Australian Journal of Business and Management Research
New South Wales Research Centre Australia *(NSWRCA)*

Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

BANK MANAGEMENT AND RURAL ECONOMIC DEVELOPMENT IN NIGERIA

Ilori David Babafemi
Department of Management Sciences
Wesley University of Science and Technology, Ondo Nigeria
babafemiilori@gmail.com; babafemiilori77@gmail.com

ABSTRACT

The study examines the effect of bank management on rural economic development with particular reference to commercial bank credit and rural economic development in Nigeria. The presence of a unit root in the time series data was tested using Augmented Dickey–Fuller (ADF) test, within the context of Ordinary Least Square (OLS) framework, and a double-log equation. Estimated regression model indicates that there is a positive and significant relationship between rural contribution to GDP (RGDP), a surrogate for rural economic development, and commercial banks credit to agriculture. The paper also reveals a passive commitment of the bank to financing SMEs and its weak drive for rural deposit mobilisation. The paper therefore, underscores the relevance of bank finance to enhancing rural and SMEs development to the nations' economy. The paper recommends that monetary authority in Nigeria should ensure that banks adhere to monetary policy targets in order to enhance the campaign for rural economic development, and deepen financial inclusion of rural dwellers and small scale businesses, otherwise failure of which will continue to hurt rural lending and SMEs financing. Realizing that not so much have been achieved in the area of rural deposit mobilization, the paper also makes a campaign for an aggressive rural deposit mobilization by commercial banks.

Keywords: *Bank management, commercial bank credit, rural economic development, small and medium scale enterprises, Nigeria.*

INTRODUCTION

Financial management of economic agents concerns itself with answers to the critical questions of how do the agent would plan for, source, organize, allocate and/or utilize, and apportion funds available to him in order to accomplish nominated objectives. For a typical financial institution, this would include issues relating to how the institution would raise needed capital, organize or structure the funding sources, and utilize the sourced funds to maximize the wealth of the owners. The institution must be poised to raise funds from convenient sources that would guarantee cost effectiveness and time efficiency. (Chinedu B. Ezrim, Michael I, Muogholu 2006).

Financial systems have long been recognized to play an important role in economic development. The benefits accruable from a healthy and developed financial system relate to savings mobilisation and efficient financial intermediation roles (Gibson & Tsakalotos, 1994). The system vigorously seeks out and attracts the reservoir of savings and idle funds and allocates same to entrepreneurs, businesses, households and government for investments projects and other purposes with a view of getting returns. The finance literature provides support for the argument that countries with better/efficient financial systems grow faster while inefficient financial systems bear the risk of bank failure (Kasekende, 2008).

Financial institutions are some of the indispensable ingredients of modern development. Banks as financial intermediaries are expected to provide avenue for people to save incomes not expended on consumption. It is from the savings they so accumulate that they are expected to extend credit facilities to entrepreneurs and other industrialists. Kashyap and Stein (2000), Beck *et al.* (2000), Beck *et al* (2003), Driscoll (2004), etc, suggest that financial development can foster economic growth by raising saving, improving allocative efficiency of loanable funds, and promoting capital accumulation. In Nigeria, many of the banks that were in existence in the period before independence were foreign owned and did not therefore share in the vision of banks financing local enterprise. This exclusion of Nigerian entrepreneurs was instrumental to the establishment of indigenous banks. The initial indigenous banks were established to address this perceived discrimination against Nigerian borrowers by foreign banks. Their main objectives were to encourage local investors, support budding entrepreneurs and hence foster economic growth. Unfortunately many of them failed, hindering their contribution to the economy (Ekezie, 1997; Onoh, 2002).

Olaitan (2006) asserts that a major challenge facing many developing countries, especially in Africa, is devising appropriate development strategies that will capture the financial services requirements of farmers and small and medium entrepreneurs who constitute about 70 percent of the population. The Federal Government of Nigeria considers this segment critical for its development efforts to be fully realized. The Government has instituted various policies to achieve its aims at improving the livelihoods of farmers and entrepreneurs. Some of these policies include the Nigerian Agricultural Cooperative and Rural Development Bank Ltd; Microfinance Banks, People's Bank; the Agricultural Credit Guarantee Scheme Fund (ACGSF); and the Small and Medium Industries Equity Investment Scheme among others. Present government's policy is to provide not only agricultural credit but also to create an enhanced rural financial set-up that will meet the entire financial needs of the rural populace, ranging from credit, insurance, marketing and investments. It is hoped that the creation of these services will integrate the rural population into the modern economic mainstream with the urban and more developed parts of the country.

