
IMPACTS OF BANK LENDING ON NIGERIA'S AGRICULTURAL AND MANUFACTURING SECTORS ENTREPRENEURSHIP DEVELOPMENT: A TREND ANALYSIS

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Abstract

Growth of any economy cannot discard the importance of agriculture and manufacturing sectors. This work conducted and trend analysis of impacts of bank lending on Nigeria's agric and manufacturing sectors entrepreneurship development from 1981 to 2018 and utilized data from Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), Central Bank of Nigeria Statistical Bulletin and NDIC annual reports. Analysis was carried out through the adoption of multiple regression models. Result revealed that banks loan to the manufacturing sector had a positive short run effect on entrepreneurship development. The joint effect of bank lending to the agric and manufacturing sectors was found to be significant in enhancing entrepreneurship development in both agriculture and manufacturing sectors. Banks' loans to the agricultural sector have negative short run effect on entrepreneurship development in Nigeria. This study suggests increased government's allocation of funds to agric and manufacturing sectors. Policies that encourage low interest rates should be put in place by the government to make banks' loans affordable to young entrepreneurs to enhance.

Keywords: Impact, Bank Lending, Agricultural, Manufacturing Sector, Trend, Analysis

Introduction

Entrepreneurship development is globally gaining reputation as the pivot of economic development. Agriculture and manufacturing sectors are considered paramount as viable economic activities that employ greater population. They are essential for development via inter-sectoral linkages such as creation of employment for the teeming unemployed youths, surplus labour supply to the industrial sector, domestic food supply for consumption, provision of industrial outputs for markets, generation of income, and foreign exchange from agricultural outputs (Ogbonna, 2018). Beside these benefits, to a large extent, they play indispensable part in the overall strategy of sustaining the rural households. Entrepreneurship development is conceived as a multi-facet dimensional as it encompasses extraction, processing, production, construction, tourism, services, consultancy activities etc. whichever form, all require funding for actualization and expansion. Development of the agricultural sector has been considered as one of the major focus of commercial banks' lending. As a surplus spending unit, it is a catalyst to every economic sector that requires funding. Its role in entrepreneurship development has sustained several start-ups which has become a conglomerate (Andabai, 2018). Lending is not only one of the services rendered by money deposit banks, rather banks are pet and parcel of fund utilization as they are also involved in investments to enables economy growth. The deficit spending units (borrowers) have find it necessary to avail themselves the opportunities provided by banks to rediscovers areas of sustaining economic growth by borrowing to invest. Agriculture entrepreneurs; livestock, land cultivation and other forms of farming activities are best assisted through bank lendings. Even non-farm economic activities are being considered by fund providers as avenue to grow the economy. To the lender, their gains hinge on cost of fund/interest while the deficit unit/ borrower prudently manages the application of the credits for profit purposes. According to Nwokoro (2014), well-developed agriculture reduces unemployment and provides foods. Most of the agricultural and the manufacturing sector entrepreneurs gain their huge capital base from credit facilities of the banks. Manufacturing sector on the other hands, is also capital intensive. In whatever form, manufacturing requires a huge capital outlay. Its success stores have always been attributed to bank credits.

Ekundayo, Olunkwa and Yusuf (2018) pointed out that well developed manufacturing sector lays its credence to performance of the banking sector in terms of provision of credits. Bada (2017) inquired into commercial bank impact on manufacturing and agricultural sectors, they found that both sectors are developed through banks fundings. Larger economic growth rate experienced globally is linked to financing roles of banks. The relationship between bank credits and agriculture, and manufacturing sectors are significant as found in the investigations of (Kalu, Obasikene, Oleka & Nwadike, 2017) which attributed the profit performance of banks to the volume of interest charges on credits to agric and manufacturing entrepreneurs. These other economic sectors in return, have found banks as more buoyant and vital sector to run to for more fundings than the government. It is for this reason that organization use financial institutions for their financial transactions. So, banks not only act as intermediaries but in most cases, supervise customers' investments to ensure judicious application of borrowed funds. The essence is to assist in guaranteeing that performance of loans issued are translated to economic growth development. Investigations of Obasan & Adediran (2010) cited in Ogbonna (2018) proved the potential gains of the manufacturing sector in enhancing development of the economy. To Sanusi (2011), entrepreneurship businesses are a cutting-edge to boost Nigeria's economy through the assistance of banks by availing them affordable loan facilities with a low interest rate.

