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# IMPACT OF COMMERCIAL BANK CREDITS TO SMALL AND MEDIUM SCALE ENTERPRISES ON POVERTY REDUCTION IN NIGERIA

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## ABSTRACT

*This study assessed the impact of commercial Bank credits to small and medium scale Enterprises on poverty reduction in Nigeria for the period 1980 to 2022. The Autoregressive Distributed Lag Model (ARDL) was used to analyze the variables of the study. The result indicated that credit to small and medium enterprises and the Gross domestic product (GDP) reduce poverty in the long run but not in the short run. The study also revealed that long run relationship exists among all the variables in the model based on the result of the Error correction model. The stability test attested to the fact that the model is a stable model and recommended that government should provide an enabling environment to thrive in order to boost productivity, create more jobs and reduce poverty.*

**Keywords**: *ARDL, Poverty reduction, Commercial bank credits, Nigeria, Small and Medium Enterprises*

## 1.0 Introduction

Small and Medium Scale Enterprise (SMEs) has proved to be significant tool developed nations adopt to attain socio-economic development. The small-scale business sector has recently been considered the backbone of the modern-day economy and one of the major contributors to global economic growth and job creation. In Nigeria, the genesis of small and medium scale enterprises is traceable to the year 1945 when the essential paper number 24 of 1945 titled "A Ten-year plan of development and welfare of Nigeria 1946" was presented (Aremu and Adeyemi, 2011). Since then, small and medium scale enterprises have risen in prominence over the years, with their importance expected to increase even further in the future.

In recent times, states have held numerous meetings with the Nigeria Association of Small and Medium Enterprises (SMEs) to promote the micro, small and medium enterprises in the state, Imoughelu and Ismaila (2014). The role of small and medium-sized enterprises (SMEs) in the national economy cannot be underestimated. They are the backbone of industrial development, which plays an important role in the economy of both developed and developing countries. It was reported by Oluwarotimi and Adamu, (2017) that despite efforts made by the Nigerian Government to boost credits availability to SMEs, poverty still remains one of the major socio- economic performance indicators in which the country has performed poorly. Despite endeavors and commitments of the previous and current Governments towards advancing SMEs, the promise made in the economy generally remains little regarding its effect on joblessness and poverty reduction. The rate of joblessness in the economy is high and the more significant part of the populace still live in poverty. Many authors ascribed the absence of credit as a significant imperative to the acknowledgement of the advantages of SME, (Osuagwu, 2001).

Available information from CBN 2012 shows that as at 1992, commercial bank loans to SMEs as a percentage of the total cost was 27.04% in 1997 and decreased to 8.68%, 0.85% and 0.14% in 2002, 2007 and 2010, while 2012 recorded 0.15%. Consequently, many SMEs in the country have continued to rely heavily on internally generated funds, which have limited their scope of operation. The crucial nature of this has made the Central Bank of Nigeria (CBN) to mandate all deposit money banks to maintain a loan to deposit ratio (LDR) of more than 60% in recent times. This underscores the importance attached to the role of bank credit as a backbone and catalyst to economic growth.

In Nigeria and perhaps throughout the world, the importance of small-scale business cannot be over emphasized. However, the small-scale enterprise sub-sector is seriously affected by structural problem. These include inadequate capital, Infrastructural deficiencies, Lack of technological knowledge, access to credit facilities and local market. These problems have hampered the development of small- scale business in Nigeria. Finance has been viewed as a critical element for the development of SMEs. Firms depend on a variety of sources for their finance which includes internal and external; formal and informal. However, the relationships among these sources and their effects on investment remain unclear in the literature. But in Nigerian context, this crucial source of finance for Small and Medium Scale Enterprises is apparently non-functional. This is in spite of a host of medium through which credit has been made available to SMEs over the years by the Nigeria Government with the most recent being Bank of Industry and recently renamed Bank of Agriculture.

Consequently, SMEs in Nigeria lack of access to credit has affected the ability of the SMEs to contribute meaningfully to Nigeria's poverty reduction. The evident challenges of the Nigeria economy notably those of unemployment and poverty which have been persistent overtime till the present time, may have been addressed in the past if SMEs were provided. The question here is, given the level of SMEs financing by commercial banks over the years, will this have any impact on poverty reduction?

It is against this background that this paper attempts to examine the impact of CBCSMEs on poverty reduction in Nigeria.

## 2.0 Literature Review

### 2.1 Conceptual Review

#### 2.1.1 Small and Medium Scale Enterprises (SMEs)

Small business enterprises are a collection of organization concerns engaged with financial exercises traversing from rural and small-scale enterprises to the modern industrial association that utilizes high technologies (Oke & Aluko, 2015).

Small and Medium Enterprises have been defined in several forms by different authors. The classification of a business as an SME usually follows the general criteria as recommended by the United Nations (UN) and Organization for Economic Cooperation and Development (OECD) using turnover asset base and the number of employees. (Musa, 2013; Bamidele, 2012; Aluko, 2002). However, one major common point is the conceptualization of SMEs been country specific. In Nigeria, for instance, SMEs is defined by Small and Medium Indusries Equity Investment Scheme (SMIEIS) as enterprises having a total capital employed not less than £1.5 million, but not exceeding £200 million , including working capital but excluding cost of land with a staff strength between 10 and 300, ( Imoughele and Ismaila, 2014). This conceptualization will be used for the purpose of this study bearing in mind that there are many definitions of SMEs by different authors in the literature. ESuh and Adebayo (2012) noted that they are businesses arising from entrepreneurial activities of individual.

Nigerian Industrial policy defined small scale business as industries with total investment of between 100,000 thousand naira and, 2 million naira, exclusive of land but including working capital. According to Afolabi (2013), SMEs are businesses that employ not fewer than 15 employees under the Australian Fair Work Act (2009) to fewer than 500 employees under the US while the European Commission defined medium business as enterprises which employ fewer than 250 employees and nor having an annual balance sheet total not exceeding £43 million.