Agriculture is a major contributor to Nigeria's GDP and small-scale farmers play a dominant role in this contribution (Rahji and Fakayode 2009), but their productivity and growth are hindered by limited access to credit facilities (Odoemenem and Obinne 2010). It is estimated that only 2.5 percent of total Commercial Bank loans and advances is directed at agriculture (CBN 2008).

Also, the need to develop the rural economy through the promotion of small and medium scale enterprises has long been recognised. It is argued that SMEs in Nigeria can contribute as much as 30 per cent of the Gross Domestic Product (GDP) and employ up to 58 per cent of its work force (Galadima, 2006). However, access to fund remains an essential tool for promoting Small and Medium Enterprises (SMEs) hence, the need to develop strategies that will capture the financial services requirements of farmers and small and medium entrepreneurs. Rural development therefore, is highly essential for an economy aiming at economic prosperity. This will reduce congestion in the urban sector of the economy which in turn gives road to full employment of resources.

Commercial bank credits play a crucial role in the development of an economy. Nzotta (1999) contends that bank credits influence positively the level of economic activities in any country. It influences what is to be produced, who produces it, and how much is to be produced. Therefore, as a major player in the financial institutions, this study investigates the effect of bank management on rural economic development in Nigeria.

To achieve this broad objective therefore, the following two objectives were formulated; to:

(i) assess the effects of commercial banks credits on rural and SMEs development.
(ii) evaluate the effect commercial banks deposit mobilization on rural and SMEs financing.

The paper is divided into five sections. Section 1 deals with the introduction. Section 2, literature review and empirical evidences while section 3 is concerned with research method. Section 4 presents analysis of result and discussion of findings. Conclusion and recommendations are presented in section 5.

Research Problem

Historically, the financial performance of credit markets and small business in rural areas has been a topic of active professional discourse. Edelman (1997) notes among others that rapid concentration of bank assets due to merger activity may limit lending to rural businesses.

Over the years, financial inclusion of rural dwellers and small scale enterprises suffers the needed attention from financial institutions in Nigeria. Rural financial intermediation and small business financing are conspicuously missing on the priority list of commercial banks. As a result, the rural sector remains heavily constrained by its small economic capacity due to inadequate financial consideration. Yet, the rural sector with its characteristic small businesses has the potentials for capacity building and economic drive in any economy. Therefore, failure to recognise this as a challenge would amount to undermining the roles of the sector in economic development.

In a related view, Adolphus (2011) noted that the excess liquidity in the banking system between 1992-2007 did not improve the flow of credit to SMEs in Nigeria. Moreover, not all contributions in terms of deposits in banks are used for the development of rural sector hence, this study investigates whether contributions of rural dwellers to the nations' economy justify the need for a campaign for more financial inclusion of this sector.

Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

Research Hypotheses:
The following hypotheses were formulated:
(i) Ho- There is no significant relationship between rural deposits with commercial bank and rural contribution to GDP.
(ii) Ho- There is no significant relationship between commercial bank loan to small scale enterprises and rural contribution to GDP.
(iii) Ho- There is no significant relationship between commercial bank credit to agriculture and rural contribution to GDP.
(iv) Ho- There is no significant relationship between commercial bank loan to rural areas and rural contribution to GDP.

LITERATURE REVIEW

An Overview of Financial Management and the Roles of Banks in Rural Financing

Financial management has been broadly defined "as the process of planning, acquisition, utilization, and apportionment of scarce monetary resources among economic units with a view to achieving predetermined objectives", such as the maximization of an owner's wealth (Ezirim, 2005:26). For instance, Koch (1992: 1, 525) defined financial management of commercial banks as involving "selecting the portfolio and mix of products and services offered to balance expected returns with assumed risk, within the objective of maximizing shareholders value". A bank's investment portfolio comprises different kinds of money and capital markets' instruments. These would include treasury bills, negotiable certificate of deposits (NCDs), bankers' acceptances, commercial paper security repurchase agreements, longer term treasury securities (such as treasury certificates), government bonds and development stocks, and others.

Generally, profitability of financial institutions depends on their investment performance, which in turn, depends on the way portfolios are managed. For a typical bank, portfolio management represents the prudent management of banks' assets and liabilities in order to seek some optimum combination of income, profit, liquidity, and safety (Jhinghan, 1994).

Writing on the role of banks in economic growth, Steiner, et al (1963) opined that banks are important to the economy because they influence the level of economic activities in two ways, namely: by expansion and contraction of loans and investment. These activities alter the nation's money supply, and by extension affect the size of loans, influence what is produced, how much is produced and where it is produced.

