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Non-Interest/Islamic Banking, the Springboard of SMEs' Investment and Poverty Reduction: A Micro-Statistics Analysis from Nigeria

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Abstract:
This piece of research work empirically examined Islamic / non-interest rate banking as a springboard of SMEs' investment and poverty reduction in Nigeria. The study's main objective was to explore how the non interest-rate participating financing model could promote small-scale entrepreneurs' investments and poverty reduction in Nigeria by developing a sound theoretical model and framework. The research work used a quantitative approach of empirical analysis by obtaining data from CBN statistical bulletin (2014). The research work clearly revealed that commercial banks have failed woefully in the exercise of providing credit needs to this subsector of the economy. This study concludes that with the establishment of Islamic financing and banking, the era of small-scale enterprise operators subjecting themselves to the economic agony in the hand of the reigning microfinance institutions popularly referred to as "Gbe omu le lantern" would be winded-up if they could exploit this alternative financing means. The study recommends among others that adequate insurance mechanism and workable guideline should be put in place for this financing option by the CBN considering the fact that this mode is prone to high default rate. Finally, this alternative financing model should not be condemned or discriminated against on the reason of religious bigotry because the advanced and more developed banking system most especially in the western nations have exploited this mode of financing to improve their economies.

Keywords*: Islamic banking, non interest rate banking, small scale entrepreneurs, investment, poverty reduction.*

1. Introduction

The role that Islamic financing could play as a facilitator of SMEs investment and poverty reduction was well appreciated by the former Governor of the Bank of England, Sir Eddie George, when he said "Indeed, it seems to me also that as a matter of general principle, a wider range of financial products would benefit the whole of our Community, and that Islamic products could prove to be attractive beyond the purely Muslim sector" (AbdulQadir, 2009).

Historically, Non-interest banking dates back to 1444 before the Birth of Christ (BC) (Eyieyien, 2011). The record further shows that Islamic banking was first experienced in Malaysia in the mid-1940s, in Pakistan in 1950 and in Egypt in 1963. Afterward, the Islamic banks sprung up in the 70s around the globe which led to the emergence and establishment of Islamic Development Bank in 1974(Onisabi, 2012; Otiti, 2011). It is important to emphasize that Habib Bank Nig. Ltd in 1992 started offering Islamic banking products to both its Muslims and Christians customers. However, CBN, under Professor Charles Soludo granted an approval in principle to Jaiz Bank International PLC to operate as an Islamic Bank in line with the principle of Sharia and the framework required for effective operation of the non-interest or faith-based bank was instituted in the same year, 2011 by the CBN following the bank structures as defined under the Banks and Other Financial Institutions Act (BOFIA) 1991 as amended (Aderionokun &Chima, 2012)[5].

CBN on 20th June 2011 provided the legal framework specifying the minimum standards for the operation of Islamic banking by issuing guideline for the regime under section 33 (1) (b) of the CBN Act 2007; Section 23(1) 52; 55(2); 59(1)(a); 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended).

It is an incontrovertible fact that SMEs accounts for the larger proportion of economic players in Nigeria. More so, the challenge of financing and its high cost is one of the banes of small and medium scale enterprises development in Nigeria which has rendered many hitherto viable businesses to become unviable resulting from high interest rate (Phillip, 2014).

Entrepreneurship is the kingpin of any economy most especially in a developing country like Nigeria where about 70% of the adult population operates as entrepreneurs predominantly in the informal sector. Taking the alarming rate of graduate unemployment into consideration, as the formal sector is capable of absorbing a very few graduates hence the zero interest rate financing would constitute a tremendous opportunity to the unemployed graduates to engage in investment or business profitably. More so, the non-interest / Islamic financing would constitute a great relief to vast majority of Nigeria entrepreneurs that are unable to obtain loan from the conventional banks due to unreasonable high interest rate which has made them to be the victims of some emerging brutal credit institutions that are referred to as "Gbe omu le lantern". A very notorious appellation giving to the privately owned micro-finance institutions which charge the irrational high-interest rate that repayment of the loan and interest is a matter of 'do or die'. Their victims that fail to repay as scheduled would be arrested and locked inside the latrine for days until the payment of principal and interest are made. Moreover, the country that is ranked as the third among the five countries with abject poverty where over 70% of the population live on less than $1.25 (N200) per day i.e. about 119 million Nigerians are living below poverty line (World Bank Report, 2014).The introduction of the idea of zero interest rate banking/financing is in harmony with the clamour that government should put in place the enabling environment for the SMEs to thrive and the assumption of the endogenous growth (new growth) model that the economy should be inward looking to source for the means of growing the economy.

