Private Sector Credit and Entrepreneurial Growth in Nigeria (1986 – 2018)

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Research Article

Abstract

Purpose: *The role of entrepreneurial activities in the economic development process cannot be underestimated. How entrepreneurial growth in Nigeria has been affected by commercial banks' credit to the private sector was examined in this study.*

Methods: *Autoregressive Distributive Lag (ARDL) was the estimation technique applied, while the Granger Causality was for effect assessment using annual data from 1986 to 2018.*

Result: *The study found that entrepreneurial growth in Nigeria was significantly affected by private sector credit.*

Implications: *There is a need for banks to cut down their fee on lending to entrepreneurs. Commercial banks charge as high as 22 percent to give loans to the private sector, and this is considered among the highest in the world. This makes it difficult for entrepreneurs to access fund from banks which make them resort to co-operative societies for finance. Equally, the Central Bank of Nigeria should lower the monetary policy rate to a single digit, let say 9 percent as against the current rate of 14 percent. This to a reasonable degree will make banks at least lower their fee/interest rate to lend to entrepreneurs.*

Keywords: Private Sector Credit, Entrepreneurial Growth, Nigeria

1. Introduction

There is no question that entrepreneurial growth serves as an engine for economic growth and development, particularly for emerging economies. Entrepreneurs create business opportunities, and these generate employment opportunities, increase productivity, and strengthen competition in the market. Nwakoby and Okoye (2014) clearly stated that the proper functioning of the entrepreneurial sector is seen as the backbone of all economies and a key source of economic growth, job creation, and innovation in emerging and developed market economies. In Nigeria, the major challenge facing the growth of entrepreneurs is finance.

Entrepreneurial growth is largely dependent on funds from the banking sector which in most cases are on a short term basis. Commercial banks in Nigeria prefer investing in government securities to lending to entrepreneurs. The argument often attributed to their preference to government securities is that uncertainty in macroeconomic fundamentals in the country would lead to the inability of entrepreneurs to repay their loans per the credit agreement/contract. Owing to the problem face by entrepreneurs in accessing funds from commercial banks, the Nigerian government singled out entrepreneurial development as a vital segment for mediation (Ubesie, Onuaguluchi & Mbah, 2017). In a bid to reshape the perspective of banks on entrepreneurial growth, Nwakoby and Okoye (2014) reported that in the first press briefing of Godwin Emefiele: Governor of the Central Bank of Nigeria (CBN) on 5th June 2014, promised to reduce Nigeria Treasury bill rate to make commercial banks lend for productive economic activities as against investment in government securities. The aim was to ensure that banks lend more for entrepreneurial growth. However, that objective has not been well attained as commercial banks still see entrepreneurial lending as very vulnerable to risk. They prefer providing finance to firms operating in the up and downstream of the petroleum sector on the premises that oil generates over 90 percent of Nigeria's revenue.

Ubesie, Onuaguluchi, and Mbah (2017) asserted that entrepreneurship which is discernible within the shape of Small and Medium Scale Enterprises (SMEs) can genuinely contribute to the accomplishment of a nation's economic development targets. This incorporates job creation, output expansion, setting up of businesses among districts of a nation, salary redistribution, the advancement of inborn business enterprise and innovation, as well as the production of intermediate goods to fortify, inter and intra industrial relationship mediation. When there are more savings, entrepreneurs would be in a better position to build up a colossal capital, and thus more prominent capability for self-investment is upgraded. The need to borrow at high-interest rates from commercial banks is diminished and the capacity to buy more beneficial resources moves up (Adeleke & Elumah, 2018). In the past, the government in the quest to quicken economic development and growth in Nigeria had tried through a few intervention plans and approaches to help entrepreneurs to get the required finance with a low-interest rate and expanded reimbursement period in an attempt to empower them to develop (Ubesie, Onuaguluchi & Mbah, 2017). With all these policy interventions, the contribution of the entrepreneurial activities to economic growth is nothing to write home about. Against this backdrop, this study examines how entrepreneurial growth has been affected by commercial banks' credit to the private sector from 1986 to 2018. This study is organized into sections with an introduction as section one. Section two reviewed related literature. The methodology was detailed in section three, while the result of estimation and discussion was captured in section four. Concluding remarks and policy implications were stated in section five.