### 2.1.2 Roles of Small and Medium Scale Enterprises in Nigeria's Economy

Small-scale enterprises play vital and critical roles in the industrial development of any country (Ahmed, 2006). Small-scale enterprises have the prospect of emerging domestic economy by producing tangible things and services that drive Nigeria's economy. Rehanet et al., (2015) posited that the need to concentrate on small-scale enterprises turned out to be critical towards Nigeria because it was considered a technique of assuring self-liberty, employment openings, with import revenues, fruitful and productive of native raw resources. Small-scale businesses in Nigeria contribute occupations and techniques to be businesspersons. The small enterprises enthused from merely donating communal produce hitherto as a vehicle to entrepreneurship. It seals in as a source of employment formation and financial development. This is the main reason considerations are continuously remunerated on small enterprises by strategy makers in Nigeria. Small and medium enterprises (SMEs) fill an imperative environment in the economic development of Nigeria as they embrace the massive potential for generating jobs, developing indigenous knowledge, and the divergence of the monetary and forward integration with established areas such as banking and so on. It has played a role by remaining as the source of primary and secondary employment in Nigeria.

Furthermore, they help reduce the crime rate, Government's expenditure, and poverty social, creating wealth and raising the standard of living for Nigerians. More so, the role of small and medium enterprises in any nation's technological and industrial development justifies the need for greater attention to this sector. The foundation of growth in developed countries is usually attributed to the contribution of small and medium enterprises. Given the vital contributions which SMEs play in developed and developing economies and considering the ongoing reforms by the Government of Nigeria, which are primarily aimed at creating wealth, reducing poverty, generating employment, re-orientating values, and stimulating real economic growth, it becomes compelling for the SME sub-sector to be revitalized toward playing its expected roles. The SMEs remain a veritable vehicle for the transformation of the Nigerian economy (Afolabi, 2013).

### 2.1.3 Credit to Small and Medium-Scale Enterprises

Provision of finance, otherwise lending by definition, is a bank's legal function. In essence, it is one of the primary functions or purposes of the existence of a bank. Lending is perhaps one of the most important roles performed by deposit money banks in Nigeria. These banks usually play their intermediation role by sourcing funds through customer deposits and lending such funds out as short-term, medium-term or long-term loans to corporate bodies, Governments at various levels, institutions and individuals. The practice of lending by deposit money banks essentially constitutes the pivot of their operations and business. This is the reason which informs their deployment of considerable expertise and skill on the part of the bank management teams on lending administration and management, ( Anyanwokoro, 2008).

### 2.1.4 Concept of Commercial Bank Credits

Credit refers to lending and borrowing funds from financial able bodies such as banks, Government, individuals and financial institutions. It is also described as a means of obtaining resources at a certain period with an obligation to repay following terms and conditions attached to it. In creating credit, a bank has to know how much of its idle funds is available after satisfying the requirements of the regulatory authorities like the Central Bank of Nigeria and Nigeria Deposit Insurance Corporation. In doing this, the regulatory rules apply the reserve requirements (cash reserve ratio and liquidity ratio) and other monetary policy tools such as Open Market Operations (OMO), asymmetric corridor around the Monetary Policy Rate (MPR)and stabilization securities to control the volume, size, cost and flow bank credit ( Nzotta, 2005).

Banks usually grant credit after a rigorous process of credit administration. These are typically referred to as lending and include character, capability or capacity, capital, cost, collateral and condition. Nzotta (2005) explained that most banks in Nigeria maintain stringent compliance to these can nons coupled with high cost of loans (high lending rate), hence making it difficult for some borrowers especially small and medium scale enterprises (SMEs), to access vital credit for growth and expansion.

Despite efforts aimed at ensuring an increased level of lending to SMEs in the country, banks in Nigeria have shown reluctance to provide the necessary assistance to raise entrepreneurial business, attributing this to the high level of risk associated with lending for small-scale enterprises. According to Nzotta (2005), the bankers' committee in Nigeria agreed to set aside10% of the profit before taxes (PBT) of each bank to finance entrepreneurship. However, these financial intermediaries still determine the rules for allocating funds to the real sector and play a significant role in determining the type of investment activities, job creation, and income distribution to the industry.

One of the main reasons for the controlled and low provision of bank credit to small and medium-scale enterprises (SMEs), according to Adegbite (2009), is the high cost of administering such loans, the perceived high default rates and the rising cases of non-performing loans (NPLs)which is fast becoming a perennial problem in the banking industry in Nigeria. However, Nzotta (2005) posits that this may not be a plausible reason except for a developing economy lacking a robust financial system. Another reason for the inadequate funding of small and medium-scale enterprises is the government's poor structural support of SMEs. This discourages the banks from increasing the level of credit to entrepreneurship ventures.

However, it must be pointed out that some policies and programmes have been enunciated to help increase access to finance by SMEs in the country. One such policy is the recent mandatory directive by Central Bank of Nigeria (CBN)to banks, compelling them to increase their loan-to-deposit ratio (LDR) to 60% and a further 65% in the latest directive issued in October 2019. According to the regulatory authority, failure to adhere to this will make the banks forfeit a sizeable amount of their deposits with the apex bank. Also, the activities of the Government in providing special funds through the Central Bank of Nigeria (CBN), Bank of Agriculture (BOA) and Bank of Industry (BOI) constitute efforts at ensuring that funds are made available to small and medium-scale enterprises (SMEs) and organized private sector for productive activities.

### 2.1.5 The concept of poverty

It is believed that concept of poverty can be viewed and analyzed from various different perspectives. The lack of academic consensus has resulted in seemingly relative definitions and explanations in various works of authors, researchers and experts. This necessitates the use of different criteria to define poverty. The concept of poverty has been conceived by various scholars and professionals in relation to its different forms. Kurfi (2009) posited that poverty lacks a definite meaning and the term is characterized by many faces depending on how individuals perceive it. In a related view, Momoh (2005) was of the opinion that poverty is a phenomenon with many dimensions, but that the term is particularly related to lack of socio-cultural, political and economic entitlements.