This financing programme can promote the acquisition of finance at little or no cost, engendering availability of fund (Capital) for business purposes. This might lead to high investment and productivity hence, larger profit and income for the entrepreneurs. The savings propensity would be high which would be capable of breaking the vicious cycle of poverty that is ravaging the economy. Despite the ostensible benefit derivable from this financing model, the introduction of the Islamic or zero interest rate financing has been beleaguered with mixed reactions among Nigerians basically on religious sentiment and bigotry.

The introduction of this financing model has been subjected to many constitutional tests in the court of law where it was declared ultra vires by one side. And, it was also declared valid on the other side on the ground of enshrining the interest of Muslims in Nigeria. This controversy might erode the trust of Nigerian entrepreneurs that are in serious need of this financing and banking option. More so, the integrity, credibility and trustworthiness of Nigerians to be issued loans at zero interest rate are other issues of concern which make the workability of this financing option doubtful.

Against this backdrop, this research work has as its main objective to explore the possible effect of the faith-based/ participating financing model on the entrepreneurs' investments and poverty alleviation in Nigeria by developing a theoretical model and framework.

The relentless investigative effort devoted on this discourse is justified on the ground that it would serve as an improvement on the existing related researches that failed to develop a sound theoretical model to explore the effect of NIFI on entrepreneurs' investment and poverty reduction.

In order to achieve the aforementioned objective of this piece of paper, the research work is divided into four sections. Apart from this first section that introduced the paper, the second section reviewed the concern issues. The third section dealt with the method of the study and the developed framework and model. Fourth section presents and analyses the available data. Finally, the fifth section made the concluding remark and recommendation.

2. Review of Issues

2.1. Review of Concepts

2.1.1. Non-Interest Rate Banking/Islamic Banking

Islamic banking is a broader banking concept than Non-interest banking and it is not equivalent to non-interest banking. A non-interest financial institution in operation under the principles of Sharia Commercial jurisprudence is referred to as Islamic banking. Non-interest banking denotes a financing model whereby interest is avoided in the financial transactions with the banking institutions, but there is no restriction to the business in which one can invest in. Non-interest banking is about sharing of risk between the owner of the fund and the user or borrower of the fund (Eyieyien, 2011). Under this arrangement, having ascertained the viability of the business through sound proposal the profit or loss from such venture would be shared in accordance to the arrangement among the lender and the user of the fund.

Islamic Banking is a relative broader concept that follows the Islamic ethos. It operates under the strict framework of Islamic faith, belief and practice. It is banking services according to the provision of sharia. It prohibits levying of interest on the fund gives to others. It refers interest as usury i.e. excesses 'riba'. Specifically, it proscribes investment or transactions on uncertainty or ambiguity; gambling; speculation; unjust enrichment; exploitation/unfair trade practices; dealing in pork, alcohol, arms and ammunition, pornography and other transactions which are not in compliance with the principles of Islamic commercial jurisprudence (CBN NIFI Guideline, 2011). Islamic banking provides a wide range of Sharia-compliant financial services to provide for the financial needs of both the deficit sector and surplus sector in the economy. The following financial services are offered by the faith-based banking service; Murabaha, Mudaraba, Musharaka, Wadiah and Ijarah which are cost plus banking, profit and loss sharing banking, joint venture, safekeeping and leasing respectively (Sani Adamu Danbatta, 2012; IBFIN, 2014). Review of these concepts revealed that

CBN varies the concept by specifying that the profit sharing investment accounts in this context shall be operated under 'profit sharing and loss bearing contracts' as embodied in paragraph 11.2 of the CBN NIFI Guideline 2011. This deviates slightly from the Non-interest financial services and Islamic banking that are known for profit and loss sharing principle. An exception could only come up if the loss is due to the negligence of the fund user.

Investment/ interest rate: investment is the flow of expenditures or funds committed to projects producing goods and services with the aim of profit. It is mostly financed with borrowed money. The cost of borrowing investment money is referred to as the rate of interest (Adebayo, 1999). The rate of interest represents the profit made by the issuer of the fund. It is the cost of obtaining fund to the user of the fund. Investment refers to real investments which add to the capital goods and equipment. Investment leads to increase in production and purchase of capital goods which in turn increase the level of income (Jhingan, 2007).

