ROLE OF BANKS IN GROWING SMES IN NIGERIA

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ABSTRACT
The research study investigates the role of banks in growing SMEs in Nigeria. The purpose of this study is to know how SMEs can grow through the intervention of the formal sector financing. The hypothesis of the study is to know if there is a relationship between financial loan disbursement to SMEs and the SMEG in Nigeria. Quantitative research design was adopted and the population of the study is the entire SMEs and the banks in Nasarawa State. Questionnaires, telephone interviews and emails were used as primary instrument for data collection. Cluster and judgmental sampling technique was used in selecting sample. Journals, annual reports, NBS reports, CBN reports and SMEDAN reports were used as secondary instrument for data collection. 90 questionnaires were administered but 80 were returned, 10 questionnaires could not be recovered. Tables and sample percentage were used in primary data presentation. Regression analysis was employed in testing the results obtained in both primary and secondary instruments. Two hypotheses were formulated to know if there is correlation between them. The finding reveals that there is a positive correlation between formal financial loan disbursement to SMEs and SMEG. The multicolinearity test shown there is no multicollinearity existing between financial loan duration and SMEG and also there is no heteroskedasticity in the variables. The jarque – Bera test shown there is an error term in the normal distribution of financial loan disbursement. The findings from the analysis made shown there is a positive relationship between the financial loan disbursement and SMEs growth, a positive relationship between loan duration and SMEs growth. Also there is a negative relationship between interest rate and SMEs growth, and finally a negative relationship between collateral security and SME growth. Based on the findings, it was recommended that; the apex bank should mandate banks on the amount to be issued out as loans to SMEs, there is need to apply a monetary policy measure to control interest rate to one digit to favour the SMEs operation, the collateral security should be reduce to single digit percentage to enhance investment and finally banks should endeavour to increase their loans duration to ten years and above to encourage investment. The financial institution needs to put in more effort in financing SMEs, as their role need to be felt by the SMEs in terms of growth and development.
Keywords: *banks, financial loan disbursement, interest rate, loan, enterprises, SMEs, SMEG, economic growth, loan duration.*

INTRODUCTION
Potentially, Small and Medium Enterprises (SMEs) remains a key driver of the Nigerian economy. The role of Small and Medium Scale Enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. Small and Medium Enterprises (SMEs) have been fully recognised by the Nigerian government and development experts as the main engine of economic

growth and a omajor factor in promoting private sector development and partnership (Safiriyu and Njogo, 2012). The advantages claimed for Small and Medium Enterprises (SMEs) are various, including: the encouragement of entrepreneurship (Ayozie and Latinwo, 2010; Ayesha, 2007); the greater likelihood that SMEs will utiliselabour intensive technologies (Agwu and Emeti, 2014; Salami, 2003, Muritala et al. 2012) and thus have an immediate impact on employment generation (Ayozie and Latinwo, 2010; Etuk et al. 2014; Agwu and Emeti, 2014; Aigboduwa and Oisamoje, 2013; Udechukwu, 2003; Ogujiuba et. al., 2004); they can usually be established rapidly and put into operation to produce quick returns; SMEs development can encourage the process of both inter- and intra-regional decentralization (Ogujiuba et. al., 2004); and, they may well become a countervailing force against the economic power of larger enterprises (Salami, 2003). Generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Agwu and Emeti, 2014; Etuk et al. 2014; Safiriyu and Njogo, 2012; Ayozie and Latinwo, 2010; Udechukwu, 2003).

