

AN ANALYSIS OF BANK LENDING EFFICACY AND EFFECT ON ENTREPRENEURSHIP DEVELOPMENT IN LAGOS STATE

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ABSTRACT

The study carefully analysed the effect and efficacy of bank lending on the growth and development of entrepreneurial activities in Lagos State. Ex-Post Facto research design was adopted for the study. The study was conducted in Lagos State. The population of the study consisted of all bankers and entrepreneurs in Lagos State. Stratified random sampling technique was used to select one hundred and fifty bankers (150) and one hundred and fifty entrepreneurs (150) in Lagos State, which constituted the sample size of three hundred (300) respondents used for the study. The main instrument used in this study was a questionnaire titled "Bank Lending and Entrepreneurship Development Questionnaire (BLEDQ)". The validation of the instrument was carried out by an expert in test, measurement, and evaluation to ensure the validity of the instrument. Cronbach Alpha Technique was used to determine the level of reliability of the instrument. The reliability coefficient obtained was 0.77, and this was high enough to justify the use of the instrument. The researcher subjected the data generated for this study to appropriate statistical analyses such as mean and standard deviation to answer the research questions, while simple regression was used to test the hypothesis. The test for significance was done at 0.05 alpha levels. It was established in this paper that there are many ways banks have contributed to entrepreneurial growth and development in Lagos State, ranging from the creation or participation in small and medium-scale enterprise finance investment funds, to the creation of special unit for financing small and medium-scale enterprises. And all those forms of contribution have immensely impacted entrepreneurs and the development of their businesses. The paper concluded that there is significant effect of bank lending on entrepreneurial development in Lagos State. One of the recommendations made in this study was that it is very pertinent for the management of commercial banks to formulate policies on managing loans and their supervision, managing difficult loan beneficiaries, credit risk management, as well as monitoring and reviewing customer cases.

KEYWORDS: Entrepreneurship, Bank loan, Development, and Lagos State

Introduction

Finance is considered a major factor in entrepreneurship development. The bank takes deposits and pays interest for their use, and then turns around and lends out the money to borrowers who typically pay for it at a higher interest rate. Thus, money is made

available to customers by the banks at varying interest rates as a cost of funds. Sanusi (2011) explains that a bank effectively acts as a financial intermediary between savers who deposit their money and investors who need the money. Accepting short-term deposits and issuing long-term loans by the bank creates a mismatch (Emenuga, 2019). Profits can be measured as a return on assets and as a return on equity, which invariably shows the profit amounts obtained from the assets and the expense of the liabilities.

Working capital is very important in the operations of a firm. Commercial banks are business entities that are established for the purpose of carrying out banking operations with the aim of earning reasonable returns for their shareholders. The lending of loans and advances to bank customers is a time-consuming process. Such events or procedures are normally initiated by both the bank and the customers who are seeking credit with which to run their business operations. The process involves contact between the bank and the applicant for a loan, during which the bank would initiate necessary actions to conduct a thorough investigation into the loan applicant and his business or the project for which the funds would be utilized.

Hussain, Bhuiyan, and Bakar (2014) conceived of entrepreneurship as the introduction of businesses with the sole aim of solving problems. It could be in trading, manufacturing, agriculture, or consultancy. The final purpose is that service is rendered and problems are solved. Oduntan (2014) identified that entrepreneurship plays a pivotal role in any economy. Given the perceptions of various scholars, entrepreneurship could be defined as a combination of the performance of activities and the learning of new skills for the rendering of services to assume the role of an entrepreneur. Entrepreneurs learn mainly from experience, so the only real way to become an entrepreneur is to get out there and do it. Therefore, this study unit is used to identify and discuss the necessary events for lending by banks.

Statement of Problem

It is an irrefutable fact that entrepreneurship and entrepreneurial activities will encourage the growth and development of the Lagos State economy. The lack of entrepreneurship is an absolute constraint to any economic development. It is observed in Lagos State that the challenges and difficulties facing entrepreneurs float around the financial aspect. Little attention has been paid to the entrepreneurial sector on this matter, leaving entrepreneurial activities to scramble into sabotage in most parts of the state. It is in this light that this paper seeks to advocate bank lending as a panacea to entrepreneurial upkeep in Lagos State, Nigeria.