Similarly, Ubom (2009) identified banks as agents of economic development. This is because they invest directly in the economy (e.g. by buying the shares of other companies) and also grant loans to others for investment and purchase of securities. Azege (2009) holds that banks contribute to the economy by mobilizing savings from the surplus economic unit and making these funds available to the deficit economic unit. By so doing, banks are able to finance
investments.

The extensive works of Bertocco (2003) have outlined the theoretical models defining the role of banks in financing small and medium firms. The study provides a shift from the asymmetric information approach to a meaningful theory elaborated on the basis of the works of Keynes and Schumpeter. The asymmetric information (AI) approach abandons the hypothesis of perfect markets on which the neoclassical theorems on the irrelevance of money and the financial variables were founded. The conclusions of this approach apply in particular to small and medium firms, as there is less information about them (see Meyers, 1984; Carpenter and Peterson, 2002). The first conclusion under AI approach is that the presence of asymmetric information renders the Modigliani-Miller theorem inapplicable. If the potential creditors have less information than the entrepreneur who plans to carry out a new investment project, then it is not indifferent to the firm to choose among self-financing, debt or a new share issue. The second result under the AI approach is that it provides a convincing theory of financial intermediaries (banks) according to which their function is to reduce the costs associated with asymmetric information.

Meyer (1997) has outlined the importance of the bank- small business relationship as follows: One of the reasons why the banking relationship is so important is that banks can efficiently gain valuable information on a small business over the course of their relationship, and then use this information to help make pricing and credit decisions. The financial conditions of small firms are usually rather opaque to investors and the costs of issuing securities directly to the public are prohibitive for most small firms. Thus, without financial intermediaries like banks it would be simply too costly for most investors to learn the information needed to

Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

provide the credit, and too costly for the small firm to issue the credit itself. Banks, performing the classic functions of financial intermediaries, solve these problems by providing information about borrowers and monitoring them over time, by selling loan contract terms to improve borrower incentives, by renegotiating the terms if and when the borrower is in financial difficulty, and by diversifying the risks across many small business credits. Many scholars including Onuoha (1994 and Rogers 2002) believe that, one of the instruments that have been identified to tackle poverty and promote economic development is the promotion of small and medium scale enterprises.

In the theories of economic development, (Lewis 1954) saw agriculture as the basis for industrial growth and development. He saw agriculture as freeing disguised labour for industrial production and hence the engine of growth and development of any society must obviously start with agricultural production. In this sense, with heavy modernization and mechanization of agriculture, labour is free for industrial development (Irgco, Mitchell, and Nash, 2004).

Small and Medium Scale Enterprises Financing

Conceptually, the definition of SMEs is amorphous. This is because the term “small and medium enterprises” has various definitions, and such definitions are basically based on the size of the economy and the level of economic development in the country. Similarly, they are based on certain parameters which are not definitive but vary from sector to sector and country to country. Notwithstanding, they are predicated on common indexes such as turnover, number of employees, capital employed, among others.

Aluko (2002) defines small scale enterprises are those enterprises employing up to fifty (50) workers or less than excluding household enterprise. Small business is a business that is privately owned and operated with a small number of employees and relatively low volume of sales. Small-scale businesses are normally owned corporation, partnerships or sole proprietorship. The legal definition of "small" varies historically, by country and by industry but generally has fewer than 100 employees.

Ayegbusi (2004) defines a small business as an enterprise which has an investment capital of up to one hundred and fifty thousand naira (N150, 000) and employs not more than fifty (50) persons or workers.

The International Finance Corporation (IFC), in Hamid (2004), defines SMEs as firms with less than 300 employees and total assets less than US One million. From this IFC‟s definition, it can be seen that the majority of businesses in Nigeria are SMEs.

Industrial development was earlier believed to have occurred because of large enterprises. However, in the recent time, SMEs have become perceived as the key agent of industrialization. SMEs, which usually operate in the formal sector of the economy, are a very heterogeneous group of businesses usually operating in the agribusiness, service, trading and manufacturing sectors. They may include a wide variety of companies from traditional, small and family owned enterprises to dynamic, innovative and growth oriented enterprises (Lukas, 2005).

A crucial element in the development of rural and SMEs sector is access to finance, particularly to bank financing, given the relative importance of the banking sector in securing these segments. It is, therefore, unsurprising that the International Development Community has listed SME access to finance as important policy priority. (Piltsaurgh G-20 2009). Histrich and Peters (1998) explained that the study of entrepreneurship has relevance today, not only because it helps small business or entrepreneurs better fulfill their personal needs, but also because of the economic contribution of the new ventures.