Oyeranti and Olayiwola (2005) on their own opined that, poverty in relation to deprivation inessential needs; poverty in terms of inadequacy of socio-economic needs of individuals; and poverty in relation to its difficulty to be objectively determined, constitute the three major areas of focus in the literature in relation to the definition and explanation of the concept of poverty. Their views are partly in line with Adebayo (2009),who viewed poverty as capable of physically and psychologically subjecting its victims to suffering in all ramifications, including hunger, discrimination, socio-political repression and human insecurity. The Organization for Economic Co-operation and Development (2001) argued that poverty is an encompassing concept characterized with multifaceted deprivations. This supports the idea that poverty is a multidimensional concept. According to European Commission (2004), "people are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to life long learning, culture, sport and recreation. They are often excluded and marginalized from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted. Ogwumike, (2001) described the term poverty as an occurrence that characterized a domestic family whereby they are not capable to afford sufficient earnings to acquire essential needs for survival on daily basis such as nutritional food, clothing and education. In addition, Obayelu et al (2006) viewed factors such as physical, emotional and moral pains challenges the poor often experience; and in corroboration, Sen, (1999) opined that poor individuals live a life devoid of primary liberties of activities and options as against rich individuals who do not take these factors seriously.

Poverty exists globally and it is viewed as a phenomenon, which affects all nations and afflicts people's indifferent ways, times, levels and phases, (Oyeyomi, 2003). The most dominant means of measuring poverty, from the views of World Bank (2002), is in accordance with income or consumption line. Accordingly, an be adjudged as poor if he or she is characterized by minimum consumption level considered to be necessary in meeting basic needs falls below 1USD per day. According to the CBN (1999), poverty is "a state where an individual is not able to cater adequately for his or her basic needs of food, clothing and shelter; is unable to meet social and economic obligations, lacks gainful employment, skills, assets and self-esteem; and has limited access to social and economic infrastructure such as education, health, portable water, and sanitation; and consequently, has limited chance of advancing his or her welfare to the limit of his or her capabilities". Based on the available literature on poverty, Hulme, Moore, and Shepherd (2001) identified four factors and their specific characteristics that are believed to be the main causes for poverty.

1. Economic factor: inadequate skills, terms of trade, economic shocks, and low productivity.
2. Social factor: discrimination, health issues, inequality, and lack of trust.

3. Political factor: bad governance, violence, and insecurity.
4. Environmental factor: low-quality natural resources, natural disasters, and remoteness.

### 2.1.6 The Nigerian poverty profile

The Nigeria poverty profile began to trend after the oil boom in the 1970s (Okoli, 2015; Ozoana, 2013). It was further discovered by Ozoana, that the 1980s saw the collapse of the oil price in the international market, which resulted in a decline in the revenue of Nigeria.

Nigeria abandoned the non-oil sector, which metamorphosed to the decline of the country's revenue while her poverty level increased. Again, Okoli, (2015) and Ozoana (2013) noted that the continuous nose-diving of the oil prices in the international market resulted in the dismal poverty level in the country. Government revenue also started reducing as a result of the over-dependency on oil revenue and the inability to mobilize funds from the non-oil sector. To add more salt to the country's injury, the external reserves of Nigeria become deteriorated and emanated to huge accumulated trade arrears. As a result, which could not make the government provide basic amenities and social facilities; and in investing in anti-poverty programmes to improve SMEs' performance becomes a problem. The government is adequately supporting the SMEs sector in recent years with its antipoverty policy aimed at promoting SMEs in Nigeria, in a way to increase employment and intending to reduce poverty. Despite this, the government policies failed actually to mitigate poverty reduction and raise doubts in mind Nigerians on how sincere is the government in the implementation of the SMEs' development policies (Tijani, Oyeniyi & Ogunyomi, 2012; Anigbogu, Edoko, Okoli, 2016).

### 2.1.7 Theoretical link between SMEs Financing and poverty reduction in Nigeria

With an estimation population of about219 million and GDP/capita of $2441 in 2022, more than half of Nigeria people (133million) are poor. Nigeria has the third highest number of poor people in the world. Most of these poor people are dependent on small and medium scale enterprises for their livelihood. As such, their entrepreneurial contributions are strategic to the Nigerian economic development and their growth has great potential to contribute to income generation and poverty alleviation. Various interventions have been made in different countries to cater for the peculiar needs of SMEs, (World Bank, 2022).

These interventions include: institutional support, training in the relevant skills, tax concessions, technological acquisition and liberalized access to credit and innovation schemes, Obadan and Agba (2006).Attempts made to address the problem of SMEs in Nigeria include direct lending by various financial institutions, see table 1. Similarly, specification of credit guidelines by the Central Bank of Nigeria to banks' lending to SMEs at concessionary rates through participating banks, Inang and Ukpong (1992), Inegbenebor, (2006). Other schemes include the establishment of the second-tier security market, the merger of the Nigerian Bank for commerce and industry, the Nigerian Industrial Development Banks and the National Economic Reconstruction Fund into the bank of industry to provide cheap financial and business support services to SMEs. All these have not been as successful as anticipated. Studied on lending experience of five major banks in Nigeria from 1990-2006 showed that non-performing loans and advances range from 40-50% among commercial banks. The poor attitude of Nigerians to loan repayment led to unwillingness of the banks to lend to the real sector in preference for the trade sector, Feese (1994), Inegbenebor (2006).

The latest attempt by the Central Bank of Nigeria and the banker's committee to tackle the financial problems of SMEs is the establishment of Small and Medium Enterprises Equity Investment Scheme (SMEEIS). The scheme requires all banks in Nigeria to set aside 10% of their profit before tax annually for equity investment in small and medium enterprises operating in the productive sector of the economy. The scheme commenced in June 2001 and is aimed at: facilitating the flow of funds from banks for the establishment of new viable small medium industry projects, stimulating economic growth, developing local technology, promoting indigenous entrepreneurship, generating employment, (UME 2001).For purpose of clarity.