Objectives of Study

The study carefully sought to analyze the effect and efficacy of bank lending on the growth and development of entrepreneurial activities. Exclusively, the study sought to:

1. Find out the extent of bank lending in the Nigerian banks in Lagos State

2. Determine the extent of entrepreneurial development in Lagos State
3. Examine the effect of bank lending on entrepreneurship development in Lagos State

Research Questions

The following research question will be answered.

1. What is the extent of bank lending in the Nigerian banks in Lagos State?
2. To what extent is entrepreneurial development in Lagos State?
3. What is the effect of bank lending on entrepreneurship development in Lagos State?

Hypotheses

The null hypothesis states that:

There is no significant effect of bank lending on entrepreneurship development in Lagos State.

Conceptual Review

Concept of Bank Lending

A loan is an amount of money borrowed for a set period within an agreed repayment schedule. A bank loan may be obtained from a bank and may be either secured or unsecured. For secured loans, banks will require collateral, which may be lost if repayments are not made. In finance, a loan is the lending of money by one or more individuals, organizations, or other entities to other individuals, organizations, etc. The repayment amount will depend on the size and duration of the loan and the rate of interest. The recipient (i.e., the borrower) incurs a debt and is usually liable to pay interest on that debt until it is repaid, as well as to repay the principal amount borrowed. According to the Federal Reserve Banks of New York (2016), loans from credit unions may be referred to as bank loans as well. Lending is the act of borrowing money for the purpose of making a profit. The lender's ultimate goal may be to charge interest, whereas the borrower's ultimate goal is profit.

Banks will loan money to businesses on the basis of an adequate return for their investment, to reflect the risks of defaulting and to cover administrative costs. The bank will probably wish to see the business's accounts, balance sheet, and business plan, as well as study the principals' credit histories. Smaller loans, usually for loan amounts of \$100,000 USD or less, are referred to as microloans. Banks are less likely to make these loans than alternative lenders (Brainard, 2015). Many smaller businesses are now, however, turning towards alternative finance providers, especially in the case of smaller

firms. If you have an established relationship with your bank, they will have developed a good understanding of your business. This will help them advise you about the best product for your financial needs.

Concept of Entrepreneurship Development

The process of setting up a business is known as "entrepreneurship." According to Yetisenet et al. (2015) and Katila et al. (2012), the people who create these businesses are often referred to as entrepreneurs. An entrepreneur is an individual who creates and/or invests in one or more businesses, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business or procedures. Accordingly, Shane (2006) stressed that there is a high level of entrepreneurial development by businessmen in our society regardless of firm size. However, regardless of firm size, whether big or small, these people can take part in entrepreneurial opportunities. The opportunity to become an entrepreneur requires four criteria. First, there must be opportunities or situations to recombine resources to generate profit. Second, entrepreneurship requires differences between people, such as preferential access to certain individuals or the ability to recognise information about opportunities. Third, taking on risk is a necessity. Fourth, the entrepreneurial process requires the organisation of people and resources. According to Hisrich (2011), the exploitation of entrepreneurial opportunities may include:

- Developing a business plan
- Hiring human resources
- Acquiring financial and material resources
- Providing leadership
- Being responsible for both the venture's success or failure
- Risk aversion

Types of Bank Lending

Business loans may be secured or unsecured. With a secured loan, the borrower pledges an asset (such as plant, equipment, stock, or vehicles) against the debt. Aryya (2010) stated that if the debt is not repaid, the lender may claim the secured asset. Unsecured loans do not have collateral, though the lender will have a general claim on the borrower's assets if repayment is not made. Interest rates on unsecured loans are nearly always higher than on secured loans because an unsecured lender's options for recourse against the borrower in the event of default are severely limited, subjecting the lender to higher risk compared to that encountered for a secured loan (Jonnard, 2007). An unsecured lender must sue the borrower, obtain a money judgement for breach of

contract, and then pursue execution of the judgement against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders).

According to Central Bank of Nigeria (2017), there are two types of loans:

Secured Loan: A secured loan is a loan in which the borrower pledges assets (e.g. property, movable assets, etc.) as collateral (guarantee) for the loan. The assets are always worth more than the amount of the loan and can be claimed by the lender if the borrower does not pay back the money according to the agreed terms and conditions. Secured loans include:

- i. ***Term Loan.*** This is a loan granted by banks and other financial institutions for a specific amount and repayment terms, as well as a fixed or fluctuating interest rate.
- ii. ***Mortgage Loan.*** This is a loan granted by banks and other financial institutions for the purchase of real estate (property), usually with a specified interest rate and payment period. It is secured by the property itself. Ownership of the property is transferred to the borrower after full repayment and meeting other obligations. A default will lead to foreclosure (seizing of the property) (Central Bank of Nigeria, 2017).