The Role of Banks in Agricultural Finance

In a related development, in an effort to facilitate credit flow to farmers, Federal Government of Nigeria established a specialized financial institution namely the Nigerian Agriculture and Cooperative Bank (NACB) was established in 1973 and complementary schemes, Agricultural Credit Scheme Fund (ACSF). Furthermore, in an attempt to provide formal insurance cover for the financial risk associated with agricultural enterprises, the Nigerian Agricultural Insurance Company (NAIC) was established in 1989. Similarly in 1989, the Peoples Banks of Nigeria (PBN) was established with main objectives of producing basic requirements to the poor rural Nigerians. Also the programme for the establishment of Community Banks started in December, 1990 (CBN 1997). The Family Economic Advancement Programme (FEAP) was established in August, 1997 to provide credit for agricultural production and processing cottage and small-scale industries through cooperatives societies. Finally, Nigerian Agricultural, cooperatives and Rural Development Bank (NACRDB) was established following the merger of Nigerian Agricultural Cooperative Bank (NACB), Peoples Bank of Nigeria (PBN) and Family Economic Advancement Programmes (FEAP) in the past (Oyebola, 2003). Thus, Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) is dedicated primarily to agricultural financing at both the micro and macro levels as well as micro financing of small and medium scale enterprises. It is with these in mind, that the study was focused on the roles of commercial banks in its performance of rural financial services and to double its efforts its efforts on agricultural financing.

Empirical Studies

In many developing countries, the Small and Medium Enterprises (SMEs) constitute the bulk of the industrial base and contribute significantly to their exports as well as to their GDP or GNP (Kharbanda 2001). These enterprises have immense contributions to economic growth, job creation and industrial development (Carree and Thrik 2005, Hallberg 2009). Beyene (2002) opined that the potentials of the small and medium enterprises are manifested in their labour-intensive nature, income-generating possibilities, capital saving capacity, potential use of local resources and reliance on few imports, flexibility, innovativeness and strong linkages with the other sectors of the economy.

Jayaratne and Strathan (1996) affirm that financial development impacts positively on economic growth but with a clause that there is an improvement in the quality of bank lending. Using the bank deregulation reform in the US as a case-study, it was established that the rate of real, per-capita growth in income increased significantly. This impact of the reform in the financial system on economic growth was attributed to the improvement in the quality of bank lending, and not the increase in volume of bank lending.

Romeo-Avila (2007) also confirms the positive impact of finance on growth. He investigates the relationship between finance and growth, with emphasis on the effect of financial deregulation and banking law harmonisation on economic growth in the European Union. The study establishes that financial intermediation impacts positively on economic growth through three channels.

In a landmark article, Levine (1997) has shown that the financial sector leads to productivity growth and real economic growth. However, a number of studies have shown that banks have played no substantial and statistically significant role in small business lending (Pranti, et al, 2006; Obamuyi, 2007; Bonaccorsi & Gobbi, 2007). Although the eras of pursuits of market reforms in the Nigerian banking industry were characterized by improved incentives, these however, did not lead to increased credit purvey to the economy (Balogun, 2007). Current banking reforms in Nigeria have adopted a risk-based supervision (RBS) framework aimed at improving asset quality and enhancing lending growth.

Historically, the financial performance of credit markets and small business in rural areas has been a topic of active professional discourse. At the centre of the debate is whether or not gaps exist in rural financial markets. Edelman (1997) notes among others that: (1) rapid concentration of bank assets due to merger activity may limit lending to rural businesses, (2) financial market regulations impose greater costs to smaller lenders that are characteristic of rural communities; (3) rural borrowers with unique credit needs (large amount, start-up, unfamiliar venture) face greater difficulty obtaining credit, and (4) rural equity markets are unorganized and virtually non-existent. Based on Nigerian data, the works of Emeni and Okafor (2008) have shown that the larger the size of a bank by way of mergers at acquisitions (M & A), the more it tends to lend to small businesses. Emeni and Okafor also show that change in banking focus. (e.g. cutting down of branches in local areas),otherwise referred to as the restructuring effect, resulted in poor lending to small businesses, even with M & A. In a related study, Jones (2008) has shown that formal-sector financial institutions can learn much about rural financial service needs from the financial products and processes of their informal counterparts.

Earlier studies show that only 2.5 percent of total commercial bank loans and advances is directed at agriculture (CBN 2008). The average loan size granted by microfinance institutions as reported by Anyanwu (2004) was N8, 800. Loan amounts ranged between N5, 000 and N13, 762. This is close to the N8, 206.90 reported by the CBN (2005) as the average loan size ranted by NGO-MFIs. Oke *et al* (2007) found that the average loan size from NGO-MFIs institutions to farmers in southwest Nigeria was N23, 551.25, while actual loan amounts ranged from N5, 000 to N90, 000.