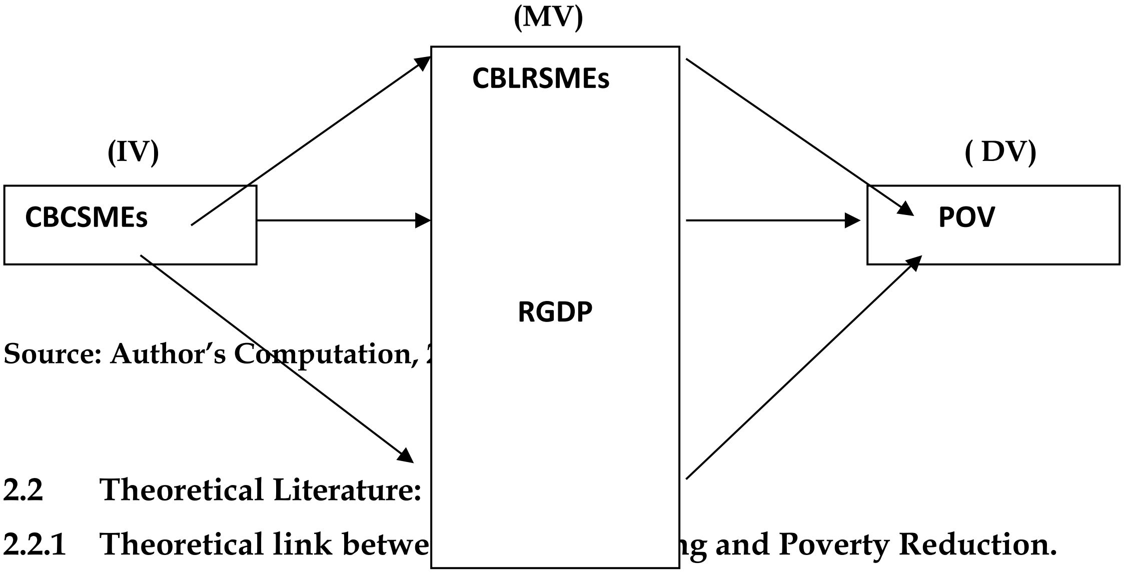
### 2.1.8 Challenges of Banking Sector Credit in Financing SMEs in Nigeria

It is generally accepted by both practitioners and academics that SMEs serve as catalysts for the economic growth of any nation's economy. However, SMEs are faced with many challenges in Nigeria; one of the major challenges faced by SMEs is inadequate capital to finance their operations (Fatai, 2009).Empirical evidence shows that financing contributes about 25% to the success of SMEs in Nigeria (Ogujuiba etal,2004). A World Bank report showed that 39% of small-scale and 37% of medium-scale firms in Nigeria are financially constrained. Many SMEs in Nigeria lack the capital to continue their business and are forced to wind up because they cannot access the required funds. A 2001 World Bank survey on Nigeria showedthatalthough85%of the firms had a relationship with banks, most had no credit access (Terungwa,2011). The lack of adequate financing for SMEs is traceable to, among other reasons, the reluctance of banks to extend credits to them for the following reasons: Inadequate collateral by SME operators, weak demand for the products of SMEs as a result of the dwindling purchasing power of Nigerians, lack of patronage of locally produced goods and poor management practices by SMEs operators.

### 2.1.9 Conceptual Framework

Adapting the poverty reduction theory, the underpinning concepts for this study is depicted in figure 1 below.

**Figure 1**




**Source: Author's Computation,**

### 2.2 Theoretical Literature:

### 2.2.1 Theoretical link betwe g and Poverty Reduction.

Poverty reduction theory is also adopted to give a solid foundation for the study. One of the poverty reduction theories postulated by Karl Marxian which explains that poverty comes about as a result of the situation a poor person finds himself or herself which resulted from so many factors that lead to making the poor a victim of circumstances that is critical of the production system (Alfandega, 2017). Karl Marx revealed that the entrepreneurial practices of the who owns means of production (capitalists) need to move away from labour to capital intensive ways of production to boost production hitch will result to increase profitability can also lead to massive unemployment and this causes poverty.

Capital intensive production will pressurize the capitalist to retrench workers to make way for increase profitability as a result, will lead to massive unemployment. In any case, retrenched workers will either migrate to resurface in urban areas or change professions. This continued retrenchments by capitalists will increase the number of poor in the economy, and the long-run effect is increasing in poverty levels. A series of structural failures give rise to an increase in the number of poor. Gordon (1982) also observed these structural defects to be racial and gender discrimination and nepotism, resulting in deprivation of a particular section of the populace's opportunities for jobs, education and social assistance.

Albrecht and Milford (2001) in his contribution to this theory, opined that massive restructuring of economic systems would lead to increased economic and social marginalization of an entire group of people. Such groups end up poorer due to the lack of access to opportunities. The Marxist theory, in his recommendation, put poverty alleviation through better structures of production and increased education and training to those rendered extraneously by technological improvement to adapt through a change of environment to change of profession.

This theory hence put forward the necessity for SMEs to be lifted out of poverty through the adoption of better structures of production capable of improving their level of income. In the long run, the issue of poverty can be minimized.

## 2.3 Empirical Review

This paper reviewed several empirical studies on the impact of commercial banks credits to SMEs on poverty reduction in Nigeria.

Kimani, H.K. (2022) examined the influence of access to finances and poverty reduction in developing countries using a desk study review methodology. The paper concluded that access to finance by SMEs enhanced access to home improvement which led to improvement in living condition and hence poverty reduction.