Nigeria economic structure has been patterned to embrace only the petroleum sector as her major revenue. This has created much unhealthy effect on Nigeria's gross domestic product (GDP). The effect on other sectors such as manufacturing and agriculture is as a result of fictitious but robust claims on the funding allocations to these other two sectors. This was worsened by rising interest rate that has caused a crowding out effect on the ability of entrepreneurs in these two sectors to secure credit facilities from banks. To a large extent, there have also been claims on the significant impact of bank credits to agriculture and manufacturing entrepreneurs (Bada, 2017; Okundayo et al., 2018). In spite of suggestions of these studies, the much needed expansion of entrepreneurship in these sectors are still lacking. Ogbonna (2018) in his investigation, confirmed infrastructural deficiencies, insurgency and other weak government policies as militating factors against the development of agriculture and manufacturing entrepreneurship. Andabai & Eze Investigations of Andabai & Eze pointed out that significant relationship in the short-run does not exist between manufacturing sector and bank credit. The question raised is whether entrepreneurship development in the manufacturing and agricultural sectors is not considered in the bank lending facilities. To take a position on this matter, it is imperative to take carry out a trend analysis of bank lending impacts on the manufacturing and agricultural entrepreneurship development in Nigeria from 1981 to 2018.

This study sets out to conduct a trend analysis of impacts of bank lending on Nigeria's agricultural and manufacturing sectors entrepreneurship development. The objectives are specifically to; carry out a trend analysis of the impact of bank loans on agricultural and manufacturing sectors entrepreneurship development. The paper focuses on bank lending activities within the thirty seven years period. Significantly, this paper provides data on bank lending, the number of registered small and medium scale enterprises (SMEs), and bank loans to both agriculture and the manufacturing sectors within the reviewed period. It provides a strategic framework in accessing funds by entrepreneurs engaged in sectors studied.

The paper began with introduction and stating the problem. The focus and significance were highlighted. The second section dwelt on the conceptual issues and literature which gave an insight on the past scholarly studies. Section three presented the methodology which showed the study analytical techniques. Data were presented in the fourth section with a trend analysis. The paper was concluded and recommendations made in the fifth section.

Literature Review

Private sector financing is usually in the hands of commercial and microfinance banks while public sector is left in the hands of development banks. The essence is to ensure that entrepreneurs in particular easily access credits. In explaining the meaning of entrepreneurship, Tubey, Nandwa, Omboto & Situma (2015) conceived entrepreneurship development as the practice of improving skills via organized trainings. According to Osemeke (2012) entrepreneurship is a programme of activities towards changing the orientation, pattern of service provision and physical training activities towards satisfying human needs. To be an entrepreneur is to become a manager. In every created innovation, the initiator takes sole responsibility of managing the activities of either service provision, consultancy or production of goods. In the views of Tende (2014), the increasing focus of entrepreneurship base is to accelerate creativities of individuals who have burning desires to add to the comfort of mankind through goods and services provision. Thus, social wealth and poverty is alleviated through entrepreneurship as an avenue for job creation, and new markets created. In all, there is

reduction in social vices and income creation and which result in enhanced living standards for the populace.

Reasons for Entrepreneurship Initial Financing

The value of initial capital is based on the type of business and its operations. In conceptualizing an idea of a business, it is pertinent that the capital to finance it be projected and how to realize it. For any startup, first capital is essential. As recorded by Berkowitz & White, (2004), the expenditure outlay of the entrepreneur for seeking initial finance are essentially for the purposes of the following; (a) first operational expenses such as cost of registration/legal fees, consultancy, training etc., (b) cash flow/running cost and (c) initial working capital to acquire fixed assets such as land, furniture, equipment and installations, inputs etc.,

As maintained by Schumpeter (1934) cited in Carland, *et al.* (1984) an entrepreneurial venture consists of five characteristics including: (a) new goods introduction, (b) new production method, (c) new markets opening, (d) new supply sources and (e) industrial reorganization.