Finance has been viewed as a critical element for the development of SMEs. It is worth mentioning that firms depend on a variety of sources for their finance. These includes internal and external; formal and informal. However the relationships among these sources and their effects on investment remain unclear in the literature. In the case of SMEs, bank credit or loan is major alternative of external funding (James and Ashamu, 2014). Previous studies have decried the limited access to external financial resources available to smaller enterprises compared to larger organisations and the consequences for their growth and development (Gbandi and Amissah, 2014; Omika, 2014; Wattanapruttipaisan, 2003; Berger and Udell, 2004; Ogujiuba et. al., 2004; etc). According to Valverde et al (2005) bank credit play a crucial role in providing external financing to Small and Medium Scale Enterprises (SMEs). But in Nigerian context, this crucial source of finance for Small and Medium Scale Enterprises is apparently non-functional (Kadiri, 2012). The challenge is that not too many banks are willing to lend to the subsector. Over the years, when the loans come, they are priced higher than what obtains when lending to multinationals or other operators in the real sector of the economy in most cases. Typically, SMEs face higher transactions costs than larger enterprises in obtaining credit (Collins Nweze, 2014). This is evident in the ratio of loans to Small Scale Enterprises to banks' total credit, which shows that a meager 0.13% of banks' total credit was granted to Small Scale Enterprises in the last quarter of 2013 (CBN, 2013). More worrisome is the fact that this ratio has been falling over the years and continued unabated in the post-consolidation era (Iorpev, 2012). Berg and Fuchs (2013)

attribute this trend to the high interest rates on Government securities which serves as a disincentive to intensify lending to Small Scale Enterprises (SMEs).

This research work shall be guided by the following research questions:

1. Do SMEs face financial problems?
2. What is the nature of finances that SMEs need?
3. What role do Small and Medium Scale Enterprises play in the economic growth of Nigeria?
4. What role do banks play in the financing of Small and Medium Scale Enterprises in Nigeria?

HYPOTHESIS I

H_o - There is a relationship between financial loan disbursement to SMEs and Small and Medium Enterprises growth in Nigeria.

H_1 - There is no relationship between financial loan disbursement to SMEs and Small and Medium Enterprises growth in Nigeria.

HYPOTHESIS II

H_o - There is relationship between loan duration granted to Small and Medium Enterprises and the SMEG in Nigeria.

H_1 - There is no relationship between loan duration granted to Small and Medium Enterprises and the SMEG in Nigeria.

LITERATURE REVIEW

Small and Medium Enterprises has been identified in many business surveys as one of the most important factors determining the survival and growth in both developing and developed countries. SMEs have an extremely important position in national economy and social life; especially in the aspect of employment and promoting urbanization (Hongbo, 2009).SMEs have no single universally acceptable definition. This is because there are no uniform criteria to measure them in terms of capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share, level of Development and even nomenclature (Ogechukwu, 2011). These differences in definition depend on country to country, organization to organization, industry to industry, school to school and author to author (Fatai, 2010). According to Central Bank of Nigeria (2013), SME is an enterprise with a maximum asset base of NGN 200million, without land and working capital, also the number of employees not less than 10 and not more than 300.SMEs in Nigeria can be categorized into urban and rural enterprises, Organized and Unorganized enterprises, or formal and informal enterprises. According to Aruwa (2014), organized enterprises paid employees and operates in a registered

office while the unorganized enterprises are mainly made up of artisans who work in open spaces. Operating in temporary wooden workshop or structures, they rely mostly on apprentices or family members and mostly low rate or no salary paid workers (Akeem, 2014).

THEORETICAL FRAMEWORK

The management of SMEs should consider the sense of being a good manager. According to Onugu (2005), this is capable of converting good intention into great results. The management theories desert the ways manager should run their organizations or businesses. This will give managers the proven system of planning, organizing, coordinating, leading and controlling of their economy. Various theories have been developed based on this information. These theories investigate factor that influence the application of SMEs for external / formal financing. Four theories are chosen as for the theoretical research frameworks to achieve the objective of the study. These theories include information asymmetry theory, human capital theory, firm, and strategies theories (Martin and Daniel, 2013).

HUMAN CAPITAL THEORY AND SMES FINANCING

Human capital include knowledge, skills competences, abilities, attitude, talents and experiences that are used by an individual to provide value to a firm, achieve the goals of firm and support the success of a firm (Khalid, 2014). Human capital is defined as a key element in improving firm assets and employees, increasing productivity, and sustaining competitive advantage. According to olowe et al (2013), human resources of a business venture act as a surrogate indicator of the competence and credibility of the firm and confidence level of external and internal stockholders. Therefore, influence of human capital to firm performance and education of owner-manager are not related to the success of a firm. According to Cassar (2004), discovers a negative relationship between bank financing and owner experience. The Human capital theory states that the education and experience of owner-manager influence the access of firms to external financing.