Fashola (2004) opines that interest rate is considered to be one of the determinants of investment because it is the cost of capital. He further argues that under a rational investment behavior, firms are expected to invest up to the point where the marginal rate of investment is equal to the market interest rate. At a low interest-rate, it will be profitable to expand investment. At a high interest-rate, some marginal investment would no longer be viable or profitable hence low income, savings and investment.Investopedia (2015) put forward that investment is the purchase of goods that are not consumed today but are used in the future to create wealth. Investment is 'any productive activity in which a manufacturer buys a physical asset, for example, stock or production equipment, with the expectation that this will help the business to prosper in the long run' (World Finance, 2015).

Evidence abound confirming the inverse relationship between the interest rate and the investment and positive link between the investment and income (Lucian-Liviu Albu, 2010; Sulaimon D. M. et al. 2013; Majed and Ahmad, 2010); except a very scanty study like (Steven and Gustavo, 2013) which argues that the investment is insensitive to interest rate most especially for the firms expecting greater revenue growth.

Entrepreneurship / SMEs: SMEs is broadly defined as businesses with the turnover of less than 100million per annum an or less than 300 employees. 96% of Nigeria businesses are SMEs compared to53% in the US and 65% in Europe (Oyelara-Oyeyinka, FSS, 2020). SMEs are distributed by clusters within regions in Nigeria. Cassava Millers () were of the opinion that SMEs is responsible for about 70 percent of the total industrial employment in Nigeria and between 10 -15% of the total manufacturing output. The research work identifies High interest-rate as one of the biggest problem confronting SMEs in Nigeria. Entrepreneurship is the last resort in the economy that is beleaguered with the high level of graduates' unemployment. Entrepreneurs may be highly educated persons or may be illiterate persons possessing high business acumen which others might be lacking (Jhingan, 2005).

Onugu (2005) issued the following "Finance is usually considered as the major constraints of SMEs. While this may be true, empirical evidence has shown that finance contributes only about 25 percent to the success of SMEs. Thus, the creation of other appropriate support system and enabling environment are indispensable for the success of SMEs in Nigeria". SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology.

Abject Poverty: Poverty is a multi-dimensional concept. However, it is incontrovertible that Nigeria is a poverty ridden nation, where about 75% of the population is living below poverty line of Sub-Sahara average per capita income. Despite the paradoxical in economic growth, the poverty rate in Nigeria continues to be worsening. Perhaps the method of defining poverty in the context of this research work is in term of per capita income (an objective measure of poverty), the average income available to citizens in the countries (Jhingan, 2009).

The definition of poverty in term of the low or no income to satisfy basic needs can by no means be considered satisfactory. Abject poverty is measured not only by low income but also by malnutrition, poor health, clothing, shelter, education, gender discrimination, voiceless in political and social issue. However, in the opinion of the researcher, high-income earning individuals would be capable of overcoming the above challenges mentioned as an index of poverty in the society.

Michael and Todaro (2011) argued that poverty is reflected in low living standards of the people. Michael and Stephen use the concept of absolute poverty to a specific minimum level of income needed to satisfy the basic physical needs of food clothing and shelter in order to ensure continued survival. Abject poverty represents great human misery.

2.1.2. Review of Theories

Interest Rate

2.1.3. Scriptural (Biblical) Model

It is noteworthy to point out that zero or non-interest rate financing model is emphasized in the holy bible in Exodus 22:25, 'If thou lend money to any of my people that is poor by thee, thou shall not be to him as a usurer, neither shalt thou lay upon him usury'.

The book of Deuteronomy 23: 19-20 'Thou shall not lend upon interest to thy brother: interest of money, interest of victuals, interest of anything that is lent upon interest'. (Bible: Times New Roman).

2.1.4. Quranic Model

Those who swallow down usury cannot arise except as one whom shaitan has prostrated by (his) touch does rise. That is because they say, trading is only like usury; and Allah has allowed trading and forbidden usury, excess or interest (Quran, Al- Baqarah 2:275)

O! You who believe I do not devour usury, making it double and redouble, and be careful of (your duty to) Allah, that you may be successful (Quran Ali- Imran, 3:130) (Aflalah, 2011).

2.1.5. Classical Theory of Interest Rate

According to this school of thought, the rate of interest is determined by the demand and supply of capital. The supply of capital depends upon savings of the society. While capital is demanded by the entrepreneurs or investors because it is productive. But the productivity of capital is subject to the law of variable proportion. An additional unit of capital is not as productive as an earlier unit. There would be a stage when an additional unit of capital in the business is just worthwhile and no more. This implies that at a higher rate of interest the demand for capital or investment is low and it is high at a lower rate of interest.

