**IMPACT OF SMALL SCALE ENTERPRISE FINANCING BY DEPOSIT MONEY BANKS ON NIGERIAN ECONOMY (1999-2015)**

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**Abstract**

*The role of finance in any business enterprise cannot be overemphasised. In any economy where the interest rate on loan from deposit money banks is high, it will be difficult for small scale enterprises to access and repay loan facilities as scheduled. This may have adverse effects on the real sector of the economy. The study sets to assess the impact of small scale enterprise financing by deposit money banks on Nigerian economy. This study consists of time series data of small scale enterprise financing by deposit money banks in Nigeria for the period of seventeen (17) years (1999-2015). The parameters like Deposit Money Banks Loan Stock (DMBLS), Deposit Money Banks Interest Rate (DMBIR) and Real Gross Domestic Product (RGDP) in Nigeria for the period under review were used. Econometric View 7.0 software was used to analyse the data while the co-integration technique of analysis was used to estimate the model and test the null hypotheses formulated. Results showed that deposit money banks loan stock to small scale enterprises has a significant positive impact on real gross domestic product in Nigeria for the period under review. The results further revealed that deposit money banks interest rate on loan facilities to small scale enterprises has no significant impact on real gross domestic product in Nigeria for the period under review. This study recommends that the Central Bank of Nigeria should step up a monitoring and implementation strategies to ensure that 10% equity investment fund set aside by the deposit money banks are significantly accessed by small scale enterprises in Nigeria. Also, the Central Bank of Nigeria should regulate and fix the deposit money banks lending rate to small scale enterprises little above the prevailing inflationary rate in Nigeria.*

**Key Words:** Impact; Small Scale Enterprise Financing; Deposit Money Banks; Nigerian Economy

**1.1 Introduction**

Finance is observed to be the bedrock of any organisation, especially the small scale enterprises. The Central Bank of Nigeria (CBN) has saddled the Deposit Money Banks (DMBs) with the responsibility to make available 10% of their profit before tax for equity investment in Small Scale Enterprises (SSEs) so as to reduce unemployment, poverty, enhance wealth creation and most importantly, achieve sustainable economic growth. Cheng (2007) posted that finance encourages entrepreneurial activities which has the potential of ensuring economic growth. In the same vein, literature evidence has equally argued that finance can lead to the growth of SSEs and it resultant positive contributions to the economy. This is so as it is necessary for SSEs to have enough resources for their efficient use before they can translate to organisational and overall economic growth (Naude, 2007 and Hemert, 2008). Thus, the DMBs will have to pay more attention on improving the financing level of SSEs in order to harness their contributions towards sustainable economic growth in the areas of employment generation and increased innovation.

The growth of SSEs through effective financing has been issue generating high debates among researchers, entrepreneurs and policy makers owing to its robust contributions to the economic growth of many countries of the world, Nigeria in particular. Ihyembe (2000) stated that the lack of capital could frustrate business startup and since personal savings, contributions from friends and family members and/or peer groups are not always enough, provision of credit by DMBs to the SSEs would enable them function effectively in providing necessary capacity building, infrastructural facilities and raw materials to large scale industries which will, in turn, lead to economic growth. Audretsch and Kielbach (2007) asserted that promoting entrepreneurship financing appears to be the major backbone of the European economic growth policy. Entrepreneurship issues need serious attention since there are resounding facts that the solution to economic growth and improved productivity is dependent on the entrepreneurial capacity of an economy.

In Nigeria, evidences have shown that DMBs loan facilities and advances to SSEs have been declining over the years. The Central Bank of Nigeria statistics indicated that loans facilities of DMBs to SSEs as a percentage of total credit to private sector, declined from 16.6% on the average between the periods of 1992-1998 to 8.1% between the 1999-2003 periods. This trend continued to 1.6% during the periods of 2004-2008. There was equally a sharp fall to 0.1% in the 2009-2013 period, likewise, in the year 2014-2015, the decrease of 0.1% rate continued (CBN, 2015). This continuous decline in DMB's loans to SSEs is attributed to lack of collateral by the SSEs to secure the loans and high lending rates of the banks. Deposit Money Banks are expected to play the role of pooling a nation’s scattered resources from surplus areas to the deficit units. This is to make credit available to investors in order to encourage increase in investment, innovation, productivity and as a result, economic growth and development.