REVIEW OF EMPIRICAL STUDIES

According to Onwuegbuchunam et al (2013) Shipping businesses represent significant portion of SMEs and have dominated the private sector investments in developed nations. Existing studies have identified funding as a major constraint to SMEs in developing countries. The banking institution statutorily positioned to assist in SMEs funding in these countries are constrained by a host of factors. Their paper investigates the factors affecting banks financing and development of SMEs in the maritime shipping sector of Nigeria. Data for this study were obtained from

Likert scaled questionnaires which were administered to a randomly selected sample of commercial banks with shipping portfolios. Ordinal logit regression analysis was used in the Model formulation. Evidence from data analysis using ordered logit regression model indicates that; risk perception attitude of banks, information constraints on SMEs, lack of skills in SMEs financing and unfavourable regulatory environment are significant factors affecting banks investments in SMEs in Nigeria's shipping sector. Policy implications of the findings are discussed.

According to Afolabi (2013), the issue of sustainable growth and development has been a growing concern for policy makers and researcher in developing countries such as Nigeria. One of the problems faced by Small and Medium Enterprises (SMEs) operators is that government does not give chance or consider them when making policy in which priority is given to large organizations. This makes financing the major constraining factor to SMEs growth and hinders their potentials for enhancing economic growth in Nigeria. On the basis of the identified issue and existence of few quantitative empirical studies in this regards, the study investigated the effect of SMEs financing on economic growth in Nigeria between 1980 and 2010. The study employed Ordinary Least Square (OLS) method to estimate the multiple regression models. The estimated model results revealed that SMEs output proxy by wholesale and retail trade output as a component of gross domestic product, commercial banks' credit to SMEs and exchange rate of naira vis-à-vis U.S dollar exert positive influence on economic development proxy real gross domestic product while lending rate is found to exert negative effects on economic growth.

$$y_i = \alpha + \beta_1 SME + \beta_2 X + u \tag{1}$$

Where: y = Real Gross Domestic Product; SME = Small and Medium Enterprises (SMEs) activities; X = set of control variables; α = Intercept or constant; β = Parameters or Co-efficient of explanatory variables; u = Error term; Therefore, his empirical model for this study is specified as:

$$lnRGDP_t = \alpha + \beta_1 lnSMEQ_t + \beta_2 BCRT_t + \beta_3 lnEXCR_t + \beta_4 LNDR_t + u \tag{2}$$

Where: RGDP = Real gross domestic product; SMEQ = SMEs output proxy by Wholesale and Retail Trade output as a component of gross domestic product (GDP); BCRT = commercial banks' credit to SMEs; EXCR = Exchange rate of naira vis-à-vis U.S dollar; LNDR = lending rate; ln = log = natural logarithm; α = Intercept or constant; β = Parameters or Co-efficient of explanatory variables; and u = Error term. In terms of partial significance and using t-statistic as a test of evaluation, SMEs output and commercial banks' credit to SMEs were found to be significant factors enhancing economic growth in Nigeria at 5% critical level.

Therefore, emanating from the findings, the study proffered that the central authority should create an enabling environment for SME development.

The economic model used in the study (which was in line with what is mostly found in the literature) is given as: Small Business Growth $=f$ (Microfinance variables) Microfinance variables = (Loan Disbursement, Interest Rate, Loan Duration, Loan Repayment, and Collateral Security). Therefore,

$$SBC = \beta_0 + \beta_1 LDM + \beta_2 IRR + \beta_3 LDR + \beta_4 LRM + \beta_5 COS + \mu \qquad (3)$$

Where;

SBC = Small business growth; LDM = Loan disbursement; IRR = Interest rate
LDR = Loan duration; LRM = Loan repayment; COS = Collateral security
μ = disturbance term; β = intercept; $\beta_1 - \beta_3$ = coefficient of the independent variables