2.1.6. Neo-Classical Theory of Interest Rate (Loanable Fund Theory of Interest Rate)

This believes that interest rate is determined in terms of demand and supply of loanable funds or credit. The supply of loanable funds comes from savings, dishoarding and bank credit. While, the demand for loanable funds has primarily three sources: Government, Consumers and investors who need them for the purpose of investment. The businesses borrow for the purchase of capital goods and for starting investment project. The theory emphasized that such borrowing is interest elastic and depend mostly on the expected rate of profit as compared with the rate of interest.

2.1.7. Keynes's Liquidity Preference of Interest

The theory sees the rate of interest as the reward of not hoarding but the reward for parting with liquidity for the specified period. In the Keynesian sense, the rate of interest is determined by the demand and supply of money. The theory is characterized as the monetary theory of interest rate which deviates from the real theory of interest of classical. Supply of money determines the rate of interest to a degree. The supply of money is fixed by the monetary authority, CBN. The demand for money is the other determinant of interest rate. Keynes referred to it as liquidity preference. He postulates that the higher the liquidity preference the higher the interest rate that will have to be paid the holders of cash and vice versa. The theory pointed out the three motives of Liquidity preference to be transaction, precautionary and speculative motive.

2.1.8. Investment

The Classical school of thought believes strongly that investment is a function of the rate of interest.

Keynesian school of thought postulates that investments are determined by four main factors, which are (i) Rate of Interest, (ii) Income (iii) Cost of capital and (iii) Expected rate of return. Keynes sums these three up in the concept of Marginal Efficiency of Capital. He concluded that investment is inversely related to the interest rate. The lower the rate of interest the higher will be the value from the investment.

2.1.9. Post Keynesian Theory of Investment

Edward Shapiro Financial Theory of Investment: He asserts that investment depends on profit and profit, in turn, depend on income. He relates profit to the level of current profits and of the recent past. The theory argues that when the profit is high, the retain earning is also high. More so, the optimal capital stock varies directly with the level of profit. The interest rate and the level of profit, in turn, determine the optimal capital stock. At any profit level, the higher the interest rate the smaller will be the optimal capital stock.

Duesenberry's Financial Theory of Investment (Cash Flow Theory) integrates profit theory and acceleration theory of investment. The theory emphasized that aggregate cash flow is the main determinant of investment (Jhingan, 2007).

2.1.10. Empirical Review

Lucian-Liviu (2010) Scenarios for post-Crisis Period based on a set of presumed changes in the interest rate-investment-GDP growth relationship. The objective of the study was to investigate the interest rate-investment-growth rate relationship in case of EU members. It used model simulation as the method of analysis. The study shows a strong inverse correlation between investment and interest rate for the EU countries.

Majed and Ahmad (2010) explored the impact of interest Rate on investment in Jordan: a co-integration Analysis. The study aimed at investigating the impact of real interest rate on investment level in Jordan over the period between 1990 and 2005. It adopted econometrics tools of co-integration analysis coupled with variance decomposition and impulse response analysis. The finding of this study shows that an increase in the real interest rate by 1% reduces the investment level by 44%.

Udonsah (2012) investigated the impact of interest rate on investment decision in Nigeria: An Econometric analysis. The study keen on determining how interest rate can be fixed to enhance effective accumulation of savings that could be channeled to investment. It applied Ordinary Least Square method to analyse secondary data sourced from CBN statistical bulletin. The study concludes that interest rate should be reduced in order to lead to an increase and promote the level of investment.

Sulaimon et al. (2013) carried out research on Rate of Interest and its Impact on Investment to the Extent of Pakistan. it aimed at testing the long-term nexus among the level of income, interest rate and investment by using econometrics method of Johansen Co-integration as the analysis tool. The study confirms that there is an inverse relationship between and investment in Pakistan.

The above few selected empirical works that focus on Nigeria and other countries acknowledged that the low interest-rate would stimulate and promotes investment which will, in turn, lead to higher income. Consequently, Zero interest rate / banking and its capability of promoting investment by the virtue of reducing the cost of funding investment would be ascertained further by carrying out an empirical review of the existing literature on non-interest rate or Islamic banking and SMEs Performance/ investment.

Yaqub and Bello (2012) researched on Applicability of Chapra's Model of Islamic Banking in Nigeria. With the aim of determining to what extent Chapra model of Islamic banking would be of benefit to entrepreneurs especially small and medium scale. The study employed descriptive and analytical expositions of both Chapra and Ismail model in order to recommend the one that is suitable for Nigeria. The study reveals and concluded that the adoption of Chapra Islamic banking model which will go a long way in reducing poverty in Nigeria.