Bello, S.A and Can, N (2022) in their paper studied the effects of Bank of Industry MSMEs financing on poverty reduction in North Central Nigeria. Using a descriptive survey technique, 130 questionnaires were distributed to respondents and hypotheses were tested using independent t-test and one-way ANOVA at 0.05 level of significance. The paper concluded that Bank of Industries MSMEs financing has a significant effect on poverty reduction.

Ogundele, A.T., et., al (2022), examined how financing of Small and Medium Scale Enterprises in Nigeria contributes to reduction in poverty using data from CBN annual report from 199-2021. The study further established that SMEs and poverty reduction have a long-term relationship using Autoregressive Distributive Lag (ARDL). It was further discovered that, financing SMEs through commercial banks credits and interest rate is incidental to poverty reduction in Nigeria.

John-Akamelu and Muogbo (2018) evaluated the contribution of small and medium scale enterprises in poverty eradication in Nigeria. Primary data were sourced from the population size of 150 through the administration of a questionnaire to employees of some selected SME' S in Anambra state, and the sourced data were analyzed using the Chi-square method. Findings revealed, that small and medium enterprises provided employment opportunities, training ground, and harness utilization of local resources, thereby helping in reducing the poverty rate in Nigeria

Ayodeji and Ajala (2017) examined micro-financing and poverty reduction in Nigeria, covering a time scope from 2000 to 2016. The study sourced secondary data on microfinance credit, a number of microfinance banks registered, and interest rate whole autoregressive distributed lag was used as the estimation technique. It was found, that there exists a long-run relationship between micro-financing and rural-poverty reduction. Also, microfinance credit was found to be significantly negatively related to rural poverty index, such that the higher the microfinance credits available to the rural dwellers, the lower the rural poverty index, though the numbers of microfinance banks is insignificantly positively related to rural poverty index in Nigeria.

Hussain, Bhuiyan and Said (2015) accessed the role of micro, small and medium enterprises in eradicating poverty in Malaysia. The study used a content approach by reviewing extensively on the existing studies on the subject matter, and it was found that the development of micro, small, & medium enterprises depends on individuals or a group of peoples that have certain factors such as innovativeness, family background, government support programs, and training or education. As a result, individual entrepreneurial characteristics, like an increase in youth empowerment and women participation in entrepreneurship. A significant role played in the development of entrepreneurship is the robust collaboration between government-university-industry resulted in stimulating employment and create job opportunities which will lead to alleviating poverty

In a study of the role of SMEs in economic development in Ekiti State from 2006 to 2013 using Chi-square approach, Yusuf & Dansu (2013) revealed that SMEs have significant impact in reducing poverty and improving standard of living, and employment creation in Ekiti State. They further reported that decline in interest rate increases access to capital which invariably enhances the performance of SMEs in the state. Collaborating with the early study, Owenvbiugie & Igbinedion (2015) adopted a survey research design to analyze the impact of finance on the performance of SMEs in Edo State, Nigeria. The study identified poor access to fund due to that stringent measure from financial institutions hinders the growth of SMEs.

In a similar study, Safiyyah & Garba (2013) employed descriptive analyses to examine the role of commercial banks in enhancing the performance of SMEs in Nigeria from 1980 to 2009. The study found that commercial bank credit to SMEs declined due to the abolition of mandatory bank's credit allocations to the sector. In recognition of the importance of financial options available to SMEs, Gbandi & Amissah (2014) maintained that funding of SMEs is crucial for sustainable growth and development of Nigerian economy.

However, few studies have been conducted on the impact of bank credit on unemployment and poverty reduction in Nigeria. For instance, Olawale (2014) in his study of importance of SMEs in alleviation of the challenges of development in South Africa reveals the improvement on the SMEs capacity and opportunities but still below international standard. The study maintained that the rate at which the old firms leave the business is much more than the rate of setting up the business, this is mostly associated to net loss that is prone to the business. These have undermined the role of SMEs in alleviating the challenges of development in the country.

In a study of how SMEs reduce poverty in North Western Nigeria using t-test analysis on both primary and secondary data with a sample of four hundred SMEs selected from Sokoto and Zamfara states, Abubakar & Yahya (2013) sought to identify the main features and the manner of operations of SMEs in these states. The study discovers that large firms employ more people than the SMEs. This result is not in line with the postulation that SMEs is pivotal to employment creation.

In a related study of SMEs, job creation and poverty reduction in Nigeria, Aremu & Adeyemi (2011) revealed that the multiplier effect of SMEs enable it to act as a catalyst for economic growth. The study affirmed that SMEs led to employment generation and creation of wealth which invariably resulted to equitable income distribution and poverty reduction. Furthermore, the study concluded that poor policy monitoring and coordination were the cause of failure of previous intervention programmes of government towards enhancing SMEs in Nigeria. Also Safiryu & Njogo (2012) studied entrepreneurial skill, poverty reduction and improvement of standard of living in Nigeria using simple percentage and Chi-square method on data obtained through questionnaires and interviews. The study found that SMEs are responsible for employment creation in Nigeria which consequently resulted to poverty reduction.

Oregu and Chima (2013) carried out a study on small scale enterprises roles in reducing poverty in Nigeria between 2001 and 2011. Secondary data were sourced from CBN Annual reports statement of account of various editions. Two models were estimated of which the first model says that employment level proxied by poverty is a function of SME's gross domestic product, agriculture gross domestic product and manufacturing gross domestic product, on the other hand, the second model says that, SME's GDP is a function of commercial bank loans, government fund to SME's and interest rate. These models were estimated using regression analysis. The earnings of SMEs captured by their contributions to GDP were statistically significant to explain the level of employment and, therefore, the reduction of poverty. Furthermore, SME financing and the level of government participation are not significant for the growth of SMEs, measured by their level of income (SGDP).