Similarly, Adejobi and Atobatele (2008) suggested that loan default could limit access to credit, while Agnet (2004) opined that the complex mechanism of commercial banking is least understood by the small-scale farmers, and thus, limits their access. Rahji and Fakayode (2009) blamed the limitation on imperfect and costly information problems encountered in the financial markets; credit rationing policy; and banks' perception of

Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

agricultural credit as a highly risky venture; while Philip *et al* (2009) stated that high interest rate and the short-term nature of loans with fixed repayment periods do not suit annual cropping, and thus constitute a hindrance to credit access.

Methodology

The study used mainly secondary data in its analysis. Time series analysis was carried out. The data source for this study include Central Bank of Nigeria (CBN) statistical bulletin of various issues, National bureau of statistics various issues and the internet. The data spans the period 1992 to 2011 (20 years). The data from this period present a considerable degree of freedom that is necessary to capture the net effect of explanatory variables on the dependent variables. The data span was limited to 20 years because commercial banks credits to small scale enterprises started in 1992. Data used include those on gross domestic product (GDP) at current basic prices represented by rural contribution to GDP (RGDP). Explanatory variables include rural deposits with commercial banks, commercial banks loans to agriculture, commercial banks loans to rural areas and commercial banks loans to small scale enterprises.

Model Specification

Following a detailed review of previous studies and theoretical evidence in the works of (Egbetunde 2012), the theoretical equation which explains the linear relationship between rural output and bank credit is specified thus:

$$RGDP = f(CCA, CLR, RDD) \qquad (1)$$

Equation (1) is a theoretical equation which states that rural output contributed to GDP (RGDP), is a function of Commercial bank credits to agriculture (CCA), commercial bank loans to rural areas (CLR) and rural deposits with commercial banks (RDD).

Improving upon the theoretical postulate described in equation (1) above, and for the purpose of meeting the desired objective, the above framework was modified to include commercial bank lending to small scale enterprises (SSE) sector because small scale development has become an important consideration in rural development of any economy. To lend credence to this, the works of Drabenstott and Mecker (1997) provide the consensus that rural businesses have a smaller menu of products and often pay more for access to capital. Meyer (1997) as earlier discussed, outlined the importance of the bank-small business relationship and rural development.

The equation which explains the linear relationship between rural economic development and bank credit can be stated thus:

$$RGDP = f(CCA, CLR, RDD, SSE) \qquad (2)$$

The above can be expressed in explicit econometric linear form as:

$$RGDPt = \beta1+ \beta2CCAt + \beta3CLRt + \beta4RDDt + \beta5SSEt + et \qquad (3)$$

Where t= 20years

Equation (3) can be expressed in a double-log equation form thus:

$$In\Delta RGDPt = \beta1+ \beta2In\Delta CCAt + \beta3In\Delta CLRt + \beta4In\Delta RDDt+ \beta5In\Delta SSEt \qquad (4)$$

This paper adopts equation (4) in capturing the linear relationship between rural economic development and bank credit.

ANALYSIS OF RESULT AND DISCUSSION OF FINDINGS

Unit Root Test

Table 1 showing ADF Unit Root Test

Variables	ADF Statistic	Critical Value @ 5%	Order of Integration	Remarks
RGDP	4.101909	-3.029970	I(0)	Stationary
CCA	-4.282464	-3.052169	I(1)	Stationary
CBR	-4.600615	-3.065585	I(1)	Stationary
RDD	-3.040351	-3.029970	I(0)	Stationary
SSE	-4.132306	-3.040391	I(1)	Stationary

E-view version 7.0 econometric package

Australian Journal of Business and Management Research
New South Wales Research Centre Australia (NSWRCA)
Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

The analysis begins with the test of stationary of the data (unit root) using ADF test as in Table 1 above. The ADF unit root is calculated for the individual series to provide evidence of absence of spurious or nonsense regression and to conclude that variables are integrated or dependent.

The result shows that rural contribution to GDF (RGDF) and rural deposit with commercial bank are stationary at level while commercial bank credit to agriculture (CCA), commercial bank loan to rural areas (CBR) and commercial bank loan to small scale business (SSE) are stationary at first difference.