Theoretical Considerations

The Esusu Model

The Esusu Model is a savings micro-credit scheme which originated from Yoruba land Nigeria, and later spread to other West African countries as explained in Akanji, (2018). As an informal sector, it is a voluntary group of people that came together to contribute a common revolving fund. Names given to this scheme range from; Isusu, Isoko, Esusu, Dashi etc. according to different ethnic groups in Nigeria (Ayodele, 2015). The above mentioned names are different from Akawo. In Akawo, each individual takes whatever he or she has contributed for the month, parting with a little amount to the collector as commission. But in Esusu, the entire amount contributed by an individual is collected at the end of the month or weekly as may be agreed. The amount contributed by individuals is usually flat rate (same amount). It promotes business startups as individuals may have decided on what line of business or problem(s) to be solved with the savings before joining the scheme. In most cases, this type of scheme is not registered under the law with the Corporate Affairs Commission (CAM), rather through mutual trust. However, registered non-government organizations (NGOs) may decide to operate such savings scheme to help intending entrepreneurs or individuals who may not have the collateral to secure credit facilities from banks.

Liquidity Constraint Theory of Entrepreneurship

This work is predicated on Liquidity Constraint Theory of entrepreneurship. The theory posits that capital accessibility is the key to entrepreneurship development. It was conceived on the idea that starting of new businesses is easier among people with more access to capital due to its ability to acquire needed resources for business (Evans & Jovanovic, 1989). The theory explained that individuals that have money are more like to venture into entrepreneurship businesses.

Evidently, even employees of a firm have the capacity to acquire shares during public offer. This is because they already have the financial ability to venture into businesses. Even when more opportunities are available, it is still the wealthy that can afford the acquisition of new

ventures than people with limited or scarce resources. Even in terms of high interest rate by banks are more prone to crowding out effects since the ability to repay lies with the individual's financial ability. However, scholars have argued that much resources are not necessarily the deterrent of business startups rather accessibly to more capital encourages a firm's growth (Davidson & Honing, 2003).

Empirical Review

Scholars have investigated impacts of bank lending on manufacturing and agricultural sectors in Nigeria (Obasan & Adediran, 2010; Kalu et al, 2017; Andaba, 2018). Opening more discussion on this, Nwokoro, (2017) investigated the output of agriculture and capital inadequacy in Nigeria was estimated using OLS, found interest rate as a setback to farmers request for credit faculties while supply of money, expenditure of the government and foreign exchange rate policies in favour of agricultural sector performance. Making available funds to agriculture farmers was suggested. In the works of Ojiegbe & Duruechi (2015), student ratio and t-test were used in the analysis. Findings revealed increased production of food due to loans to agriculture. Suggestion was for increased disbursement of credits to agricultural sector. Investigation on credit to agricultural subsector from 1980 to 2015 by Aduralere (2019) was analyzed using modified OLS. Findings show influence of financial credit on the production of farm outputs; forestry, livestock and fish by interest rate on bank credits.

Olorunsola *et al.* (2017) also adopted "nonlinear autoregressive lag approach" worked on the out of agriculture and its relationship in Nigeria. The work revealed growth accumulation of agricultural output within a short period. Moratorium policy on agriculture was suggested. Bada (2017) conducted a critical study on the development of both agriculture and manufacturing sectors with the aim of finding bank credit impacts on the sector for thirty one years' period. The regression test was conducted using OLS. Finding was that banks' credit impacted significantly on Nigeria's agriculture and manufacturing sector. More funds allocation to the real sectors to boost the GDP was recommended.

Studying the manufacturing sector growth, Ogbonna (2018) addressed Nigeria's economic growth with reference to availability of finance. He adopted the impact test of causality which established that there is a dual relationship between growth of the sector; poor infrastructure, insurgency and bank credit. Government utilization of potentials of enhancing the manufacturing sector growth was suggested. An investigation of causality from 1990 to 2017 on bank credit and manufacturing sector growth was further investigated by Andabai & Eze (2018). Adopting OLS multiple regression in their analyses, it was revealed that there were non-contributions of banks credit on the manufacturing sector.

In another study, Kalu *et al.* (2018) inquired into the manufacturing sector banks' credit relative impact from 1986 to 2013 using OLS regression. The analysis revealed a short run impact on the manufacturing sector output by banks' credit. Policies that would enhance manufacturing sector output was suggested. An OLS regression was adopted by Ekundayo et al. (2018) in their performance study of Nigeria manufacturing sector between 1981 and 2015. It was discovered that there was output increase in the manufacturing sector as a result of little improvement in supply of credit. Increased expansion of commercial banks' profit in the form of credit financing of the private sector was suggested. Afolabi & Laseinde (2019) investigated the growth on Nigeria economy through the manufacturing sector from 1981 to 2016. Ordinary Least Square regression was adopted for the analysis. Findings revealed that output from the manufacturing sector influenced the RGDP positively. Improving the infrastructural facilities

that enhances productive environment was suggested.