The results from this study showed that financial services obtained from MFBs have positive significant impact on SMEs growth in Nigeria. In the conclusions, the results revealed that duration of loan has positive impact on SMEs growth but not statistically significant. The results also showed that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Nigeria. The paper recommended that MFBs should lighten the condition for borrowing and increase the duration of their customers' loan and also spread the repayment over a long period of time. Spearman' Rho test and its t-test, were used to analysed the performance of commercial banks in SMEs financing and Central Bank of Nigeria (CBN) equity provision programme that is to carried out. The test done is a non-parametric equivalent test of correlation to matched pairs of data.

From his analysis, If Xi represents economic growth rate series and Yi is the rate of financial development, then one can consider the following bivariate random sample of size n, (X₁, Y₁), (X₂, Y₂), ..., (Xn, Yn). Let R (Xi) be the rank of Xi compared with the other values of X, for i=1, 2... n.

From the hypothesis conducted under this test, the null hypothesis is that variables Xi and Yi are mutually independent. In other words, there is no monotonic relation between the two variables. While the alternative hypothesis is that there is a tendency for the smaller values of X to be paired with the larger values of Y, and vice versa. Their test for the hypotheses of this study was based on the relationship between funding/market development of SMEs and constraining factors- risk perception, lack of information, skill gaps, regulatory or institutional limitations are also tested. They used the empirical log linear model;

$$\ln SMEsDev = \beta_0 + \beta_1 \ln Risk\_perception + \beta_2 \ln Info\_constraints + \beta_3 \ln Skill\_gaps + \beta_4 \ln Regulatory\_constraints + \varepsilon \qquad (4)$$

Where *SMEsDEV*: SMEs development; *Risk_ perception*: Risk perception attitude of the banks; *Info_ constraints*: Information about SMEs businesses; *Skill_ gaps*: knowledge or skill gap in SMEs financing; *Regulatory _constraints*: the regulatory environment of bank operation; and ε is the error term. *B* is vector of parameters of the model to be estimated. The Primary Method of data collection was employed. The choice of this method was to increase the commitment of the stakeholder. The questions drawn reveal the biological, socio-economic as well as health characteristics of the targeted SMEs. His discussion of finding shows that SMEs representing 75 percent of the total respondents were of the opinion that finance is the greatest challenge facing SMEs in Nigeria. More so, SMEs representing 25 percent of the total respondents were of the opinion that corruption is the greatest challenge facing SMEs in the country.

$$\text{Logit}(p) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 \beta_4 x_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + U_t. \qquad (5)$$

Where; β_0 = Constant term, β_1 – B_7 Regression Coefficient, X_1 = Age of Respondent X_2 = Gender, X_3 = Household size, X_4 = Education, X_5 = Major Occupation X_6 = Finance, X_7 = Length of Years in SME business

$$\text{Log}(p) = 25.87 - 0.79x_1 - 2.482 - 0.819x_3 - 3.04x_4 - 2.814x_5 - 0.001x_6 - 8.242x_7 + U_t$$

(6). se (25.87) (42.87) (74.98) (15.43) (9.89) (39.93) (0.000) (62.577) Nagel kerke R_2 = 0.891. The outcome of the empirical result reveals that the Nagel Kerke (R^2) is 0.891. This shows that about 89.1% of the variation in SMEs ability to create employment is jointly explained by the seven variables identified in the model. The outcome of the result confirms our apriori expectations where finance is the most outstanding factor constraining the ability of SMEs to create employment. With a sig value of 0.000, it is near 100 percent correct as a determinant of employment generation. In his conclusion and recommendation, that there is need that Since SMEs sourced their initial business capital form through the informal financial sources which they believe are largely inadequate; need the government to integrate the operations of the formal financial institutions. There is the need to establish formal financial institutions such as the Bank of Industry (BOI) with the mandate of providing financial support to the SMEs, by providing loans and other finance at the barest minimum interest rate. The provision of good roads, electricity, water supply, research institutes and so on.