Table 2 Regression Result -Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.541	.877		-.617	.546
	LogCCA	1.227	.203	.815	6.034	.000
	LogCBR	.297	.183	.189	1.624	.125
	LogRDD	-.009	.078	-.011	-.110	.914
	LogSSE	-.012	.183	-.005	-.063	.951

a. Predictors: (Constant), LogSSE, LogCBR, LogRDD, LogCCA

b. Dependent Variable: LogRGDP

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.963[a]	.928	.909	.17210	1.804

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RGDP(-1)	0.117840	0.028728	4.101909	0.0007
C	205741.4	132854.7	1.548620	0.1399

R-squared	0.497423	Mean dependent var	602362.9
Adjusted R-squared	0.467860	S.D. dependent var	544414.8
S.E. of regression	397139.5	Akaike info criterion	28.72126
Sum squared resid	2.68E+12	Schwarz criterion	28.82068
Log likelihood	-270.8520	Hannan-Quinn criter.	28.73809
F-statistic	16.82565	Durbin-Watson stat	2.064621
Prob(F-statistic)	0.000744		

The above shows the relationship between commercial bank credit and rural economic development in Nigeria. The diagnostic statistic conducted on this model with a double log equation using Ordinary Least Square (OLS) suggests that the model estimates are generally desirable. The high R^2 and adjusted R^2 of 0.93 and 0.91 respectively show that the model has a good fit. This shows that 93% o systematic variation in RGDP is jointly explained by the explanatory variables.

The result shows that rural deposits with commercial bank (RDD) as well as commercial bank loan to small scale business (SSE) are inversely related to rural contribution to GDP (RGDP) and both variables were statistically significant at 5% level thus, negating hypotheses (i) and (ii) put forward in this study. The implication of the above however, is that rural deposit with commercial bank is still very low. This also gives credence to poor banking culture in the rural areas as well as weak deposit mobilisation strategy by the bank in the rural areas.

Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

The negative relationship between SSE and RGDP also shows that not so much have been done by the bank in making credit available to small scale enterprises. However, this is consistent with a number of studies which have shown that commercial banks have played no substantial and statistically significant role in small business lending (Pranti, et all, 2006; Obamuyi 2007.

The result also reveals that commercial bank credit to agriculture (CCA) and commercial bank credit to rural areas are positively related to rural contribution to GDF (RGDF) and are statistically significant at 5% level thus, negating hypotheses (iii) and (iv). The elasticity of RGPD to CCA is the highest followed by CBR. This supports previous finding that agriculture is a major contributor to Nigeria's GDP and small scale farmers play dominant role in this contribution (Rahji and Fakayode 2009).

Moreover, the explanatory variables are jointly significant at 5% level as captured by F-statistic (16.82565). This, therefore, indicates there is a significant a relationship between rural contribution to GDP (RGDP) and the predictors. In summary, the results are in agreement with similar study in Nigeria (Egbetunde 2012).

CONCLUSION

The study attempts to examine the effect of bank management on rural economic development in Nigeria with particular reference to bank credit and rural economic development. Generally, the econometric result shows a significant relationship between commercial bank credit and rural economic development. However, the result also reveals that the banks' drive for deposit mobilization in the rural area still remains weak with its attendant passive rural banking culture. It also shows that commercial banks passive commitment to financing small scale enterprises remains a major challenge to growing the economy from the grassroots. This is largely due to the fact that the bank often considers the cost of financing these enterprises as being on the high side, risky and with low returns. Consequently, they scare them away with stringent loan conditionalities. Hence, the level of credit available to small businesses is not sufficient to raise rural contribution to GDP (RGDP).

On the other hand, the positive relationship between commercial bank credit to agriculture (CCA) and commercial bank credit to rural areas (CBR) underscore the imperativeness of adequate loan facilities to rural areas and a buffer to the agricultural sector.

RECOMMENDATIONS

Therefore, based on the findings of this paper, the following are therefore recommended.

The monetary authority in Nigeria should ensure that banks adhere to monetary policy targets otherwise failure of which will continue to hurt rural lending and SME financing.

To enhance the campaign for rural economic development, and deepen financial inclusion of rural dwellers and small scale business, commercial banks should have a re-think on its negative perception to financing SMEs and create more awareness to the rural areas on saving culture and its attendant benefits.

Realizing that not so much have been achieved in deposit mobilization, commercial banks should engage in aggressive deposit mobilization from rural areas.