Ogbuabor, Malaolu and Tuluma (2013) assessed the usefulness of providing the double economic problems of poverty and unemployment in Nigeria through small businesses, commonly known as burnt walls. He also examined the socio-economic characteristics of the bricklayers and also the main problems that threaten their growth and performance. The variables used were household

socio-economic characteristics such as annual income from burnt bricklaying, the quantity of bricks laid, number of meals taken per day house type, access to improved medical service, access to clothing, children/family members education, level of education of the respondents and family size. The results show that burnt bricklaying has a significant positive effect on poverty alleviation, income generation job creation in Nigeria.

Tersoo (2013) focused on national poverty eradication programme on wealth creation in Benue State by examining the current strategies adopted by the Federal Government of Nigeria through National Poverty Eradication Programme (NAPEP) and the effect on the beneficiaries in Benue State. The explanatory survey method was utilized for the collection of data through questionnaire administered on one hundred and nine (109) respondents selected from beneficiaries and key officials of NAPEP in six (6) local government areas of Benue State. The study suggested that the strategies employed by NAPEP had not made a significant impact in improving the lives of beneficiaries in implementation strategies adopted by NAPEP. More so, poor funding, corruption, as well as the untimely release of funds, inability to effectively monitor and impact assessment plans, with bad governance were seen as most important major constrains in the successful implementation of poverty reduction programmes in Nigeria. SSS

## 3.0 Methodology

This section discussed the methods adopted in the study, data sources, variable measurement and models specification.

### 3.1 Data Sources

This study covers a period of thirty-two years, spanning from 1992 to 2023, in which data were collected on poverty rates as the dependent variables and data collected on commercial bank credits to SMEs serves as the explanatory variable while data on average commercial bank lending rate, unemployment rate, gross domestic product and inflation rate were used to proxy as moderating variables for the hypothesis. A secondary source of data is employed for this study. The data were collected from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics for thirty-two years. That is, from1992 to 2023.

### 3.2 Variables and measurements

The study adopted the model of poverty reduction theory as specified by Edom, et al (2015), with modification by including average commercial bank lending rates to SMEs, inflation rates and unemployment rates which have persistently been on the increase in recent period in the Nigerian economy and the real gross development product as moderating variables. Therefore, the model for the study is specified to examine the impact of commercial bank financing of small and medium scale enterprises on SMEs in poverty reduction in Nigeria. The variables were measured in percentages hence do not required taking the logarithms of the data.

### 3.3 Tools of Analysis

#### 3.3.1 Descriptive Statistics

A descriptive statistic of the variables is required to determine the mean, median and standard deviations of the variables from the mean. The value of the Jarque-Bera statistics determines the normality of the distribution of the variables. A variable is not normally distributed when its probability value is less than 5% and vice versa.

#### 3.3.2 Unit Root Test

This study applied a unit root test to determine if the data is stationary before any analysis can be conducted. This is required to validate the data for analysis. The results of the unit root test using Augmented Dicky-Fuller is presented. According to Gujarati and Porter (2009), the ADF rules state that ADF must be higher than the critical values in absolute term for it to be stationary.

#### 3.3.3 Co- integration Test

The co-integration test is conducted to know if long run relationship exists among the variables of the study.

#### 3.3.4 Autoregressive Distributed Lag Model (ARDL)

The Autoregressive Distributed Lag Model was adopted for the analysis. Pesaran, Shin and Smith (2001) and Pesaran and Pesaran (1997) argue that if the results of stationary test of dataset shows that the variables of interest comprise of I(0) and I(1) variables, ARDL and Bound test would be the appropriate technique of estimation. The ARDL technique to co-integration fails in the presence I(2) in any variables (Frimpong et al., 2006). An Autoregressive Distributed Lag (ARDL) regression model analysis was used to estimate the study's parameters. This method of testing is applied to obtain the numerical estimates of the coefficients of the equations. A schematic presentation of the model is as follows:

POV = f ( CBCSMEs, ACBLRSMEs, UEMPR, RGDP) ……………………….(1)

Where;

POV = Poverty reduction
CBCSMEs = Commercial bank credits to SMEs
RGDP = Real Gross Domestic Product (Proxy for economic growth)
UEMPR = unemployment reduction
ACBLRSMEs = Average commercial bank lending rates to SMEs
The econometric form of equation 1 above thus becomes;

$$POVR=\alpha_0+\alpha_1 CBCSME + \alpha_2 UEMPR + \alpha_3 RGDP +\alpha_4 ACBLRSMEs+ \pi \ldots\ldots\ldots\ldots 2$$

Where;

$\alpha_0$ = Unknown constant to be estimated
$\alpha_1$ to $\alpha_4$ = Unknown coefficients to be estimated
$\pi$ = Stochastic error term
$\alpha_1, \alpha_2 \quad \alpha_3 \; \alpha_4 \geq 0$ n

## 4.0 Results and Discussions

### 4.1 Descriptive Statistics

Table 4.1 below summarizes all the statistics of all the variables utilized in the analysis.

**Table 4.1 Descriptive statistics (observations = 33)**

| | CBSME | ACBLRSMEs | POV | RGDP | UEMPR |
|---|---|---|---|---|---|
| Mean | 7.518438 | 16.70094 | 57.80188 | 4.250625 | 16.01906 |
| Median | 0.780000 | 17.42500 | 58.60000 | 4.215000 | 14.61000 |
| Maximum | 48.80000 | 29.80000 | 70.60000 | 15.33000 | 33.20000 |
| Minimum | 0.070000 | 4.500000 | 40.00000 | -1.810000 | 4.790000 |
| Std. Dev. | 11.68332 | 5.999589 | 9.170825 | 3.582428 | 7.859898 |
| Skewness | 1.894989 | -0.182095 | -0.511113 | 0.591973 | 0.260016 |
| Kurtosis | 6.314958 | 3.293448 | 2.288212 | 4.245467 | 2.163275 |
| Jarque-Bera | 33.80384 | 0.291661 | 2.068782 | 3.937221 | 1.294056 |
| Probability | 0.000000 | 0.864304 | 0.355443 | 0.139651 | 0.523600 |
| Sum | 240.5900 | 534.4300 | 1849.660 | 136.0200 | 512.6100 |
| Sum Sq. Dev. | 4231.500 | 1115.847 | 2607.225 | 397.8476 | 1915.118 |
| Observations | 32 | 32 | 32 | 32 | 32 |

All the variables in the model except CBSME are normally distributed based on their probability values.