In the world over, Nigeria is rated among the lowest in financing small scale enterprises by the deposit money banks. Despite the report of World Bank (2010) which indicated that Nigeria’s financial system is highly capitalised and vibrant, Nigeria contribution to financing small scale enterprises is just about 0.1% of the total loans and advances made available to the private sector since the periods between 2009 to 2015 (CBN, 2015). It is clearly discovered from statistics that deposit money bank which retained liquidity level in excess of regulation have shown reluctance in financing SSEs (Sacerdoti, 2005). In the same vein, the interest rate on the existing loan stock is very high, this may be resultant effect of the processing and high administrative costs charged in relation to deposit money banks scale of operations (Mahmoud, 2005 cited in Onokoya, Fasanya and Abdulrahman, 2013). Any economy that has high interest rate on loan facilities of the deposit money banks, may record very low in small scale enterprises access to these facilities and repayment as scheduled of the accessed ones, may be difficult. This may have some level of effects on the real sector of the economy.

The foregoing problems, necessitated the following questions: i) what is the impact of deposit money banks loan stock to small scale enterprises on real gross domestic product in Nigeria? ii) What is the impact of deposit money banks interest rate on loans to small scale enterprises on real gross domestic product in Nigeria? The main objective of this study is to assess the impact of small scale enterprise financing by deposit money banks on Nigerian economy. While the specific objectives include: i) to determine the impact of deposit money banks loan stock to small scale enterprises on real gross domestic product in Nigeria; ii) to examine the impact of deposit money banks interest rate on loans to small scale enterprises on real gross domestic product in Nigeria. The following hypotheses have been formed in line with the specific objectives:

Ho1: Deposit money banks loan stock to small scale enterprises has no significant impact on real gross domestic product in Nigeria

Ho2: Deposit money banks interest rate on loans to small scale enterprises has no significant impact on real gross domestic product in Nigeria

**2.1 Review of Related Literature**

In the study of Osuagwu (2001), it is evident that the attainment of sustainable economic growth is dependent widely on the improved contributions of SSEs which has the capacity to bring about positive economic turnaround and complementing the efforts of the medium and large scales industries in the country. Recognising the contributions of the SSEs as a catalyst and life wire of growth has brought about the increased attention and necessary education on the method and approach of building and sustaining a sincerely efficient private sector powered majorly by small scale enterprises (SSEs). Such economic contributions are seen in the mobilisation of idle financial resources.

Oni and Daniya (2012) argued that financial institutions need to provide more of the needed financial supports that enhances the development of small scale enterprises; they equally stated that Government still need to do much more in the area of policy formulation so as to complement the efforts of financial institutions. In Nigeria, regulatory authorities mandated financial institutions to assist SSEs in the provision of capital for business expansion. Although this had been hindered by poor assets base and inability of the SSEs in providing the collateral requirement of the banks loans (Oni, Paiko & Ormin, 2012). This has been attributed as part of the credit markets failures. The argument is that the poor rarely can provide the needed collateral security to secure required loan facility and that, it is too unsafe and highly expensive lending to them (Aggarwal, Klapper & Singer, 2012).

**2.1.1 Deposit Money Banks Loan, Interest Rate and Economic Growth in Nigeria**

The main reason while SSEs success is being emphasized was based on the fact that they are the driving force for economic growth and development but market imperfections and institutional failures hinder their survival, thus the justification for better financial interventions from deposit money banks. Schumpeter (1973) reiterated the role of credit to small scale enterprises and financing innovations in order to enhance growth of business outputs. This showed the reason for continuous credit support for SSEs in a bit to realising its full potential. Osoba (1987) argued that financing ability is the major determinant of the growth of small scale enterprises in developing countries. Akingunola (2011) asserted that SSEs financing has a significant positive relationship with economic growth in Nigeria based on investment level. Alese and Alimi (2014) investigate “the role of SSEs financing as a catalyst for the growth rate of the Nigerian economy between 1980 and 2013 putting into consideration the short-run estimates”. The results revealed that deposit money bank loans as a type of SSEs financing, has significant improvement on the economic size of the Nigerian economy in the long-run, but negative significance in the short-run. The differences in their results were attributed to the high lending rate and cost of doing business in the Nigerian at large.

Small and Medium Enterprise Equity Investment Scheme (SMEEIS) requires that all banks operating in Nigeria should earmark 10% of their profit before tax to fund equity investment in MSEs as directed by Central Bank of Nigeria (CBN). In the same light, the Deposit Money Banks (DMBs) do provide micro-financing support either via their rural and urban branches or independent subsidiaries like the SMEEIS. It was discovered that over 60 billion Naira has been raised within few years, but only 40% of these money had been put to use on limited projects in Nigeria (Ogujiuba, Fadila & Stiegler, 2013).