REFERENCES

1. Adejobi, O. and J. T.Atobatele. (2008). An analysis of loan delinquency among small-scale farmers in southwestern Nigeria: Application of logit and loan performance indices. *East African Agricultural and Forestry Journal* 74(3).
2. Adolphus J. (2011). Modelling bank management, rural lending and small business finance in Nigeria. *Global Journal of Management and Business Research*, Volume 11 Issue 7.
3. Agnet. (2004). Making farm credit work for the small-scale farmers. <<http://www.agnet.org/library/nc/145b/>> Accessed on July 20, 2010.
4. Aluko, S. A. (2002). The education as entrepreneurs in small scale industries in Nigeria: Problems and prospect. *Ife: Industrial Research Units*. OAU Ife.
5. Anyanwu, C.M. (2004). Microfinance institutions in Nigeria: Policy, practice, and potentials. *Paper presented at the G24 Workshop on "Constraints to Growth in Sub Saharan Africa. Pretoria",* South Africa, November 29-30, 2004.
6. Ayegbusi, O. (2004). *Managing small business*. Altact Publishers, Lagos.
7. Azege, M. (2009). The impact of financial intermediation on economic growth: The Nigerian perspective. *Research Seminar Presented at the Lagos State University*.

ISSN: 1839 - 0846

8. Beck, T., Levine, R., & Loayza N, (2000). Finance and the sources of growth. *Journal of Financial Economics* 58: 261-310.
9. Beck, T.H., A. Demirgüç-Kunt, & Levine, R. (2003). Law, endowments, and finance. *Journal of Financial Economics, 70(1), 137-181.*
10. Bertocco, G. (2003). The role of banks in financing small and medium firms. *Available at http://www.ebi.gov.eg/downloads/SMEs % 20Info % 20 Eng. Pdf.*
11. Beyene, A., (2002). Enhancing the competitiveness and productivity of small and medium scale enterprises (SMEs) in Africa: An analysis of differential roles of national governments through improved support services. *Africa Development*, 27(3): 130-156.
12. Bonaccorsi P. and Gobbi, G. (2007). Winners or losers? The effects of banking consolidation on corporate borrowers. *The Journal of Finance 62(2).* 669-695.
13. Carpenter, R. and Petersen, B. (2002). Capital markets imperfections, high-tech investment, and new equity financing. *The Economic Journal*, 112:54-72.
14. Carree and Thrik, (2005). Managing strategic surprises/failures in small scale transport enterprises. *Adamawa State University Business Journal*. (1): 8-13, 2005.
15. CBN. (2005). Microfinance policy, regulatory, and supervisory framework for Nigeria.<<http://www.cenbank.org/out/Publications/guidelines/dfd/2006/microfinance%20policy.pdf>
16. CBN, (2008). Statistical Bulletin, Golden Jubilee Edition.
17. Chinedu B. Ezrim, Michael I, Muogholu (2006). Financial management imperatives of financial intermediation functions of financial institutions: Empirical evidence from Nigeria. *Banks and Banks System/*Vol. 1, Issue 3.
18. Drabenslott, M. and Meeker, L. (1997). A conference summary: Financing rural America, *Federal Reserve Bank of Kansas City, April*, pp.1-10.
19. Driscoll, J. (2004). Does bank lending affect output? Evidence from U.S. *Journal of Economics Staff Paper 292, Department of Economics, Lowa State University, Ames,* Sept. 9 pages.
20. Edelman, M. (1997). The adequacy of rural capital markets: Public, purpose and policy option. *Economics Staff Paper 292, Department of Economics, Lowa State University, Ames,* Sept. 9 pages.
21. Egbetunde T. (2012). Bank credits and rural development in Nigeria. *International Journal of Finance and Accounting 2012,* 1(3): 45-52.
22. Ekezie, E. S. (1997). *Money, financial institutions and markets.* Onitsha: Africana-Fep Publishers.
23. Emeni, F.K. and Okafor, C. (2008). Effects of bank mergers and acquisitions on small business lending in Nigeria. *African Journal of Business Management* 2 (9): 146-156.
24. Ezirim B.C., Muoghalu, M.I., & Emenyonu E.N. (2004). The Nigerian financial superstructure, financial intermediation, and environmental factors: Issues, empirical evidence, and managerial implications *Journal of African Business*,. Vol. 5, No. 2.– pp. 137-161.
25. Galadima, A. (2006). Nigeria: Small businesses and economic Growth, *Daily Trust*, June 16.
26. Gibson, H and Tsakalotos, E (1994). The Scope and Limits of Financial Liberalisation in Developing Countries: A Critical Survey. *The Journal of Development Studies,* 30(3), 578-628
27. Hallberg, K., (2009. A market oriented strategy for small and medium-Scale enterprises. *IFC Discussion Paper* 40.http//: www.ifc.org, June 17,
28. Histrich S. and Peters A. L. (1998). Obstacles to development indigenous small and medium enterprises; An Empirical Assessment.
29. Irgco MD, Mitchell D, Nash J.D, (2004). Food security and agricultural trade policy reform. *Agriculture and WTO World Bank*, Washington DC: 179-192.
30. Jayaratne.J & Strahan. P. (1996). The finance-growth nexus: Evidence from bank branch deregulation, *Quarterly Journal of Economics 111, pp. 639-670.*
31. Jhinghan M.L. (1994). *Macroeconomic theory.* Delhi: Konark Publishers, PVT Ltd.,
32. Jones, J. (2008). Informal finance and rural finance policy in India: Historical and contemporary perspectives. *Contemporary South Asia*, 16(3):269-285.
33. Kasekende, L (2008). Developing a Sound Banking System. *Paper presented at IMF Seminar*, Tunisia.
34. Kashyap, A. & Stein, J. (2000). What do a million observations on banks say about the transmission of monetary policy? *American Economic Review*, 90: 407–428.
35. Kharbanda, V.P., (2001). Facilitating innovation in Indian small and medium enterprises-the role of clusters. *Current Science,* 80(3): 343 – 348.
36. Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature*, 35(2): 688-72.
37. Lewis WA, (1954). Economic development and unlimited supplies of labour. *Manchester School of Economic and Social Studies.*