### 4.2 Unit Root Test

**Table 4.2 Augmented Dickey-Fuller (ADF) Unit Root Test**

| Variables | ADF Statistics | Critical Values | Level of Significance | Order of Integration | Remark |
|---|---|---|---|---|---|
| POV | -5.614936 | -2.944372 | 5% | 1(1) | Stationary |

| | | | | | |
|---|---|---|---|---|---|
| CBSME | -6.176794 | -2.945322 | 5% | 1(1) | Stationary |
| GDPCG | -6.166587 | -2.951225 | 5% | 1(1) | Stationary |
| INTR | -6.346577 | -2.944372 | 5% | 1(1) | Stationary |
| UEMPR | -4.770532 | -2.94322 | 5% | 1(0) | Stationary |

Source: Author's computation using E-view 10

From table 4.2 above, none of the variables was stationary at second difference, I(2), therefore supporting the use of ARDL bounds Co-integration approach.

## 4.3 Optimal Lag Results

**Table 4.3 Optimal Lag length selection result**

| Lag | LogL | LR | FPE | AIC | SC | HQ |
|---|---|---|---|---|---|---|
| 0 | -410.2486 | NA | 11584364 | 27.61658 | 27.80340 | 27.67634 |
| 1 | -340.3377 | 116.5183 | 322403.7 | 24.02251 | 24.95664 | 24.32135 |
| 2 | -380.2292* | 44.95186* | 117390.7* | 22.94861* | 24.36005* | 23.48652 |

**Author's computation using E-views 10**

The lag length selection was based on the Akaike information criterion because it has the minimum values among all the criteria. Based on the results on Table 4.3, with maximum lag of 3, the selected Model was: ARDL (1, 3, 2, 3, 1, 3).

## 4.4 Long-run and Short-run Results

The long-run and short-run results are presented in table 4.4 and 4.5 below respectively.

**Table 4.4 Long –run results (selected Model: ARDL)**

| Variable | Coefficient | Std. Error | t-Statistics | Prob. |
|---|---|---|---|---|
| CBSME | -0.939520 | 0.574800 | -1.634514 | 0.1186 |
| ACBLR | 1.973046 | 0.869320 | 2.269543 | 0.0351 |
| RGDP | - 1.864029 | 1.284499 | -1.451172 | 0.1630 |
| UEMPR | -0.723573 | 0.442511 | -1.635152 | 0.1185 |
| EC= POV-(-0.9395*CBSME+1.9730*INTR-1.8640*RGDP-0.7236*UEMPR+51.3083) | | | | |

**Author's computation using E-views 10**

The long run result on table 4.4 above shows that CBSME is negatively related with poverty based on the coefficient of -0.939520 and statistically significant at 10%. 1% increase in CBSME will reduce poverty by 93%. There is also 197% increase in poverty as a result of 1% increase in ACBLRSMEs based on the value of 1.973and it is significant. RGDP reduces poverty by 186% as it increases by1% and statistically significant at 10% level. All the above results agree with theoretical underpinning. However, negative relationship exists between poverty and unemployment, meaning decrease in poverty by 72% is as a result of 1% increase unemployment which is against the theoretical expectations. Meaning that not all employed are rich which also means that an individual can still be employed and be poor at the same.

**Table 4.5: Short-run Results**

| Variable | Coefficient | Std. Error | t-Statistics | Prob. |
|---|---|---|---|---|
| D (ACLR) | 0.213353 | 0.231807 | 0.920391 | 0.3689 |
| D (ACLR(-1)) | -0.971336 | 0.231536 | -4.195189 | 0.0005 |
| D (RGDP) | 0.510943 | 0.309926 | 1.648595 | 0.1157 |
| D (RGDP(-1)) | 1.243056 | 0.367080 | 3.386333 | 0.0031 |
| D (UEMPR) | -0.69886 | 0.176215 | -0.396593 | 0.6961 |
| CointEq(-1)* | -0.640586 | 0.147948 | -4.329810 | 0.0004 |

**Author's computation using E-views 10**

From table 4.5 above, the short run analysis further showed that the coefficient of the error correction term (ECT) was statistically significant with the expected negative sign. The coefficient showed a convergence to equilibrium and suggested that about 64% of the disequilibrium in the previous year was corrected in the current year. The coefficient of determination was good which 59 % is. It means that about 59% of the variation in poverty rate in Nigeria was explained or accounted for by the explanatory variables included in model of the study while 41% variation were accounted for by other variables not captured in models and were represented by the stochastic variable (error term).

## 4.6 Bounds Co-integration Test result

The calculated Fisherian statistic of the normalized equation as shown in Table 4.5 below is 7.051749, and is greater than both the lower bound critical values and upper bound critical values at 10% and 5% levels of significance. Hence, the null hypothesis of no long-run relationship was strongly rejected, meaning that long-run relationship exists among the variables used in the model.