2. Literature Review

2.1 Private Sector Credit and Entrepreneurship

The significance of credit in economic development cannot be overemphasized, particularly within the setting of emerging economies that are caught in a web of destitution which has

gotten to be known as the vicious circle of poverty (Amoo, Eboreime, Adamu & Belonwu, 2017). The credit to the private sector refers to the credit the banks give to the private sector other than credit to the public sector (government: which may be Federal, State, or Local Government). Banks require interest on loans extended to the private sector. The interest rate on credit to the private sector in Nigeria is as high as 22 percent, and this is considered among the highest in the world. This makes it difficult for entrepreneurs to access fund from banks which make them resort to co-operative societies for finance. Nwakoby and Ananwude (2016) observed that a co-operative society operated by lectures in Nnamdi Azikiwe University, Awka, Nigeria extends up to or more than N5 million to a member at a 10 percent rate of interest compared to a commercial bank that will grant the same amount at about 22 percent rate of interest. Despite the various focal points of being an entrepreneur, a normal Nigerian citizen appears to lean toward salaried work which has driven to a high unemployment rate within the nation (Ojo, 2009). Entrepreneurship is for the most part portrayed as the capacity of a person or group of people to make or find an opportunity and utilize it to the advantage of the society, which, in turn, will bring victory to the trailblazers and their organization (Omoruyi, Olamide, Gomolemo & Donath, 2017). According to Stam and Van-Stel (2009), a factor that makes riches by combining existing production components in better approaches is entrepreneurship. Entrepreneurs try-out with unused combinations of which the results are questionable, but to succeed, numerous modern varieties got to be attempted in an attempt to discover out which ones will make strides (economic) life (Rosenberg & Birdzell as cited in Stam & Van-Stel, 2009).

2.2 Brief Theoretical Consideration

Relying on Ubesie, Onuaguluchi, and Mbah (2017) and Ubesie, Ananwude, Esomchi, and Onyia (2017), the behavior of commercial banks in their lending activities to various sectors of the economy is hinged to two theories: loan pricing theory and supply leading hypothesis. Ubesie, Onuaguluchi, and Mbah (2017) stated that the loan pricing hypothesis by Thompson Reuters in 1965 connotes that banks cannot continuously set high-interest rates by attempting to earn maximum interest income. The supply-leading hypothesis postulates that intermediation functions of commercial banks through the mobilization of credit from surplus units and channeling them to the deficit units would to a high degree result in entrepreneurial growth which in turn translates to economic growth and development. Analysts believe that the supply leading hypothesis is more result-oriented at the early level of a country's development than afterward (Ubesie, Ananwude, Esomchi & Onyia, 2017).

2.3 Empirical Studies

The available empirical studies directly related to the subject matter are reviewed accordingly. Adeleke and Elumah (2018) determined how entrepreneurship development in Nigeria has been the impact of credit on commercial banks. Applying a descriptive ex-post facto research design from 1992 to 2015, the result of the regression result showed that deposit money banks credit incorporated an acritical positive impact on the development of entrepreneurship in Nigeria.

Sarkar, Islam, and Khalek (2018) assessed the commitment of SME financing for business enterprise development in Bangladesh. The study was based on essential sources of information collected through regulating a semi-organized survey. Expressive measurements like recurrence, percentile, and inferential measurements like likelihood-ratio, Chi-square, Fisher's correct test, and two-fold calculated relapse were utilized. Adjusted R-Square (0.814) demonstrated that the model was good but not great. The classification result declared the goodness of the model since the model was able to classify nearly 95.2 percent results accurately. A few profitable recommendations came from the respondents to quicken the situation of business improvement through SME financing.

Agarwal, Qian, Yeung, and Zou (2018) studied how business growth has been influenced by the introduction of a technology called mobile wallet payments in 2017. They found that there was improved payment convenience which generated a significant spillover. Small vendors experienced a month to month increment in debit and credit card sales sum (number) of 3.5 percent and 3.4 percent respectively compared to huge vendors. The payment innovation led to increased sales particularly new businesses by encouraging customer acquisition.

In Ghana, Kumah (2017) evaluated the effect of microfinance on entrepreneurial development. The discoveries of the study uncovered that there is a significant relationship between the commitments of microfinance activities such as credit conveyance, mobilization of savings, the formation of capital, commerce hatching among others, and demonstrated entrepreneurship financial related mindfulness and development.

The effect of private sector credit on entrepreneurial growth in Nigeria was assessed by Ubesie, Ananwude, Esomchi, and Onyia (2017). The result of the Auto-Regressive Distributive Lag (ARDL) uncovered the presence of long-run linkage existing between private sector credit and small and medium scale enterprises development, and there is a noteworthy impact of private sector credit on the advancement of small and medium scale ventures.