Vol.4 No.9 | January-2015 ISSN: 1839 - 0846

38. Luckacs, Edit (2005). The economic role of SMEs in world economy, especially in Europe, *Institute of Business Science*, University of Miskolc, Hungary. www.uni-miskolc.hu/uni/res/kozlemenyek/2005/EIS1.doc (accessed December 28, 2007).
39. Meyer, L.N. (1997). The role of US banks in small business finance. *B/S Review, 57:1-6.*
40. Nzotta, S. M., (1999). *Money, banking and finance, the theory and practice,* Owerri International Books Publisher.
41. Obamuyi, T. (2007). An explanatory study of loan delinquency among small and medium enterprises (SMEs) in Ondo State of Nigerial, *Labour and Management in Development Journal*, 8:1-10.
42. Odoemenem, I.U. and C.P.O Obinne. (2010). Assessing the factors influencing the utilization of improved cereal crop production technologies by small scale farmers in Nigeria http://www.indjst.org/archive/vol.3.issue.2/innocent- 17.pdf.
43. Oke, J.T.U., R. Adeyemo, and M.U. Agbonlahor. (2007). An empirical analysis of microcredit repayment in south western Nigeria. *Humanity & Social Sciences Journal* 2 (1): 63–74.
44. Olaitan, M.A., (2006). Finance for small and medium enterprises: Nigeria's agricultural credit guarantee scheme fund. *Journal of International Farm Management* Vol.3. No.2 – January.
45. Onoh, J. K. (2002). *Dynamics of Money and Banking.* Aba: Astra Meridian.
46. Onuoha, B. C., (1994). *Entrepreneurial development in Nigeria*. Avan global publication Okigwe, Nigeria.
47. Oyebola, E. O (2003): An assessment of poverty reduction strategies in Nigeria. *Published Ph. D. Thesis, St Clements University,* United Kingdom
48. Phillip, D., E. Nkonya, J. Pender, and O.A. Oni. (2009). Constraints to increasing agricultural productivity in Nigeria: A review. *Nigeria Strategy Support Program (NSSP)* Background Paper No. NSSP 006.
49. Pittsburgh G-20 Summit, 2009. Leaders' Statement. http://www.pittsburghsummit.gov
50. Pranti, S., Almus, M., Egeln, J. and Engel, D. (2006). Bank intermediation and small business lending. *Competition and Innovation Group (CIG) Working Papers* No. SPII- 21.
51. Rahji, M.A., and S. A. Fakayode. (2009). A multinomial logit analysis of agricultural credit rationing by commercial banks in Nigeria. *International Research Journal of Finance and Economics*, 24: 91. http://www.eurojournals.com/finance.htm;
52. Rogers, A. B., (2002). Funding of SMEs: Sources of funds and problems limiting access. *The Nigeria Accountant (The Official Journal of the ICAN of Nigeria).* Jan/Mar. Vol, 35. No 1.
53. Romeo-Avila, D (2007). Finance and growth in the EU: New evidence from the harmonization of the banking industry, *Journal of Banking and Finance, 31, 1937-1954.*
54. Steiner, W. H., et al (1963). *Money and Banking: An Introduction to the financial system*. New Delhi: Prentice Hall.
55. Ubom, U. B. (2009). Economic absorption and the contributions of banks to economic development in Nigeria. *Journal of Business and Finance*, 2(1), 229 – 241.