Small scale enterprises have shown relevance in the industrialization process in a number of developing and developed countries, as well as emerging markets (Bashir, 2008). But it must be known that a lot of developing countries and emerging markets have put in serious efforts to promote the development of SSEs through increased funding (Aruwa, 2007). In Nigeria, the low credit ratings of small scale enterprises can be attributed largely to features like low productivity, weak capital base, poor record keeping and the likes.

The DMBs have a lot of ways to play roles in ensuring SSEs growth, ranging from the creation or participation in SSEs finance investment funds to the creation of a special unit for financing SSEs within the bank. Adeyemi (2005) stated that banking services rendered to SSEs may take various forms like: (1) short term loans, suitable for SSEs business and income patterns (2) revolving loans, where total repayment of one loan gives access to secure another, and where the amount of the loan is dependent on the client's cash flow (3) bank overdraft facilities are equally suitable for meeting the day to day financial requirements of SSEs (4) factoring and invoice discounting, asset finance (including commercial mortgages), all being within the framework of a customer-friendly approach.

It has been identified that among the challenges of the effective development of SSEs in Nigeria is the inadequate or lack of access to long term credit facilities (Adelaja, 2007). Though financing is not the only problem limiting SSEs development, but it is clearly the most formidable. Some of the SSEs are credit worthy in attracting loans from the deposit money banks, but the high risk associated with SSEs sub-sector usually serves as a major challenge. Collateral security for loans continues to be serious issue as most entrepreneurs of SSEs do not live in their own houses or are from rural communities. Some even live in rented apartments in towns. Houses in rural areas and rented apartments are usually not considered for acceptance as collateral security (Iniodu & Udomesiet, 2004).

It has equally been established that small businesses are faced with the challenge of inadequate funds (Peel & Wilson, 1996). Holmes, Dunston and Dwyer (1994), posted that they have limited debt funding opportunities. Lack of access to credit from formal financial institutions is considered to make SSEs to patronize high interest charging money lenders which hinders their growth and development. The banks are generally unwilling to lend money to SSEs because they believed that lending to them is not commercially viable (Odife, 2002). The Bank equally considered lending to SSEs as a high risk and unprofitable business owing to unavailability of true and reliable data on the financial situation and performance of the businesses. Akabueze (2002) stipulated that the continuous decline in DMBs loans to SSEs can be credited to lack of collateral from the SSEs to secure the required loans and the high lending rates from the banks.

Onakoya, Fasanya and Abdulrahman (2013) stated that loan facility to small scale entrepreneurs have a positive impact on the economic performance while interest rate has a negative impact on economic growth. He further argued that the worst problem facing SSEs in Nigeria is managerial capacity. Access to finance is important but it is not sufficient condition to ensure entrepreneurial development. Olukayode and Somoye (2013) argued that the finance, interest rate, real gross domestic product, unemployment and industrial productivity are significant to entrepreneurship development in Nigeria. Also, Afolabi (2013) asserted that SSEs outputs proxy by wholesales and retails trade outputs as a component of the gross domestic product and commercial banks’ credit to SSEs pose a positive and significant impact on economic development.

Puglielli (1996) submitted that small businesses take more risks than larger enterprises and usually have little or no collateral, thus standard credit sources like deposit money banks are customarily inaccessible to them in a form conducive for efficient productive investment, worse still, credit is unavailable altogether. He concludes that the capital starvation of small industries is an economic development tragedy.

**2.2 Theory Relevant to the Study**

The theory that is suitable for this study is financial intermediation theory as it it emphasized that banks normally perform the functions of accepting deposits from savers/households and make loan facilities available to economic agents/users. Claus and Grimes (2003) indicated that current theories of the economic role of financial intermediaries built on the economics of imperfect information. The financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of financial markets; therefore, any factor that affects the amount of credit channelled through financial intermediaries can have significant macroeconomic effects.

Similarly, Allen and Santomero (1996) also stipulated that theories of financial intermediation have been postulated on the model of resource allocation based on perfect and complete markets by suggesting that it is frictions such as transaction costs and asymmetric information that is important in understanding intermediation. Hence, Fama (1985) noted that bank reserve requirements impose costs that appear to be borne by the bank's borrowers.