Unsecured Loan: A loan in which the borrower does not pledge any asset as collateral (guarantee) for the loan. This type of loan has more risks for lenders, hence the interest rates are usually higher than secured loans. Unsecured loans include the following:

- i. ***Credit Card Loan.*** An electronic card, usually issued by banks and other financial institutions, which allows the holder to spend an amount above his account balance but up to an agreed limit. Regular checks and reconciliations are carried out at intervals to balance the account and claim interest, charges and principal according to the terms and conditions.
- ii. ***Personal Loan.*** This is a loan granted to an individual for household or other personal use. Banks and other financial institutions give out these loans based on the borrower's credit history and ability to repay the loan from personal income. It is also referred to as a consumer loan (Central Bank of Nigeria, 2017)

Requirements for Bank Lending

Whatever the type of loan, terms and conditions are very important. Borrowers must fully understand these terms and conditions before signing up for the loan. The Central Bank of Nigeria sets guidelines and policies to regulate lending by banks and other financial institutions. According to the Central Bank of Nigeria (2017), to be considered eligible for loans, the borrower must:

- i. Have a bank account
- ii. Be mentally fit
- iii. Be of legal age
- iv. Be credible
- v. Have good credit rating
- vi. Meet your customer (KYC) requirement
- vii. Be able to repay

The Contribution of Banks in the Growth and Development of Entrepreneurship

Obviously, there are many ways banks can contribute to the growth and development of small and medium-scale enterprise finance, ranging from the creation or participation in small and medium-scale enterprise finance investment funds to the creation of special units for financing small and medium-scale enterprises. Moreover, along the lines of the main functions of banks mentioned above, the contribution of banks to economic growth can be categorised as follows:

I. Financing Contribution

The various methods by which banks can lend money to entrepreneurs include overdrafts, medium and long-term loans, debt factoring, invoice discounting, asset finance, including commercial mortgages, and equity finance. According to Sushmitha (2018), the primary reason that banks want deposits is to enable them to grant loans and advances from which they earn interest income. Extension of credit to the economy for the financing of business enterprises is the core link that banks have to the real sector, acting as a catalyst and contributing to the growth of the economy of the country. According to Oboh (2005), by financing entrepreneurs' production, consumption, and commercial activities, banks lubricate the process of economic growth with a multiplier effect across all sectors of the economy.

II. Statutory Contribution

This has to do with the main function for which banks were created in the first place. Such contributions are the accepting and safekeeping of deposits; the transfer of money; the giving of loans and advances; etc. By accepting deposits from customers, especially entrepreneur-customers, the banks will be providing security for customers' money and giving them the opportunity to use their deposit to borrow more money from the banks to finance the running of their enterprises. Sushmitha (2018) noted that through funds transfer, money is moved from one account to another and from one place to another. A good payment system that provides speedy fund transfers is vital for the efficient working of an economy. Again, with the development of information technology in banks, the speed of service delivery has improved while the cost of doing business has fallen tremendously. The services have enabled entrepreneurs to make transactions outside their immediate environment without necessarily having to carry money about.

III. Advisory, Guaranty and Consultancy Contribution

In addition to the normal lending and other services, banks now also engage in business advisory, guaranty and other consultancy services, which help immensely in the

promotion and financing of entrepreneurship activities in the country. It is a well-known fact that some enterprises/businesses fail simply because of mismanagement, faulty investment decisions, inefficient capital, poor planning, etc.

IV. Business Investment Promotion Contribution

Because of the specialised and professional status of banks, they are in a position to make investment promotion contributions to entrepreneurs. Such contributions may include management of investments for customers, advice on sustainable lines of investment to follow by analysing the pros and cons of each investment alternative for the entrepreneur-customer (Sushmitha, 2018).

In fact, banks can offer advisory and consultancy services to the growth and development of entrepreneurship through methods of control systems with respect to defined lines of business or trends of challenges, advice on methods of raising capital or reorganisation of a company to bring about the desired level of efficiency. Advice on tax and tax-related matters. Status enquiry services could be offered to effect credit purchases within the domestic market or overseas. The banks could also play a great role in entrepreneurship development by organizing, sponsoring, and supporting entrepreneurship education and training programmes either directly or in conjunction with other organisations and stakeholders.