RESEARCH METHODOLOGY
Research Design
In any empirical study, the study and procedures was quantitative research design been adopted by the researcher and are all determined by the nature of the problem being investigated and the objective of the study. The sources of data collected, procedures and method of gathering data as well as techniques for testing the

hypothesis. In other hands, the challenges posed in the study of banks financing SMEs in Nigeria hinges on the ability to specify a reliable and dependable model to capture the relationship between the two variables and also ascertain other determinants and growth.

Study Population

The Nigerian Small and Medium Enterprises (SMEs) population of study is 17.6 million (SMEDAN and NBS, 2010). However, this study is restricted to 90 randomly selected SMEs out of 418 registered SMEs in Nasarawa State. The stochastic model that accounts for a random variable (μi) cannot be explained on the dependent variable (Gujarat: 2007). The random variable introduce take into account or captures other factors which affect SMEs growth.

Model Specification

Koutsoyians (1997), has it that model specification refers to the statement of maintain hypotheses. An econometric investigation begins with the specification of the econometric model underlying the phenomenon of interest Gujarat: (2007).

Specification of a model generally is a function of the theoretical relationship between or among variables, the nature of study objectives and type of data Asogwa (2009), This has to do with expressing the model in mathematical and econometric from which would be used to explore the economic phenomenon. The random variable introduce take into account or captures other factors which affect SMEs financing. The model specification in its stochastic form yield:

$$SMEG = \beta_0 + \beta_1 FLDM + \beta_2 IRR + \beta_3 CS + \beta_4 LD + \mu i \quad \ldots\ldots\ldots\ldots(7)$$

Where; SMEG = Small and Medium Enterprises growth; FLDM = Financial Loan disbursement; IRR = Interest rate; CS = Collateral security, and LD = Loans Durations. μi = disturbance term or stochastic error; β_0 = intercept term

The linear regression result is summarized thus

$$\widehat{SMEG} = 314362.9 + 0.052021FLDM - 490.5407IRR - 0.075377CS + 51400.94LD \quad \ldots\ldots(8)$$

$\bar{R}^2 = 0.702079$, $R^2 = 0.768284$, F – Statistic = 11.60468, DW = 0.805537

Interpretation: Magnitude of Coefficient: The interpretation of the above result in terms of the coefficient is given as follows:

The estimate above shows that, at of all the independent variables affecting small and medium enterprises growth (SMEG), loan duration has the highest influence of 51400.94%, followed by interest rate of 490.5407%, followed by collateral security of 0.075377% and finally the financial loan disbursement by 0.052021%.

The intercept is 314362.9; this is simply the value of SMEG when all the independent variables are equal to zero. The implication of the sign of the intercept which is positive shows that all the independent not included in the model will have a positive impact on SMEG. The sign of the coefficient of financial loan disbursement (FLDM) 0.052021 which is positive meets our apriori expectation. The sign of the coefficient of the interest rate (IRR) 490.5407 which is negative meets our apriori expectation. The sign of the coefficient of collateral security (CS) 0.075377 which is negative meets our apriori expectation. The sign of the coefficient of the loan duration (LD) 51400.94 which is positive meets our apriori expectation.

Interpretation: Statistical Significance

The statistical significance above is that if the probability variable is less than 0.05 it is statistically significance. The probability variable of financial loan disbursement (FLDM) 0.0067 is statistically significance to SMEG. The probability variable of interest rate (IRR) 0.9665 is more than 0.05, not statistically significance to SMEG. The probability variable of collateral security (CS) 0.6309 is more than 0.05, not statistical significance to SMEG. The probability variable of loan duration (LD) 0.0388 is statistically significance to SMEG.