Kar and Ozsahin (2016) evaluated the role of financial development on entrepreneurship by employing panel data estimation methods for 17 emerging markets economies over the period 2004-2009. Empirical findings indicated that while financial development and per capita income level has significantly and positively influenced entrepreneurship as hypothetically anticipated, the inflation rate has had negatively and altogether affecting entrepreneurship development.

Aldakhil, Abro, Khurshid, and Aamir (2015) centered on the part of banks in stimulating the small business and entrepreneurial culture within Saudi Arabia in giving credit. The study connected a mixed methodology and at the primary stage. Qualitative information was collected and after that, the results of these organized interviews were utilized to develop a study survey for the quantitative examination. The result showed that the levels of commerce participation and data sharing and quality of commerce have noteworthiness on the victory of credit application.

The banking sector credit effect on the development of small and medium enterprises in Nigeria was studied by Ayuba and Zubairu (2015). As a portion of the technique, yearly information between 1985 and 2010 was collected and utilized within the study, whereas descriptive statistics, level of correlation, and error correction model were utilized to test the defined

hypotheses which uncovered the significant effect of banking sector credit on the development of small and medium enterprises in Nigeria because it has a positive effect on a few major macro-economic factors of development such as inflation, exchange rate, and trade debts.

In an attempt to measure the effectiveness of such microenterprise loans on increasing entrepreneurs' incomes and innovation, the findings of Ferdousi (2015) supported the proponents of giving loans to entrepreneurs. Findings also suggested that larger loans increase income, but less innovative business practice might threaten such income.

Akinbola, Ogunnaike, and Tijani (2013) found out the degree to which small scale financing has contributed to entrepreneurial advancement conjointly to discover out the degree to which marketing techniques have been utilized for the compelling and effective conveyance of their services. Questionnaires were disseminated purposively to because it was those that were associated with or came to induce to credit offices that were physically found inside the banking hall in that particular week of study. The study was limited to the clients of ten microfinance banks found in Ojo LGA of Lagos State, Nigeria. It was found that microfinance banks have been able to contribute inside and out to the entrepreneurial advancement in Nigeria.

Alalade, Amusa, and Adekunle (2013) in their study on the linkage and causality between microfinance bank operations and entrepreneurship development in Ogun State, Nigeria applied survey research design and data collected through the financial statement of a few chosen microfinance bank operating in Ogun State. The research utilized surveys to gather information from a test of twenty (20) business people from each of the four zones in Ogun State which were Ijebu, Egba, Yewa, and Remo zones. The effect of microfinance bank operations and entrepreneurship development in Ogun State, Nigeria was examined following the regression technique. The study uncovered that there is no significant effect of microfinance bank operations on entrepreneurial development in Ogun State.

Ojo (2009) explored the effect of microfinance on the development of small scale enterprises that are longing for development and growth in a solidified economy called Nigeria. The analyst utilized the survey as an instrument of essential information collection. Tables and simple percentages were utilized in data presentation. For the clear investigation, the study centered on two wide variables; the dependent variable which was entrepreneurial development, and the independent variable which was microfinance banks. Three distinctive hypotheses were defined and tried utilizing different factual apparatuses such as the Chi-square test, variance analysis, and regression technique. The research uncovered that there is a significant distinction within the number of entrepreneurs who used microfinance banks' and those who did not utilize them; there is a significant impact of microfinance banks activities in anticipating entrepreneurial efficiency; which there is no significant impact of microfinance banks activities in foreseeing entrepreneurial development.

3. Methodology of Research

In examining how entrepreneurial growth in Nigeria has been affected by commercial banks' credit to the private sector from 1986 to 2018, the Granger Causality approach was followed, whereas the ordinary relationship was evaluated using the Autoregressive Distribute Lag

(ARDL) model. The data on the variables of interest were obtained from the Central Bank of Nigeria (CBN) statistical bulletin of 2018. Entrepreneurial Growth (ENTG) which is the dependent variable was measured using the contribution of wholesale and retail trade to real gross domestic product. The independent variable: Private Sector Credit (PSC) was moderated by Inflation Rate (INFR). The functional model is stated as Equ. 1, whereas logging the variables to be in the same base results in Equ. 2:

$$ENTG = f(PSC, INFR) \quad \text{Equ. 1}$$

$$LogENTG_t = \beta_0 + \beta_1 LogPSC_t + \beta_2 LogINFR_t + \varepsilon_t \quad \text{Equ. 2}$$