Methodology

Ex-Post Facto research design was adopted for the study. The study was conducted in Lagos State. The population of the study consisted of all bankers and entrepreneurs in Lagos State. Stratified random sampling technique was used to select one hundred and fifty bankers (150) and one hundred and fifty entrepreneurs (150) in Lagos State which constituted the sample size of three hundred (300) respondents used for the study. The main instrument used in this study was a questionnaire titled "Bank Lending and Entrepreneurship Development Questionnaire (BLEDQ)". The validation of the instrument was carried out by an expert in test, measurement, and evaluation to ensure the validity of the instrument. Cronbach Alpha Technique was used to determine the level of reliability of the instrument. The reliability coefficient obtained was 0.77, and this was high enough to justify the use of the instrument. The researcher subjected the data generated for this study to appropriate statistics such as mean and standard deviation to answer the research questions, while simple regression was used to test the hypothesis. The test for significance was done at 0.05 alpha levels.

Results

Research Question 1: The research question sought to find out the extent of bank lending in the Nigerian banks in Lagos State. To answer the research question percentage analysis was performed on the data, (see table 1).

Table 1: Percentage analysis of the extent of bank lending in the Nigerian banks in Lagos State

EXTENTS	FREQUENCY	PERCENTAGE
VERY HIGH EXTENT	41	13.67*
HIGH EXTENT	57	19
LOW EXTENT	76	25.33
VERY LOW EXTENT	126	42**
TOTAL	300	100%

** The highest percentage frequency

* The least percentage frequency

SOURCE: Field survey

The above table 1 presents the percentage analysis of the extent of bank lending in the Nigerian banks in Lagos State. From the results of the data analysis, it was observed that the highest percentage (42%) of the respondents affirmed that the extent of bank lending in the Nigerian banks in Lagos State is very low, while the least percentage (13.67%) of the respondents stated that the extent of bank lending in the Nigerian banks in Lagos State is very high. The results therefore mean that the extent of bank lending in the Nigerian banks in Lagos State is very low. These findings agree with the views of Brainard, (2015) that stated that many smaller businesses are now however turning towards Alternative Finance Providers, especially in the case of smaller firms. If you have an established relationship with your bank, they will have developed a good understanding of your business. This will help them to advise you about the best product for your financial needs.

Research Questions 2: The research question sought to find out the extent of entrepreneurial development in Lagos State. To answer the research question percentage analysis was performed on the data, (see table 2).

Table 2: Percentage analysis of the extent of entrepreneurial development in Lagos State

EXTENTS	FREQUENCY	PERCENTAGE
VERY HIGH EXTENT	143	47.67**
HIGH EXTENT	112	37.33
LOW EXTENT	32	10.67
VERY LOW EXTENT	13	4.33*
TOTAL	300	100%

** The highest percentage frequency

* The least percentage frequency

SOURCE: Field survey

The above table 2 presents the percentage analysis of the extent of entrepreneurial development in Lagos State. From the result of the data analysis, it was observed that the highest percentage (47.67%) of the respondents affirmed that the extent of entrepreneurial development in Lagos State is very high, while the least percentage (4.33%) of the respondents stated that the extent of entrepreneurial development in Lagos State is very low. The results therefore mean that there is very high extent of entrepreneurial development in Lagos State. The result is supported by the findings of Shane (2006), who stated that there is high level of entrepreneurial development by business men in our societies regardless of the firm size, big or small, these people can take part in entrepreneurship opportunities.

Research Questions 3: The research question sought to find out the effect of bank lending on entrepreneurship development in Lagos State. To answer the research question, descriptive analysis was performed on the data, (see table 3).

Table 3: Descriptive statistics of the effect of bank lending on entrepreneurship development in Lagos State

Variable	N	X	SD
Entrepreneurial Development	300	17.42	1.61
Bank Lending		15.67	2.02
Total	300	33.09	3.63

SOURCE: Field survey

Table 3 presents the result of the effect of bank lending on entrepreneurship development in Lagos State. The analysis showed the mean score of 17.42 for entrepreneurial development and 15.67 for bank lending, with 1.61 standard deviation for entrepreneurial development and 2.02 for bank lending repetitively. This imply that there is bank lending (15.67) has a remarkable effect on entrepreneurial development (17.42) in Lagos State even though more lending is expected. The results support the view of Oboh (2005) that stated that financing entrepreneurs' production, consumption and commercial activities, banks lubricate the process of economic growth with multiplier effect across all sectors of the economy.