Log Linear Regression Test

$$\widehat{LNSMEG} = 9.969452 + 0.215562LNFLDM + 0.058085LNIRR - 0.019685LNCS + 0.303727LNLD\dots\dots(9)$$

$\bar{R}^2 = 0.913112$, $R^2 = 0.932420$, $F - Statistics = 48.29065$, $DW = 1.510802$

DISCUSSIONOF RESULTS

The equation 9 above contains linear regression test results for the research model. The results indicate that the coefficient of financial loan disbursement, interest rate, collateral security and loan duration are statistically significant and the constant is also statistically significant. The statistical significance of the constant implies that small and medium enterprises growth (SMEG) does not only depend on financial loan disbursement, interest rate, collateral security and loan duration but other variables may affect small and medium enterprises which were not included in the model. The coefficient of financial loan disbursement is found to be statistically significant at 5%t level as indicated by its probability value 0.0067and rightly signed (positive). This therefore, implies that 1% increase in financial loan disbursement increases the small and medium enterprises growth (SMEG) by 0.052021%. The coefficient of financial loan disbursement is statistically significant and is consistent with the a priori expectation which found to be positive (i.e. $B_1 > 0$). This low probability value implies that, the presence of that effect that can invalidate the

parameter is low at 5%. The coefficient of interest rate is found not to be statistically significant at 5% level as showed by its probability value 0.9665 and rightly signed (negative). This therefore, shows that 1 percent decrease in interest rate increases the small and medium enterprise growth (SMEG) by 490.5407%. The coefficient of interest rate is not statistically significant and is consistent with the a priori expectation which found to be negative (i.e. $B_2 < 0$). This high probability value shows that the presence of this impact that can invalidate the parameter is very high at 5%. The coefficient of collateral security is also found not to be statistically significant at 5% level as indicated by its probability value 0.6309 and rightly signed (negative). This therefore, shows that 1% decrease in collateral security increases the small and medium enterprises growth (SMEG) by 0.075377%. The coefficient of collateral security is not statistically significant and conformed to the a priori expectation which is found to be negative (i.e. $B_3 < 0$). This high probability value shows that, the presence of that effect that can invalidate the parameter is high at 5%. The coefficient of loan duration is found to be statistically significant at 5% level as shown by its probability value 0.0388 and rightly signed (positive). This implies that 1 percent increase in loan duration increases the small and medium enterprises growth (SMEG) by 51400.941%. The coefficient of loan duration is statistically significant and is consistent with the a priori expectation which found to be positive (i.e. $B_4 > 0$). This low probability value implies that, the presence of that effect that can invalidate the parameter is low at 5%.

The statistical significance of the constant implies that log small and medium enterprises growth (LNSMEG) does not only depend on log financial loan disbursement, log collateral security and log loan duration but other variables may affect small and medium enterprises which were not included in the model except log interest rate which will affect LNSMEG. The coefficient of log financial loan disbursement is found to be statistically significant at 5% level as indicated by its probability value 0.0000 and rightly signed (positive). This therefore, implies that 1% increase in log financial loan disbursement increases the log small and medium enterprises growth (LNSMEG) by 0.215562%. The coefficient of log financial loan disbursement is statistically significant and is consistent with the apriori expectation which found to be positive (i.e.$\beta_1 > 0$). This low probability value implies that, the presence of that effect that can invalidate the parameter is low at 5%. The coefficient of interest rate is found to be statistically significant at 5% level as showed by its probability value 0.7336 and rightly signed (positive). This therefore, shows that a 1% increases in interest rate increases the banks' lending power to loans to SMEs as this will favours them and affects the log small and medium enterprise growth (LNSMEG) by 0.058085%. The coefficient of log interest rate is

statistically significant and is not consistent with the a priori expectation because it favours the banks and not favourable to LNSMEG which found to be positive (i.e. $B_2 > 0$). This high probability value shows that the presence of this impact that can invalidate the parameter is very high at 7%. The coefficient of log collateral security is also found not to be statistically significant at 5% level as indicated by its probability value 0.4654 and rightly signed (negative). This therefore, shows that 1% decrease in log collateral security increases the log small and medium enterprises growth (LNSMEG) by 0.019685%. The coefficient of log collateral security is not statistically significant and conformed to the a priori expectation which is found to be negative (i.e. $B_3 < 0$). This high probability value shows that, the presence of that effect that can invalidate the parameter is high at 5%.