Where:

$ENTG$ = entrepreneurial growth

PSC = private sector credit

$INFR$ = inflation rate

β_0 = a constant term

β_1 and β_2 are the coefficients of the regression equation

ε = the error term

t = the time trend

A priori expectation is that $\beta_1 < 0$; while $\beta_2 > 0$

4. Findings and Discussion

4.1 Data Stationarity Properties

To ensure that the data were not encumbered by stationarity defect that affects most time-series data, the Augmented Dickey-Fuller (ADF) and Philip Peron (PP) unit root tests were performed at the level and first difference. The data could not achieve stationarity at level, hence the first difference. As shown in Tables 1 – 2, the data are stationary at first difference.

Table 1: ADF Test Result

Variables	Intercept	Intercept &Trend	Remark
ENTG	-0.535383 (0.87)	-2.029654 (0.56)	Not Stationary
PSC	4.692768 (1.00)	4.076596 (1.00)	Not Stationary
INFR	-3.989930 (0.00)*	-2.790372 (0.21)	Stationary
At First Difference			
ENTG	-7.280943 (0.00)*	-7.307787 (0.00)*	Stationary
PSC	-1.179782 (0.66)	-6.289706 (0.00)*	Stationary
INFR	-3.699994 (0.04)**	-6.920537 (0.00)*	Stationary

Table 2: PP Test Result

Variables	Intercept	Intercept &Trend	Remark
ENTG	0.574659 (0.98)	-1.581348 (0.77)	Not Stationary
PSC	2.606989 (1.00)	-0.434025 (0.98)	Not Stationary
INFR	-2.653508 (0.09)	-3.065346 (0.13)	Not Stationary
At First Difference			
ENTG	-7.450519 (0.00)*	-7.581613 (0.00)*	Stationary
PSC	-3.101867 (0.03)**	-4.286648 (0.01)*	Stationary
INFR	-5.139582 (0.00)*	-5.012038 (0.00)*	Stationary

4.2 Descriptive Characteristic of the Data

Table 3 presents the descriptive characteristics of the variables. Emphases were on the mean value, standard deviation, number of observations, minimum and maximum values of the data. With thirty-three (33) number of observations, the mean of the data is 5346157 for ENTG, 5556855 for PSC, and 18.95 for INFR, whereas the standard deviation is 3697323, 7709538 and 17.12 respectively for ENTG, PSC, and INFR. The minimum and maximum values are 1788770 and 11697590 for ENTG, 15250, and 22521930 for PSC, and 5.40 and 72.80 for INFR.

Table 3: Descriptive Characteristic of Data

	Mean	Std. Dev.	Min.	Max.	Obs.
ENTG	5346157.	3697323.	1788770.	11697590	33
PSC	5556855.	7709538.	15250.00	22521930	33
INFR	18.95455	17.11865	5.400000	72.80000	33

Source: Computer output data using E-views 10.0

4.3 Sensitivity Analysis

In line with the classical linear regression assumption, the model was subjected to sensitivity analysis of serial correlation LM test, heteroskedasticity test, and Ramsey Reset Specification. The p-values of 0.8050, 0.9839, and 0.1089 for f-statistics of serial correlation LM test, heteroskedasticity test, and Ramsey Reset Specification are insignificant at a 5% level of significance. This implies that the model has no serial correlation LM test, heteroskedasticity test, and Ramsey Reset Specification problem.

Table 4: Sensitivity Analysis

	F-statistic	Prob.
Serial Correlation LM Test	0.218980	0.8050
Heteroskedasticity Test	0.130796	0.9839
Ramsey Reset Specification	2.772204	0.1089

Source: Computer output data using E-views 10.0

4.4 Long-Run Relationship

Autoregressive Distributive Lag (ARDL) model was applied in estimating the long-run relationship between private sector credit and entrepreneurial growth. The choice of the ARDL is that it takes into consideration the different order of integration of time series data. From the result in Table 5, private sector credit and entrepreneurial growth are related in the long run. This is based on the argument that the f-statistic of 10.12497 is higher than the lower and upper bound critical values of 3.10 and 3.87 respectively.