Hypotheses Testing

Hypothesis: The null hypothesis states that there is no significant effect of bank lending on entrepreneurship development in Lagos State. In order to test the hypothesis multiple regression was used to analyse the data, (see table 4).

TABLE 4: Regression Analysis of the effect of bank lending on entrepreneurship development in Lagos State

Model	R	R-Square	Adjusted R Square	Std. error of the Estimate	R Square Change
1	0.97a	0.94	0.94	0.38	0.94

*Significant at 0.05 level; df= 298; N= 300; critical R-value = 0.139

The table shows that the calculated R-value 0.97 was greater than the critical R-value of 0.113 at 0.5 alpha level with 298 degree of freedom. The R-square value of 0.94 predicts 94% of the effect of bank lending on entrepreneurship development in Lagos State. This rate of percentage is highly positive and therefore means that there is significant effect of bank lending on entrepreneurship development in Lagos State.

It was also deemed necessary to find out the extent of the variance of each class of independent variable as responded by each respondent (see table 5).

TABLE 5: Analysis of variance of the effect of bank lending on entrepreneurship development in Lagos State

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1322.66	5	264.53	972.23	.000b
Residual	89.25	328	0.27		
Total	1411.91	333			

a. Dependent Variable: Entrepreneurial Development

b. Predictors: (Constant), Bank lending

The above table presents the calculated F-value as (972.23) and the critical f-value as (000). Being that the critical f-value (000a) is below the probability level of 0.05, the result therefore means that there is significant difference in the influence exerted by the independent variables (Bank lending) on the dependent variable which is entrepreneurial development.

Discussion of the Findings

The result of the data analysis in tables 4 and 5 was significant due to the fact that the calculated R-value 0.97 was greater than the critical R-value of 0.113 at 0.05 level with 298 degree of freedom. The result implies that there is significant effect of bank lending on entrepreneurship development in Lagos State. The result of the study was in agreement with Oboh (2005), who stated that by financing entrepreneurs' production, consumption and commercial activities, banks lubricate the process of economic growth with multiplier effect across all sectors of the economy. Also Sushmitha (2018) who added that the primary reason that banks want deposits is to enable them grant loans and advances from which they earn interest income. Hence, the significance of the result caused the null hypotheses to be rejected while the alternative was accepted.

Conclusion

Bank policies are imperative towards ensuring effective and efficient operations of bank business, especially as they relate to bank lending. Banks lend to the real sector, which is the productive sector, and this helps to facilitate and enhance production. It was established in this paper that there are many ways banks have contributed to entrepreneurial growth and development in Lagos State, ranging from the creation or participation in small and medium-scale enterprise finance investment funds, to the creation of special units for financing small and medium-scale enterprises. Moreover, the various forms of contributions are: financing contribution, statutory contribution, advisory, guaranty and consultancy contribution, and business investment promotion contribution.

It was also concluded that there is very high extent of entrepreneurial development in Lagos State. This is true because it is quite certain that all the financial support from banks have created remarkable impact on entrepreneurs and the development of their businesses. Finally, this paper concludes that there is a significant effect of bank lending on entrepreneurship development in Lagos State of Nigeria.

Recommendations

Base on the findings of the study, the following recommendations were made.

1. In order to guarantee the efficient operations of commercial banks in terms of the important aspect of financial intermediation, which is lending of funds to business entities and individuals, it is very pertinent for the management of commercial banks to formulate policies on managing loans and their supervision, managing difficult loan beneficiaries, credit risk management, as well as monitoring and reviewing customer cases.
2. The manufacturing sector should not be left out in the scheme of bank lending as they have shown to benefit more from these loans and have also increased in terms of more entrepreneurs springing up over the years.
3. Banks should as a matter of urgency increase their loans to the agricultural sector by providing incentives that will attract farmers. Incentives such as lower interest rates, fertilizer subsidization and free extension services should be considered.
4. Banks should put all machinery in place to ensure that loans to the agricultural sector are used for the purpose for which they were meant. This will help to increase the rate of repayment of the loans and increase the loan worthiness of most farmers.

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