The coefficient of log loan duration is found to be statistically significant at 5% level as shown by its probability value 0.0095 and rightly signed (positive). This implies that 1% increase in log loan duration increases the log small and medium enterprises growth (LNSMEG) by 0.303727%. The coefficient of log loan duration is statistically significant and is consistent with the a priori expectation which found to be positive (i.e. $B_4 > 0$). This low probability value implies that, the presence of that effect that can invalidate the parameter is low at 5%. The F-statistics 11.60468, which is a measure of the joint significance of the explanatory variables, is found to be statistically significant at 5% level as indicated by the corresponding probability value of 0.1961. The R^2 0.768284 (76.8284%) implies that 76.8284% total variation in SMEG is explained by the regression equation. Coincidentally, the goodness of fit of the regression remained high after adjusting for the degree of freedom as indicated by the $\bar{R}^2$ ($\bar{R}^2$= 0.702079 or 70.2079%). The test for normality shows that the error terms follow normal distribution at 5% level of significance with 2 degree of freedom. This implies that classical assumption VII which stated that the Error Terms are Normally Distributed are not violated in the regression model. The test of serial correlation shows that there is no positive serial since d $>d_U$at 5 % level of significance. This implies that classical assumption IV which stated that No Serial Correlation between the Error Terms in a regression analysis is not violated. The test of heteroskedasticity shows that $X^2_{cal} < X^2_{tab}$ i.e. 1.635 < 10.620202, therefore we reject H_o and accept H_1. This mean the classical assumption V which stated that the error terms have a constant variance is met. Test for multicollinearity shows that there is no positive serial correlation since estimated variable does not exceed 0.80. The implication of this result is that classical assumption VI is not violated, i.e. there is No Perfect Collinearity between independent Variables.

CONCLUSION AND RECOMMENDATIONS

The study examines the role of banks in financing SMEs in Nigeria from the period of 1995 to 2013. An ordinary least square technique (OLS) was used in testing the variables; financial loan disbursement, interest rate, collateral security and loan duration which are independent variables and the small and medium enterprises growth as dependent variable in the model. In the model, there was a positive relationship between financial loan disbursement and small and medium enterprises growth which mean as loan disbursement increases, the small and medium enterprises growth also increases therefore, enhances the growth of the economy. The interest rate was negative which indicates that an increase in interest rate will bring about decrease in the level of small and medium enterprises growth. The collateral security was also negative which shows that an increase in percentage of collateral security rate will bring about decrease in the small and medium enterprises growth. There was a positive relationship between load duration and small and medium enterprises growth which implies that, an increase in loan duration will lead to increase in small and medium enterprises growth. The findings from the analysis made show that, there is a positive relationship between the financial loan disbursement and small and medium enterprises. Also there is positive relationship between loan duration and SMEs growth. Therefore, if financial loan and loan duration appreciates while the percentage of interest rate and collateral security is reduced, it will elevate the position of small and medium enterprises production and growth to the apex level. This will enable SMEs loaned more, employed more, increase production size, export more outputs, and import moreraw material, import machine to be used in production and manpower development. The study analyses the role of banks in financing small and medium enterprises in Nigeria. The research shows that increase in financial loan disbursement leads to increase SMEs growth. SMEs growth is not influence by financial loan disbursement alone but by other factors such as interest rate, collateral security and loan duration which are discovered to have exerted significant impact.

RECOMMENDATIONS

Based on the findings of this research, the following recommendations were made on how banks should improve in growing small and medium enterprises in Nigeria.
i. Since government could not provide all the needs and want of the people, there is need for the apex bank to mandate banks on the amount to be issued out as loans to small and medium enterprises.
ii. There is need to use any of the monetary policy measures to control interest rate to the lowest level of one digit in all loan able finances disbursement to small and medium enterprises in Nigeria.

iii. Most SMEs in Nigeria have no assets to secure loans from banks. Therefore, the collateral security should be in single digit percentage to encourage the newly and existing undeveloped SMEs to afford loans acquisition.

iv. Most of these loans are short term loans and cannot be used in long term investment. There is need for the banks to increase their loans duration to ten and above years. This will enable the investment grow before its maturity for payback period.

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