**3.1 Methodology**

This study employed ex-post facto research design considering the study objective to statistically determine the impact of control variables on the dependent variable. This is in line with the main objective of this study, which is, assessing impact of small scale financing from deposit money bank on Nigerian economy. This study consists of time series data of small scale deposit money banks financing in Nigeria for the periods of seventeen years (1999-2015) to ascertain small scale deposit money banks financing under this democratic system of government in Nigeria. Regarding, Deposit Money Banks Loan Stock (DMBLS), Deposit Money Banks Interest Rate (DMBIR) and Real Gross Domestic Product (RGDP) in Nigeria. Data were extracted from the secondary source, that is, the Central Bank of Nigeria statistical bulletin 2015. Co-integration technique of analysis was used to estimate the model which is an improvement on the classical ordinary least square technique (OLS). To deals with the reliability of the results from the Fully Modified Ordinary Least Square (FMOLS), the following statistics were used to evaluate the model, these are coefficient of determination (Adjusted R-2), Augmented Dickey-Fuller test and Johanson test (Trace statistic and Maximum Eigen value). The analysis was conducted using Econometric View (Eview) 7.0 software.

**3.1.1 Model Specification**

The dependent variable of this study is Nigerian economy; proxied by Real Gross Domestic Product (RGDP), while the control variable is Small Scale Deposit Money Banks Financing; proxies by Deposit Money Banks Loan Stock (DMBLS) and Deposit Money Banks Interest Rate. To achieve all the specific objectives and test all the hypotheses, the linear regression cointegration statistical method was used to estimate the model. The rationale for this technique is based on its Best Linear Unbiased Estimator (BLUE) properties. The linear relationship between the dependent and control variable in this study is functionally expressed thus:

RGDP = *f* (DMBLS + DMBIR)

RGDP = βo + β1DMBLSi + β 2DMBIRi + µi …………………………………………..………………… 1 [Model]

Where:

RGDP = an indicator representing Real Gross Domestic Product (Dependent Variable)

βo = a constant;

β1 – β2= Coefficients of the Control Variables;

DMBLSi = Predictor representing Deposit Money Banks Loan Stock (Control Variable);

DMBIRi = Predictor representing Deposit Money Banks Interest Rate (Control Variable);

*f* = Functional Relationship and

µi = Stochastic error term.

**4.1 Data Presentation**

The table 4.1 below shows the figures of Real Gross Domestic Product (RGDP), Deposit Money Bank Loan Stock (DMBLS) and Deposit Money Bank Interest Rate (DMBIR) in Nigeria for the periods of seventeen (17) years (1999 – 2015).

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **RGDP** | **DMBLS** | **DMBIR** |
| 1999 | 22,449.41 |  46,824.0  | 21.32  |
| 2000 | 23,688.28 |  44,542.3  | 17.98  |
| 2001 | 25,267.54 |  52,428.4  | 18.29  |
| 2002 | 28,957.71 |  82,368.4  | 24.85  |
| 2003 | 31,709.45 |  90,176.5  | 20.71  |
| 2004 | 35,020.55 |  54,981.2  | 19.18  |
| 2005 | 37,474.95 |  50,672.6  | 17.95  |
| 2006 | 39,995.50 |  25,713.7  | 17.26  |
| 2007 | 42,922.41 |  41,100.4  | 16.94  |
| 2008 | 46,012.52 |  13,512.2  | 15.14  |
| 2009 | 49,856.10 |  16,366.5  | 18.99  |
| 2010 | 54,612.26 |  12,550.3  | 17.59  |
| 2011 | 57,511.04 |  15,611.7  | 16.02  |
| 2012 | 59,929.89 |  13,863.5  | 16.79  |
| 2013 | 63,218.72 |  15,353.0  | 16.72  |
| 2014 | 67,152.79 | 17,424.30 | 16.55  |
| 2015 | 69,023.93 | 11,307.80 | 16.85  |

**Sources:** CBN Bulletin (2015)

**4.1.1 Data Analysis and Discussion of Results**

The analysis of data was carried out with the aid of Eview 7.0 software.

