of industry played a significant role in financing SMEs entrepreneurial development in Nigeria. Recommendations were made that the bank should avoid political will that may affect the user of funds for productive investment activities; the bank of industry should ensure proper monitoring and supervision of projects or businesses such as funds that are diverted to other means/sources.

KEYWORD: Bank of industry, Small scale entrepreneurial development, Nigeria

I. INTRODUCTION

Financial institution finances small and medium scale enterprises (SMEs) in other to promote economic growth and development of a nation. The finances allocated to SMEs by financial institutions accelerate the pace of income, savings and employment generation in Nigeria. In other to further develop the economic system of Nigeria, government employed different intervention schemes and policies with the establishment of Bank of Industry (BOI), Small Scale Industries Credit Scheme (SSICS), World Bank Small and Medium Enterprises I Loan, World Bank Small and Medium Enterprises II Loan, Refinancing and Rediscounting Facility (RRF) of the Central Bank of Nigeria, Small and Medium Enterprises Equity Investment Scheme (SMEEIS) and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) among others with the primary objective of assisting small and medium scale enterprises to secure needed funds with minimum interest rate and lengthy period of payback time in an attempt to make them grow. However, SMEDAN which is the coordinator of SMEs in Nigeria have not been effectively performing its role and purpose of establishment which is to create wealth and value to the economy through SMEs. This inefficiency has made SMEs to heavily rely on financial institution for finance (Ubesie, Onuaguluchi & Mbah, 2017).

The banking system provide both short and long term finances but mainly short term finances to individuals, corporate entity and institutions while stock market provides long term finances to individuals, firms and government but inaccessible to many SMEs in Nigeria which is attributed to perceived high level of risk associated with the business of SMEs especially farming which calls for the bank of industry to play a level playing ground in financing the business of SMEs (Sangosanya, 2011). Inconsistency in government policies couple with high monetary policy rate, loan diversion, exchange rate depreciation, infrastructural decay and tenor of loans constitute a problem to banks in advancing credit to SMEs. The fraction of the loans extended to SMEs by the Bank of Industry, the ascertaining of their role on SMEs growth remains difficult and unsettled owing to SMEs meagre contribution to gross domestic product. Furthermore, with regard to the important role of bank of industry finance in SMEs growth, there is no consensus that financial institution increases credit delivery to SMEs, particularly after the consolidation exercise.

Empirical evidence from Riding, Barbara, Orser and Brad (2010); Onakoya, Fasanya and Abdulrahman (2013) showed that financial institution credit to SMEs has no significant effect on their growth towards economic growth. This negates the results of (Okpara & Pamela, 2008; Bassey, Asinya & Amba, 2014; Sama'ila & Tahir, 2015) whose studies have empirically established the significant effect of bank of industry credit on SMEs growth. Based on the inconsistencies and mixed findings from the earlier researchers, further study becomes imperative. Hence, it agitates the mind of the researchers to carry out an empirical study on the role of bank of industry on Small scale entrepreneurial development in Nigeria. The pertinent questions were raised from the discourse, that is, to what extent has bank of industry contributed to the financing of small scale business in Nigeria? To what extent have SMEs encounter problems in the procurement of finance from bank of industry in Nigeria? Has measures initiated by bank of industry boost Small scale entrepreneurial development in Nigeria? This study will in many ways benefit the monetary authority, policy maker, government, academia and the general public in addressing the quintessential issues in respect to the role of Bank of Industry on SMEs development in Nigeria.

II. LITERARURE REVIEW

The primary mandate of Bank of Industry (BOI) is to financially assist the establishment of small, medium and large project as well as expansion, diversification and modernization of existing enterprises and reliability of oiling industries, and to ensure a level playing for domestic businesses to attain international state which have the propensity to ensure better economic growth of the nation (Sanusi, 2013). The role of Bank of Industry is to promote the SMEs across all industries with little or no collateral and low interest charged on finances advanced to such sector (Akingunola, 2011). Central Bank of Nigeria (2011) opined that Bank of Industry (BOI) volume of loan to MSMES have a working capacity facility of one year with provision for roll over or maximum of 15 years and the fund allows for moratorium in the loan repayment schedule. To collaborate this, Bank of Industry (2013) noted that interest charged on credit to SMEs is cost faced by small, medium and large enterprises when borrowing from Bank of Industry though not as the deposit money banks charged. BOI (2013) further opined that low interest rate will help the MSMES to payback and as when due and contribute to economic growth.