**Table 4.6 Bound Test**

| Test Statistics | Value | Signif. | I(0) | I(1) |
|---|---|---|---|---|
| F-statistics | 7.051749 | 10% | 2.2 | 3.09 |
| K | 4 | 5% | 2.56 | 3.49 |
| | | 2.5% | 2.88 | 3.87 |
| | | 1% | 3.29 | 4.37 |

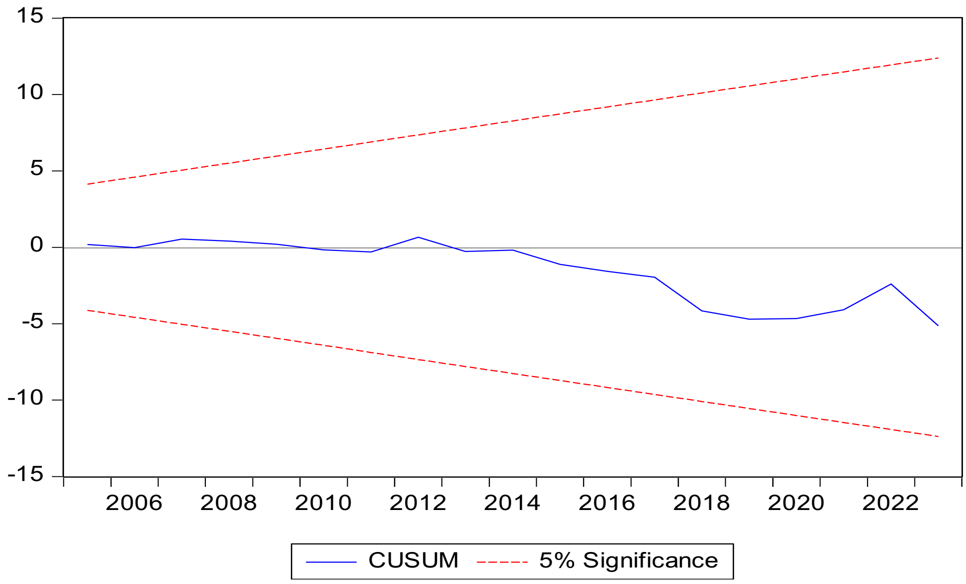
**Author's computation using E-views 10**

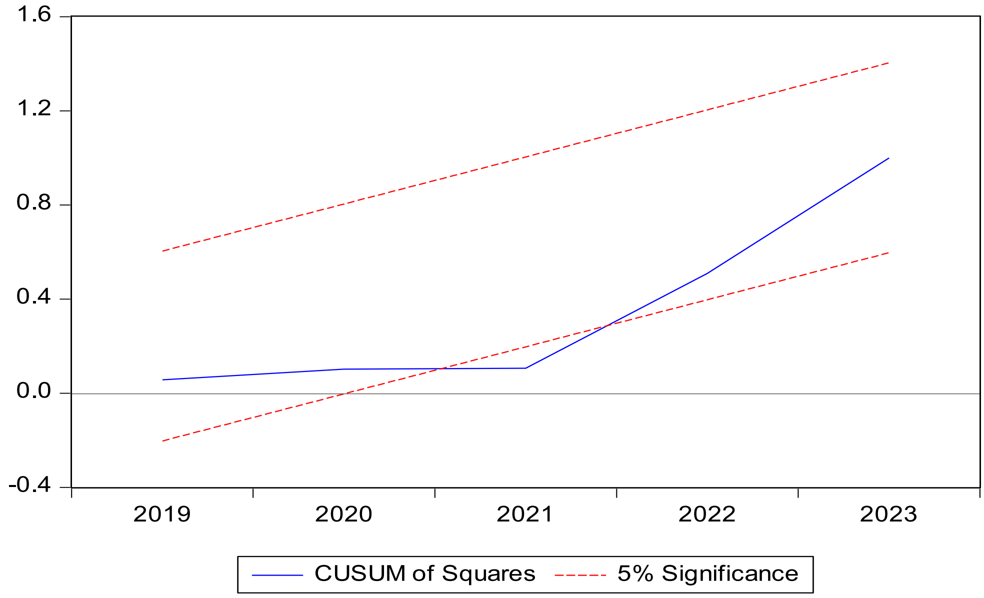
## 4.7 Diagnostics tests

Before discussing the results, various diagnostic checks were conducted to ensure that the estimated model is efficient and consistent. The output from the tests are summarized in Table 4.7. The Breusch- Godfrey serial correlation test shows the absence of serial correlation in the model as clearly indicated by the F-statistics of 3.7055 with a probability value of 0.4625. The Breusch-Pagan- Godfrey test shows the absence of heteroskedasticity in the model as indicated by the F-statistics of 1.2062 with a probability value of 0.3776. The Ramsey RESET test indicates that the model is correctly specified as shown by the values of the F-statistics of 2.6150 with probability values of 0.1342. Generally, the calculated probability values for all test statistics were found to be greater than 0.05 significant levels.

**Table 4.7: Diagnostics Test Results**

| Test | F-statistic | Degree of Freedom | Prob. |
|---|---|---|---|
| Serial Correlation (Breush-Godfrey LM Test) | 3.7055 | F(2,10) | 0.4625 |
| Heteroskedasticity Test (Breush-Pagan Godfrey) | 1.2062 | F(18,12) | 0.3776 |
| Model Specification Test (Ramsey RESET Test) | 2.6150 | F(1, 11) | 0.1342 |
| Normality Test (Jarque-Bera Statistics) | 0.8434 | na | 0.6559 |




The study also confirmed the structural stability of the model using both cumulative sum of square residuals (CUSUM) and cumulative sum of squared recursive residuals (CUSUMSQ) tests. The blue lines in both the CUSUM and CUSUMSQ plots dwelled within the critical bounds at the 5% level of significance (see Figures 1 and 2). Though there was a deviation in 2021 because of the pandemic that engulfed the whole World and businesses could not operate.

## 5.0 Conclusion and Recommendation

This study assessed the impact of bank credits to SMEs in Nigeria and has seen to impact positively on poverty, also, the performance of the economy helps in poverty reduction in Nigeria for the period under review and the variables adopted in the study. It means that if the banking institutions can give out loans to the productive segment of the Nigerian population, it will help in creating jobs and reduce the rate of poverty and in turn have a multiplier effect on the economy as a whole. The study therefore recommends that an enabling environment should be provided for businesses.

Banks should know the people that should be given loans because of the issue of moral hazard and asymmetric information which makes it difficult to recover the loans given which can be done through proper regulatory framework and supervision.

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