**Table 4.2:** Descriptive Statistics

|  |  |  |  |
| --- | --- | --- | --- |
|   | RGDP | DMBLS | DMBIR |
|  Mean | 44400.18 | 35576.28 | 18.18412 |
|  Median | 42922.41 | 25713.7 | 17.59 |
|  Maximum | 69023.93 | 90176.5 | 24.85 |
|  Minimum | 22449.41 | 11307.8 | 15.14 |
|  Std. Dev. | 15535.83 | 24971.63 | 2.340393 |
|  Skewness | 0.123114 | 0.849501 | 1.461313 |
|  Kurtosis | 1.714361 | 2.672053 | 4.96442 |
|  Jarque-Bera | 1.213726 | 2.120862 | 8.783825 |
|  Probability | 0.545058 | 0.346307 | 0.012377 |
|  Sum | 754803.1 | 604796.8 | 309.13 |
|  Sum Sq. Dev. | 3.86E+09 | 9.98E+09 | 87.63901 |
|  Observations | 17 | 17 | 17 |

**Source:** Eview 7.0

The data were sourced from the Central Bank of Nigeria Statistical Bulletin for various years (1999-2015). The results in table 4.2 above show the descriptive statistics of the data. The central tendency; mean was used to summarised the data while standard deviation tested the degree of dispersion among the variables under study. Jarque-Berra test was used to test the normality of the data. The real gross domestic product, deposit money bank loan stock and deposit money bank interest rate for the period 1999-2015, showed a mean of ~~N~~ 44400.18; ~~N~~ 35576.28; and ~~N~~ 18.18412 with their standard deviation of 15535.83, 24971.63 and 2.340393 respectively. All the distributions are positively skewed, indicating that they are not symmetrically distributed. The Kurtosis values of the distributions indicated that they are not normally distributed. The descriptive statistics further shows the maximum real gross domestic product of ~~N~~ 69023.93 and the minimum of ~~N~~ 22449.41, the maximum deposit money bank loan stock of ~~N~~ 90176.5 and the minimum of ~~N~~ 11307.8 and the maximum deposit money bank interest rate of 24.85% and the minimum of 15.14%.

Table 4.3 below shows the result of unit root test. The test is based on the Augmented Dickey-Fuller (ADF). The ADF considers Akaike Info Criterion.

|  |
| --- |
| Unit Root Test Results |
| Variables | Augmented Dickey Fuller (ADF) |
|  | Level | Difference |
| RGDP | 1.168082 | -3.338670\* |
| DMBLS | -1.101294 | -4.155593\* |
| DMBIR | -2.669132 | -5.134910\* |

\* Significant at first difference I(1)

**Source:** Eview 7.0

To do away with the spurious results the study tested the variables for the unit root. The Augmented Dickey-Fuller (ADF) method of unit root test was adopted. The study checks the stationarity of the variables under the model, with intercept. All the variables were stationary at first difference I(1) under ADF test when considering intercept. Thereafter, cointegration technique is applied using Fully Modified Ordinary Least Square method.

**Co-Integration Test**

Having established the time-series properties of the data, the study carried out the Johansen multi variable co-integration test to determine the number of cointegrating vectors in the model. The variables are cointegrated if a long-run relationship exists between them. The Johansen's cointegration test using both trace statistics and maximum Eigen value is given in the tables below.

**Table 4.4 Johansen Co-Integration Test**

**Unrestricted Co-integration Rank Test (Trace)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Hypothesized No. of CE(s) | Eigenvalue | Trace Statistic | 0.05 Critical Value | Prob.\*\* |
| None |  0.680925 |  22.11925 |  2979707 |  0.2919 |
|  Trace test indicates no cointegration at the 0.05 level |
|  \* denotes rejection of the hypothesis at the 0.05 level |
|  \*\*MacKinnon-Haug-Michelis (1999) p-values |

The co-integration result based on the trace test indicates that the variables are not cointegrated at the 5% level. This implies that there is no long-run relationship between the variables in the model.

**Unrestricted Co-integration Rank Test (maximum Eigen Value)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Hypothesized No. of CE(s) | Eigenvalue | Max-Eigen Statistic | 0.05 Critical Value | Prob.\*\* |
| None |  0.680925 |  17.13493 |  21.13162 |  0.1657 |
|  Max-eigenvalue test indicates no cointegration at the 0.05 level |
|  \* denotes rejection of the hypothesis at the 0.05 level |
|  \*\*MacKinnon-Haug-Michelis (1999) p-values |

The co-integration result based on the maximum Eigen value indicates that the variables are not cointegrated at 5% level since there is no cointegrating vector. Thus, there is no long-run relationship existing among the variables.