The theoretical underpinning for the study is information asymmetry according to Abdesamed and Wahab (2014), information asymmetry identifies the relationship between variables and SMEs in the application of bank loans. The banks require adequate and valid information from the SMEs in an attempt to provide them with loans but firms sometimes do not have the full criteria and requirement to possess such loans as a result of information asymmetry. In an empirical study carried out in Nigeria by Uremadu, Ani and Odili (2014) on banking system credit to small and medium scale enterprises (SMEs) and economic growth in Nigeria within the period of 1981 and 2013. The study employed co-integration approach and disclosed that while banking system credit to SMEs increased annually as a result of increase in population and hence economic activities, the credit to SMEs as a percentage of total credit to the private sector declined annually which is due to the insignificant impact of Banking system credit to SMEs in contributing meaningfully to economic growth in Nigeria. Opafunso and Adepoju (2014) employed analysis of descriptive statistics and Chi-square tools to investigate the role of small and medium enterprises on economic development of Ekiti state in Nigeria over the data base of 2006-2013. The study discovered there is a positive and significant relationship that exists between small and medium enterprises have significant role and effectiveness on poverty reduction, employment generation and advancement of well being of the citizens in Ekiti State. The study inferred that low interest charged on bank loans has the capacity to improve the performance of small and medium enterprises in Ekiti state and Nigeria at large.

A similar study, carried out in Bauch metropolis by Sama'ila and Tahir (2015) on contribution of the Bank of Industry towards SMEs industrial development, with the aid of Pearson product moment correlation analysis, the study evidently found that Small and Medium Enterprises (SMEs) in Bauchi Metropolis significantly benefited from BOI's loans and that the loans were directed to the right channels. Iloh and Chioke (2015) collated data from Central Bank of Nigeria (CBN) Statistical Bulletin for the period of 1980 to 2010 to analyse the nexus between commercial bank credit indicators and availability of credit facility to small and medium scale enterprises in Nigeria. The data were anaylsed via Augmented Dickey-Fuller (ADF) unit-root test and Generalized least squares estimation method where the study revealed that commercial banks' credit to SMEs in Nigeria have significant effect on Nigeria economic growth by positively affecting gross domestic product.

Okafor Ugochukwu and Chijindu (2016) used SMEs loan, oil revenue and inflation rate indicators to evaluate the effect of small and medium-sized enterprises (SMEs) on the growth of the Nigeria economy for the period of 1986-2014 with the analysis of OLS, ADF and ECM, the study revealed that small and medium enterprises coupled with oil revenue and inflation rate significantly influence economic growth in the short run while reverse is the case in the longrun. Ubesie, Onuaguluchi and Mbah (2017) ascertained the effectiveness of banks' credit to small and medium enterprises, credit to private sector and interest rate on small and medium scale enterprises growth to investigate the influence of deposit money banks' credit on small and medium scale enterprises growth in Nigeria for the period covering 1986 – 2015. The ordinary least square regression indicated that deposit money banks 'credit to small and medium scale enterprises has no significant effect on small and medium scale enterprises growth in Nigeria, deposit money banks' credit to private sector has significant effect on small and medium scale enterprises growth in Nigeria and also indicates that bank interest rate has serious significant effect on small and medium scale enterprises in Nigeria. The study concluded that deposit money banks' management should see economic development as a priority by extending more credit to the private sectors which were driven by small and medium scale enterprises.