METHODOLOGY

Research Design

This work is an ex-post facto study design conducted in Nigeria. It used trend analysis to explain banks' lending impact on the performance of agricultural and manufacturing sectors, specifically on development of small and medium enterprises (SMEs).

Sample population for this study comprised of all the manufacturing and agricultural SMEs in Nigeria. Data for this study were mainly secondary data (time series data) from Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) Annual Statistical Bulletin (various issues) and the CBN Statistical Bulletin (2018 Edition) covering the period, 1981-2018. Operational variables for the study were agric and manufacturing sector credits as dependent variables while the independent variables are; total number of registered entrepreneurs in the agricultural and manufacturing sectors as proxy for entrepreneurship development.

Multiple regression models was adopted to determine the performance of agricultural and manufacturing sector SMEs as a function of the level of banks' lendings. The paper considers such adoption as an extension of the model of (Taiwo & Omosomi, 2018) modified to suit our purpose. Variables therefore utilized are; (a) entrepreneurship development (represented by the subsisting number of registered SMEs or entrepreneurs in agricultural and manufacturing sectors), (b) Banks' Lendings to the Agricultural Sector and (c) Banks' Lending to the Manufacturing Sector.

Data Presentation and Analysis

The data on entrepreneurship development index and the banks' lending to the agricultural and manufacturing sectors are shown in the table below.

Table 4.1: Number of Registered Entrepreneurs in the Agricultural and manufacturing Sectors, Banks' Lending to the Agricultural and Manufacturing Sectors from 1981 to 2018

Year	Entrepreneurship Development (No. of Registered SMEs in Agric and Manufacturing Sectors)	Bank Loans to the Agric Sector N' billion	Bank Loans to the Manufacturing Sector N' billion
1981	5,200	0.59	2.66
1982	6,800	0.79	3.04
1983	8,811	0.94	3.05
1984	9,423	1.05	3.08
1985	9,489	1.31	3.23
1986	10,001	1.83	4.48
1987	12,963	2.43	4.96
1988	14,839	3.07	6.08
1989	17,004	3.47	6.67

1990	18,311	4.22	7.88
1991	22,327	5.01	10.91
1992	28,500	6.98	15.40
1993	29,867	10.75	23.11
1994	33,105	17.76	34.82
1995	47,900	25.28	58.09
1996	35,116	33.26	72.24
1997	48,911	27.94	82.82
1998	57,400	27.18	96.73
1999	60,345	31.05	115.76
2000	62,694	41.03	141.29
2001	77,489	55.85	206.89
2002	92,283	59.85	233.47
2003	107,078	62.10	294.31
2004	121,872	67.74	332.11
2005	136,667	48.56	352.04
2006	151,461	49.39	445.79
2007	166,256	149.58	487.58
2008	181,050	106.35	932.80
2009	195,845	135.70	993.46
2010	210,640	128.41	987.64
2011	225,434	255.21	1,053.21
2012	240,229	316.36	1,068.34
2013	250,266	343.70	1,179.69
2014	279,334	478.91	1,647.45
2015	279,855	449.31	1,736.19
2016	311,200	525.95	2,215.74
2017	497,592	503.08	2,230.74
2018	523,444	556.67	2,118.10

Sources: *Entrepreneurship Development Index was sourced from the SMEDAN and NBS Collaborative Survey (various years).

*Bank Lending to Agric and Manufacturing Sectors were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin 2018 Edition.

TABLE 2. DESCRIPTIVE STATISTICS

	ENT_DEV	BLAS	BLMS
Mean	120710.6	119.4384	505.5750
Median	61519.50	37.14500	128.5250
Maximum	523444.0	556.6700	2230.740
Minimum	5200.000	0.590000	2.660000
Std. Dev.	131455.2	172.9776	693.1593
Skewness	1.469096	1.502175	1.351661
Kurtosis	4.804561	3.763408	3.577255
Jarque-Bera	18.82489	15.21410	12.09852
Probability	0.000082	0.000497	0.002360
Sum	4587001.	4538.660	19211.85
Sum Sq. Dev.	6.39E+11	1107086.	17777381
Observations	38	38	38

Source: Eviews Output

The table above summarizes the descriptive statistics for the variables on bank lending to the agric and manufacturing sectors and the entrepreneurship development index. The descriptive statistics involves the computation of the median, mean, standard deviation, skewness and kurtosis etc. of the data.