**Table 4.5:** Regression Result

|  |  |  |
| --- | --- | --- |
| Dependent Variable: RGDP |  |  |
| Method: Fully Modified Ordinary Least Squares (FMOLS) |  |
| Date: 07/21/17 Time: 11:38 |  |  |
| Sample (adjusted): 2000 2015 |  |  |
| Included observations: 16 after adjustments |  |
| Cointegrating equation deterministics: C  |  |
| Long-run covariance estimate (Bartlett kernel, Newey-West fixed bandwidth |
|         = 3.0000) |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Variable | Coefficient | Std. Error | t-Statistic | Prob.   |
|  |  |  |  |  |
|  |  |  |  |  |
| DMBLS | 0.519289 | 0.211627 | 2.453789 | 0.0290 |
| DMBIR | -747.0194 | 2389.741 | -0.312594 | 0.7595 |
| C | 77531.57 | 37491.59 | 2.067972 | 0.0591 |
|  |  |  |  |  |
|  |  |  |  |  |
| R-squared | 0.497447 |     Mean dependent var | 45772.10 |
| Adjusted R-squared | 0.420131 |     S.D. dependent var | 14943.98 |
| S.E. of regression | 11379.71 |     Sum squared resid | 1.68E+09 |
| Durbin-Watson stat | 0.837739 |     Long-run variance | 1.60E+08 |
|  |  |  |  |  |
|  |  |  |  |  |

**Source:** Eview 7.0

The Fully Modified Ordinary Least Square (FMOLS) regression results in table 4.5 above, shows the coefficient of determination, depicted by Adjusted R-squared, stood at a value of 0.420, which indicates that the model accounts for 42% of the variation of the dependent variable (real gross domestic product).

**4.1.2 Test of Hypotheses**

To assess impact of small scale financing of deposit money banks loan on Nigerian economy, the following hypotheses were tested using Fully Modified Ordinary Least Square test.

Ho1: Deposit money banks loan stock of small scale enterprises has no significant impact on real gross domestic product in Nigeria

Ho2: Deposit money banks interest rate on loan to small scale enterprises has no significant impact on real gross domestic product in Nigeria

The results from the table 4.5 above showed that deposit money banks loan stock to small scale has a significant impact on real gross domestic product in Nigeria, from the coefficient of 0.519289 as attested by t value of 2.453789 and significant at 5% level as indicated by (sig. level of 0.029). Based on this, the null hypothesis one is rejected. However, the results from table 4.5 above further showed that deposit money banks interest rate to small scale has no significant impact on real gross domestic product in Nigeria, from the coefficient of -747.0194 as attested by t value of -0.312594 and not significant at all levels as indicated by (sig. level of 0.759). Based on this, the null hypothesis two is accepted.

**Discussion of Findings**

The study revealed that deposit money banks loan stock to small scale enterprises has a significant positive impact on real gross domestic product in Nigeria. This implies that holding other variables constant, ~~N~~1increase in deposit money banks loan stock to small scale enterprises will lead to 0.519289 value increase in the economic growth in Nigeria, for the period under review. This is in agreement with the findings of authorities like Akingunola (2011) who asserted that there is a significant positive relationship between SSEs financing and economic growth in Nigeria. Alese and Alimi (2014) also opined that deposit money bank loans as a form of SSEs financing options significantly improve the economic size of the Nigerian economy. Onakoya, Fasanya and Abdulrahman (2013) further opined that loan to small scale entrepreneurs has a positive impact on the economic performance.

The study finally revealed that deposit money banks interest rate to small scale enterprises has no significant impact on real gross domestic product in Nigeria. This shows that holding other variables constant, 1% increase in deposit money banks interest rate to small scale enterprises will lead to -747.0194 value decrease in the economic growth in Nigeria, for the period under review. This is in agreement with the findings of Onokoya et al (2013) who opined that high-interest rate has a negative impact on economic growth. Akabueze (2002) also asserted that the continuous decrease in DMBs loans to small scale enterprises can be attributed to high lending rates from the banks.

**Conclusion**

The deposit money banks loan to small scale enterprises has been one of the key sources of enhancing economic growth in Nigeria. The loan facilities from this institution to small scale enterprises must be sustained and improved upon to further boost the Nigerian economy by reducing youth unemployment, create wealth and to attain sustained economic growth. The challenge of a high-interest rate on loan stock from the deposit money banks to small scale enterprises must be looked into by the regulatory authority to enhance the high accessibility of loan by small scale enterprises from the deposit money banks in Nigeria.

**Recommendations**

(i) The Central Bank of Nigeria should step up a monitoring and implementation strategies to ensure that 10% equity investment fund set aside by the deposit money banks is significantly accessed by small scale enterprises in Nigeria.

(ii) The Central Bank of Nigeria should regulate and fix the deposit money banks lending rate to small scale enterprises little above the prevailing inflation rate in Nigeria. This will enhance compliance of the deposit money banks and accessibility of loan facilities by small scale enterprises.

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