Usman, Isah and Tanko (2018) conceptually examined the role financial institutions play in financing small and medium enterprises in Nigeria. The study methodologically discussed various policies adopted by the government to achieve the Small and Medium Enterprises Equity Investment Schemes aims and objectives, the Central Bank of Nigeria policy to the commercial banks on the scheme and the financial institutions strategies in implementing the policies and guidelines on the scheme. The study inferred that Small and medium enterprises equity investment scheme (SMEEIS) if well utilised considering the volume of funds dedicated, could provide the necessary impetus for growth in the economy. John-Akamelu and Muogbo (2018) administered 109 questionnaire to bankers and SMEs owners in Anambra State. The purpose of the study is to assess the role of deposit money banks in financing SMEs in Nigeria. Through the analyses of percentage and chi-square method, the study explicitly showed that small and medium size businesses faced series of challenges in the procurement of loans from deposit money banks; also it was revealed that deposit money banks have contributed significantly to the development of SMEs through their loans and advances.

III. RESEARCH METHOD

3.1 Research Design, Population, Sample, Sample Technique and Data Collection Instruments

This study applied survey research design that allow for the use of questionnaires to elicit data from the respondent. The population of the study covered all the Small and Medium Enterprises firms in Ado-Ekiti, Ekiti State. However, for logical and budgetary reasons, the study was delimited to 5 SMEs firms in Ado Ekiti namely; Dry cleaning and Laundry firms, Printing houses Ado-Ekiti, Bakeries, Eateries and Electronics store houses Ado-Ekiti using purposive sampling technique. However with the aid of Proportionate sampling technique and Yamane Taro (1967) model, the sample size for the study is 205 from 405 respondent in the population. Questionnaire was used as a major tool for the collection of data for the study.

3.2 Model Specification, Estimation Technique and Sources of Data

The study adapts the model used by Abeh (2017) study. Hence, with modifications, the model for the study is stated as follow;

DSMEs = f (CBOI, BFBOI, MBOI) -- 3.1

Regression analytical technique was employed to analyze and test the relationship between the dependent and independent variables to test the hypotheses and achieve the objective of the study.

Stating the equation in 3.1.into notation form, it therefore becomes

$DSMEs = \alpha_o + \beta_1 CBOI + \beta_2 BFBOI + \beta_3 MBOI$ --- 3.2

Where;

Where; DSMEs = Development of SMEs; CBOI = Bank of industry; BFBOI = Business finances from Bank of industry; MBOI = Measures initiated by Bank of industry; α_o = Constant, $\beta_1 - \beta_3$= beta coefficients; e = error term; f =functional notation.

The study gathered data from primary source through the use of questionnaires designed for the purpose of the study.

IV. RESULT AND DISCUSSION

4.1 Results

Hypothesis One

H_{01}: Bank of industry has not significantly contributed to the financing of small scale business in Nigeria.

Table 4.1: Regression analysis of bank of industry and small scale business in Nigeria.

Model	B	Std. error	T	Sig	R	R^2	R^{-2}	
Constant	1.742	.122	14.303	.000				
					.256	.166	.121	14.231
BOI	.362	.096	3.772	.000				

Source: Field Survey, 2019

Dependent variable: Financing of SMEs

Y = a+bx+ui

Y = 1.742 + .362x + ui

Std. error = (.122) (.096)

t.= (14.303) (3.772)

The table 4.1 shows that correlation coefficient (r) was 0.256. It implies that there is positive relationship between bank of industry and the financing of small and medium scale enterprises in Nigeria. The coefficient of determination (r^2) was 0.166 which implies that about 16.60 variation in financing of SMEs could only be explained by bank of industry while the remaining 83.40% were due to other variables outside the regression model which also affect financing of SMEs in Nigeria.

The overall regression models is significant in terms of its overall goodness of fit as F obtain (14.231) is greater than F critical (4.03) at n-k degree of freedom. Hence, the study rejects the null hypothesis and accepts the alternate hypothesis which states that Bank of industry has significantly contributed to the financing of small scale business in Nigeria.

Hypothesis Two

H_{02}: Problems confronting small scale business has no significant effect in assessing finance from bank of industry in Nigeria.