Table 5: Long-Run Relationship

T-Test	5% Critical Value Bound		Remark
F-Statistic	Lower Bound	Upper Bound	
10.12497	3.10	3.87	Null Hypothesis Rejected

Source: Computer output data using E-views 10.0

4.5 Short-Run Relationship

Table 6 shows that at level and lag 2, private sector credit has a negative insignificant relationship with entrepreneurial growth, while at lag 1, there is an insignificant positive relationship between private sector credit and entrepreneurial growth. As expected, the inflation rate has a negative relationship with entrepreneurial growth. When private sector credit and inflation rate are held constant, entrepreneurial growth would be valued at a factor of 1.346302. The adjusted R-squared reveals that private sector credit and inflation rate significantly explained 99.59 percent changes in entrepreneurial growth. The Durbin Watson value of 1.77 does not portray any issue of autocorrelation in the estimated model.

Table 6: Short-Run Relationship

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ENTG(-1)	1.346302	0.082116	16.39509	0.0000
PSC	-0.140720	0.077087	-1.825463	0.0799
PSC(-1)	0.099693	0.086467	1.152962	0.2598
PSC(-2)	-0.124687	0.061740	-2.019534	0.0543
INFR	-2338.237	2801.317	-0.834692	0.4118
C	-594745.5	240089.2	-2.477186	0.0204
Adjusted R-squared	0.995929	Durbin-Watson stat		1.7705
F-statistic	1468.824	Prob (F-statistic)		0.0000

Source: Computer output data using E-views 10.0

4.6 Granger Causality Test

The result of the Granger Causality test in Table 7 unveils that there is a bidirectional/a two-way causal relationship between private sector credit and entrepreneurial growth at a 5 percent level of significance. Causality run in both direction that is, from private sector credit to entrepreneurial growth, and from entrepreneurial growth back to private sector credit. This discloses the significant effect of private sector credit on entrepreneurial growth in Nigeria. Besides, the growth of entrepreneurial activities also determines the magnitude of funds received from the banks. The inflation rate has no significant influence on entrepreneurial growth. There is no evidence of causality flowing from either direction at a 5 percent level of significance.

Table 7: Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.	Implication
PSC does not Granger Cause ENTG				
ENTG does not Granger Cause PSC	32	27.4109	0.0000	Causality
		41.2379	0.0000	Causality
INFR does not Granger Cause ENTG				No Causality
ENTG does not Granger Cause INFR	32	2.57818	0.1192	No Causality
		1.02872	0.3188	

Source: Computer output data using E-views 10.0

4.7 Major Findings

A long-run relationship was found between private sector credit and entrepreneurial growth. This points to the potential inherent in entrepreneurial activities for the attainment of economic growth and development, especially in developing countries. The result of the short-run relationship is mixed. At level and lag 2, private sector credit has a negative insignificant relationship with entrepreneurial growth, while at lag 1, there is an insignificant positive relationship between private sector credit and entrepreneurial growth. The inflation rate has a negative relationship with entrepreneurial growth which is in line with the works of Kar and Ozsahin (2016) and Ayuba and Zubairu (2015) but in disagreement with Ubesie, Ananwude, Esomchi, and Onyia (2017). Overall, private sector credit has a significant effect on entrepreneurial growth. This supports previous findings of Adeleke and Elumah (2018), Ayuba and Zubairu (2015), Ojo (2009), Akinbola, Ogunnnaike and Tijani (2013), Alalade, Amusa, and Adekunle (2013), Ubesie, Ananwude, Esomchi, and Onyia (2017) and Kar and Ozsahin (2016).

5. Conclusion and Policy Implications

The role of entrepreneurial activities in the economic development process cannot be underestimated. With adequate funding, entrepreneurial activities can push an economy to the desired level of growth. How entrepreneurial growth has been affected by commercial banks' credit to the private sector was examined in this study. With the aid of Autoregressive Distributive Lag (ARDL) as an estimation technique and Granger Causality for effect assessment, this study concludes that private sector credit significantly affects entrepreneurial growth in Nigeria.

Commercial banks have a critical role to play to enhance sustainability in entrepreneurial activities in the country. There is a need for banks to cut down their fee on lending to entrepreneurs. The interest rate on credit to the private sector in Nigeria is as high as 22 percent, and this is considered among the highest in the world. This makes it difficult for entrepreneurs to access fund from banks which make them resort to co-operative societies for finance. Equally, the Central Bank of Nigeria should lower the monetary policy rate to a single digit, let say 9 percent as against the current rate of 14 percent. This to a reasonable degree will make banks at least lower their interest rate on credit to entrepreneurs.

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Conflict of Interest: The authors declare no conflict of interest.

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