Entrepreneurship development has a mean value of 120,710 which is an indication that the average number of entrepreneurs for the period studied (1981 – 2018) was 120,710. Also, the median was 61,519 which fell in the year 2000 with the maximum number of entrepreneurs put at 523,444 recorded in 2018 while the minimum was 5200 recorded in 1981. One interesting fact about the entrepreneurship development index is the steady progression of the figures which depicts a yearly increase in the total number of entrepreneurs in the country's manufacturing and agricultural sectors. The Jarque Bera Statistics of 18.82 (p-value = 0.0000), shows that the data on entrepreneurship development is not normally distributed i.e. the number of entrepreneurs are clumped up on one side with increasing amounts trailing off towards the year 2018.

For bank loans to the agricultural sector (BLAS), the mean value is N119.44 billion peaking at 556.67 billion in 2018 with the minimum recorded in 1981 at N0.59 billion. The standard deviation of 172.98 indicates that the amount with which bank loans to the agric sector for the period reviewed deviate from the mean value is N172.98 billion. The data is highly skewed to the right with a Jarque Bera statistic of 15.214 which shows a non-normal distribution. Finally, the bank loans to the manufacturing sector recorded an average value of N505.58 for the period reviewed. The maximum figure of N2.23 trillion was recorded in the year 2017 with bank loans to the manufacturing sector increasing by 0.68% from the previous year's value of N2.215 trillion. The minimum value was in 1981 with only N2.66 billion loans granted to the manufacturing sector. The data has very heavy outliers with Jarque Bera statistic of 12.09 and skewness and kurtosis values of 1.352 and 3.577 respectively. This indicates that the data is not

normally distributed.

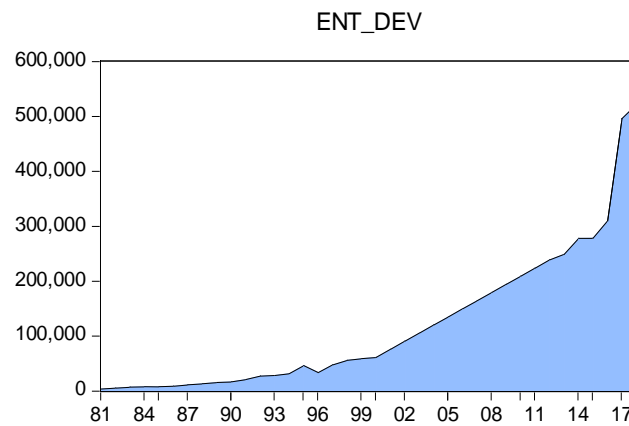


Fig. 1: Number of Entrepreneurs in the Agric and manufacturing Sectors (1981 – 2018)

The graph above represents the direction of movement of the number of entrepreneurs in Agric and manufacturing sectors in Nigeria. The graph shows that they have been on a steady increase since 1981 and have recently reached well above 500,000 making it the second highest growing sector after the whole sale and retail sector.

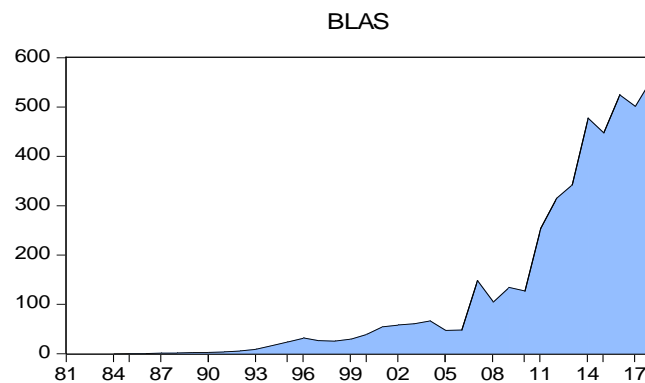


Fig. 2: Banks' Lending to the Agricultural Sector (1981 – 2018)

The bank loans to the agric sector fell slightly in 2004 and picked up again the following year and reached N149 billion in 2007. However, bank loans to entrepreneurs in the agric sector decreased slightly also in 2008 and 2010 but has been on a steady fluctuation and was put at N556.67 billion as at December 2018.