Table 4.2: Regression analysis of problem confronting small scale businesses and assessment of finance from bank of industry in Nigeria

Model	B	Std.error	T	Sig	R	R^2	R^{-2}	F
Constant	1.567	.101	15.465	.000				
					.453	.323	.218	4.839
Problem of SMEs	-.168	.076	-2.200	.029				

Source: Field Survey, 2019

Dependent variable: Finance from bank of industry

Y= a+ bx+ut

Y= 1.567 - 0.168 + ut

Std error = (0.101) (0.076)

T = (15.465) (-2.200)

Table 4.2 reveals that correlation coefficient (r) was .453. It implies that there is positive relationship between problem confronting SMEs and assessment of finance from BOI in Nigeria. The coefficient of determination (r^2) was .323 which implies that about 32.30% variation in finance from bank of industry could only be explained by problems confronting SMEs while 67.70% were due to other variable outside the regression model which also affects assessment of finance from bank of industry in Nigeria.

The overall regression model is significant in terms of its overall goodness of fit as F obtain (4.839) is greater than F critical (4.03) at n-k degree of freedom therefore, the study reject the null hypothesis while the alternate hypothesis is accepted. The result of the study therefore concluded problems confronting SMEs have negative and significant effect on assessment of finance from bank of industry in Nigeria.

Hypothesis Three

H_{03}: Measures initiated by bank of industry has no significant influence on Small scale entrepreneurial development in Nigeria.

Table 4.3: Regression analysis of Measures of BOI and SMEs development in Nigeria.

Model	B	Std.error	T	Sig	R	R^2	R^{-2}	F
Constant	1.016	.094	10.761	.000				
					.418	.175	.171	42.932
Measures of BOI	.457	.070	6.552	.000				

Source: Field Survey, 2019

Dependent variable: SMEs development

Y = a+bx+ui

Y =-1.016 + .457x + ui

Std. error = (.094) (.070)

t.= (10.761) (6.552)

The table 4.3 shows that correlation coefficient (r) was 0.418. It implies that there is positive relationship between measures initiated by BOI and SMEs development in Nigeria. The coefficient of determination (r^2) was 0.175 which implies that about 17.50 variation in SMEs development could only be explained measures of BOI while the remaining 82.50% were due to other variables outside the regression model which also affect SMEs development in Nigeria.

The overall regression models is significant in terms of its overall goodness of fit as F obtain (42.932) is greater than F critical (4.03) at n-k degree of freedom. Hence, measures initiated by bank of industry have significant influence on Small scale entrepreneurial development in Nigeria.

4.2 Discussion of Findings

The study empirically examined the role of bank of industry on Small scale entrepreneurial development in Nigeria. For the purpose of the study 3 research hypotheses were raised and tested at 5% level of significance using inferential analysis involving linear regression analysis. Finding of hypothesis one concluded that Bank of industry has significantly contributed to the financing of small scale business in Nigeria. The testing hypothesis two also confirmed that problems confronting SMEs have negative and significant effect on assessment of finance from bank of industry in Nigeria. The result of the study based on hypothesis three found out that measures initiated by bank of industry have significant influence on Small scale entrepreneurial development in Nigeria. In conclusion, the testing of the hypotheses revealed that bank of industry played a significant and contributory role to the development of small and medium scale entrepreneurship. The result of the study is in connection and consistence with the study of Sama'ila and Tahir (2015), concluded a significant positive relationship between bank of industry and SMEs industrial development.

V. CONCLUSION

Small and Medium Enterprises (SMEs) in Ado Ekiti Metropolis Ekiti State are highly affected by the role the Bank of Industry is playing in the form of funds collected by the SMEs and the utilization of the loans for the purposes they are intended as revealed by the research. The expansion of the power of BOI as the apex institution for the development and promoting of SMEs in Nigeria should be considered with vigor, a well-conceived and coordinated scheme aimed at strengthening and improving the information system and counseling services for wider dissemination and greater effectiveness should also be pursued. On the whole, the study inferred that bank of industry played a significant and contributive role in financing SMEs entrepreneurial development in Nigeria. The study therefore validates the study of Sama'ila and Tahir (2015), concluded a significant positive relationship between bank of industry and SMEs industrial development in Nigeria. The study implore Central bank of Nigeria to regulate their present measures of requiring banks to keep aside 10% of their profit before tax for equity investment in small and medium size enterprises so as to reduce level of risk in SMEs lending. Bank of industry should ensure proper monitoring and supervision of projects and more importantly bank of industry should ensure that political will which may cause diversion of fund into unproductive investment is appropriately dealt with.

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