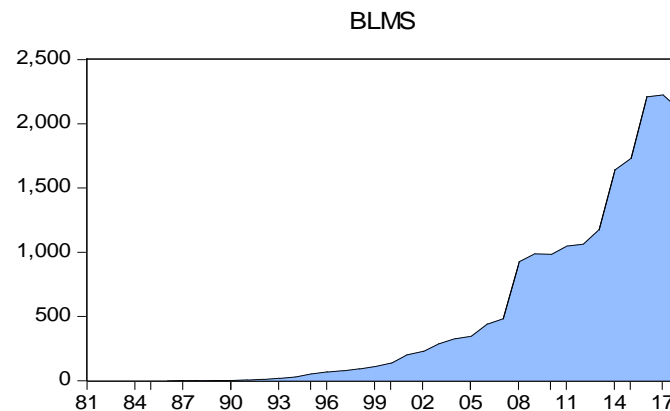


Fig. 3: Banks' Lending to the Manufacturing Sector (1981 – 2018)

The manufacturing sector enjoyed more of bank lending peaking at N2.1 trillion in 2018. Interestingly, there has been a steady increase in bank lending to the manufacturing sector which is aimed at spurring the development and growth of SMEs in the sector.

Discussion of Findings

Findings have revealed directions of bank lending to the two sectors studied in this paper. It is a reflection of the level of responsiveness to agriculture and the manufacturing sectors that determines the GDP growth every nation that gears towards development. In this work, the positive relationship between bank lending and both agric and manufacturing sector shows that government has begun to pursue growth oriented policies. Integration of agriculture is an attempt to generate employment, foreign exchange rate and food supplies and raw materials for industries as well as encourage entrepreneurship development. Also, on the contrary, Nwokoro (2017) found that found interest rate as a setback to farmers request for credit faculties while supply of money, expenditure of the government and foreign exchange rate policies in favour of agricultural sector performance.

Banks' loans to the agricultural sector have negative short run effect on entrepreneurship development in Nigeria. However, towards the long run, banks' loan to the agricultural sector increased entrepreneurship development in the real sector but not significantly. This finding agrees with the study conducted by Kalu et al. (2018) which found that bank credit has a short run impact on the output of the manufacturing sector. The effect would be attributed to increasing interest rate which was lower earlier in the 1980s when compared to the rate banks charge in the late 1990s. However, in the long run, the effect of bank lending was found to be positive which was contrary to findings obtained by Andabai & Eze (2018) that revealed non-contributions of banks credit on the manufacturing sector.

Banks loan to the manufacturing sector had a positive short run effect on entrepreneurship development. This remained the same in the long run and became significant. In disagreement with the works of Bada (2017) which found that banks' credit impacted significantly on Nigeria's agriculture and manufacturing sector. More specific is the short run impact of the bank's facilities in transforming the state of entrepreneurship development of both sectors which calls for more allocations.

The joint effect of bank lending to the agric and manufacturing sectors was discovered to be

significant in enhancing entrepreneurship development in both sectors with an estimated speed of adjustment to long run equilibrium. This discovery concurred with the results obtained by Ojiegbe & Duruechi (2015) revealed increased production of food due to loans to agriculture.

Conclusion and Recommendations

Banks' lending towards assisting in the development of entrepreneurships cannot be relegated to the background as results previous works have shown significantly that both agriculture and the manufacturing sectors are the pivot on which growth of entrepreneurship development and gross domestic product hinges. The study concludes that banks loan to the manufacturing sector had a positive short run effect on entrepreneurship development. This remained the same in the long run and became significant. Bank loans to the agricultural sector have negative short run effect on entrepreneurship development in Nigeria. However, towards the long run, banks' loan to the agricultural sector increased the real sector entrepreneurship development but not significantly. The joint effect of bank lending to the sectors was found to be significant in enhancing entrepreneurship development in both sectors. This study suggests that to enhance entrepreneurship, development in both agriculture and manufacturing sectors, the following recommendations are of importance if adopted; there should be rehabilitation of entrepreneurship enhancing facilities such as; roads networks, electricity, schools, water etc. More monetary allocations to agric and manufacturing sectors should be increased. Policies that encourage low interest rates should be put in place by the government to make banks' loans affordable to young entrepreneurs.

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