Onakoya and Onakoya (2013) examined the Islamic microfinance as a poverty alleviation tool: Expectations from Ogun-State, Nigeria. The objective of the paper was to examine the possible impact of Islamic microfinance on poverty alleviation in the country using Ogun State as a case study. The study adopted survey method. It analyses the loans issued by OSAMCA by ratio and percentage analysis. The research work finds out that religious affiliation is not a critical hindrance to access Islamic finance services. It concludes that Islamic financing when fully established promises to widen the breath of provision of financial services to the poor and low-income earners.

Siyanbola (2013) examined the Islamic Banking as a Panacea for Economic Instability in Nigeria. The study sought to find out the significance of Islamic banking as the solution to Nigeria economic instability. The research work used Jaiz Bank, Stanbic IBTC and Adebiyi Confectionary as the case study. The paper adopted descriptive survey research in its design. The study finds out and concludes that interest-free banking is a just financial system that promotes income redistribution and serves as an alternative framework that can promote enterprises from the economic meltdown and debt burden as it is a right step towards a desirable financial sector in the country.

Mohammed et al. (2014) investigated Islamic Financing: A Panacea to Small and Medium Scale Enterprises Financing Problems in Nigeria. The study aimed at exploring the use of Islamic financing in solving SMEs financing. The method of analysis of the study was exploratory. The study found out and concluded that Islamic financing will solve the financing need of the small and medium scale enterprises. Mubarak (2014) investigated Islamic development Bank's Microfinance Support Programme and the growth of Small scale enterprises in Nigeria. The objective of the study was to present the opportunities open to the Nigerian microfinance sector through collaboration with the IDB with a view of promoting sustainable interest-free microfinance service which would be engendering the development of the small enterprises which will increase employment opportunities and reduce poverty in the country. It adopted an expository method of analysis by analyzing the case studies of IDB's Microfinance support programme in Sudan and Benin. The study concludes that the IDB microfinance programme which mainly support the real sector of the economy if implemented, it will not only develop the real sector of the Nigeria economy but also reduce the army of able and talented but unemployed population of the country and by extension alleviate the poverty.

3. Methodology and Framework

The study takes quantitative dimension by employing the descriptive statistics to analyze the data of non-interest financing on quarterly basis sourced from CBN statistical bulletin covering 2009 to 2013. The Islamic banking is relatively a new phenomenon in Nigeria, the available data is scanty.

3.1. Analysis of the Framework

- Panel 1: This shows MEC, it indicates that the high interest rate imposed on the entrepreneurs by the conventional banks is associated with very low capital formation. This is depicted with red dotted line. It depicts that in the regime of high interest rate as always charged by the conventional banks in Nigeria the acquisition of capital goods (Investment) is low. Meanwhile, in the regime of Islamic banking/ zero interest rate banking the capital formation would be very high.
- Panel 2: This indicates the various profit and income level at various level of investment. The red dotted line shows that at low level of investment the profit and income level is low which corresponds to high interest rate on panel 1. The blue dotted line indicates that at high level of investment the profit and income level is high which corresponds to the zero/non/low interest rate in panel 1.
- Panel 3: This depicts positive relationship between Investment and savings level. The higher the investment levels the higher the savings. At Low investment level savings level is low which is associated with low income and profit level in panel 2. This is depicted with red dotted line. At high investment level the savings level is high which corresponds to high profit and income level in panel 2. This is depicted with blue dotted line.
- Panel 4: This indicates that the higher the earning (income) through high investment level the lower the poverty level as majority that are living below poverty line would be drag out of poverty net by being able to increase their demand and consumptions of their material needs.

The framework generally (Panel 1-6) indicates that at low or zero level of interest rate investment level will be high which in turn stimulates high profit/income because the business that are hitherto unprofitable due to high-interest rate would become lucrative during the regime of non-interest rate financing. Hence saving level would be high. Ultimately there would be a drastic reduction in poverty level because the vast majority of the poverty victims would benefit immensely from accessible finance at low or zero cost couple with the participation of the financiers in the enterprises which will go a long way in promoting higher profit (two good heads are better than one). Consequently, high demand and consumption of material goods (food, cloth and shelter) and non-material, services (education, health and other qualitative amenities) will be enhanced among these micro and small scale enterprise operators.

Comparative Framework of Non-Interest/Islamic and Conventional Interest Rate Banking Transmission Mechanism

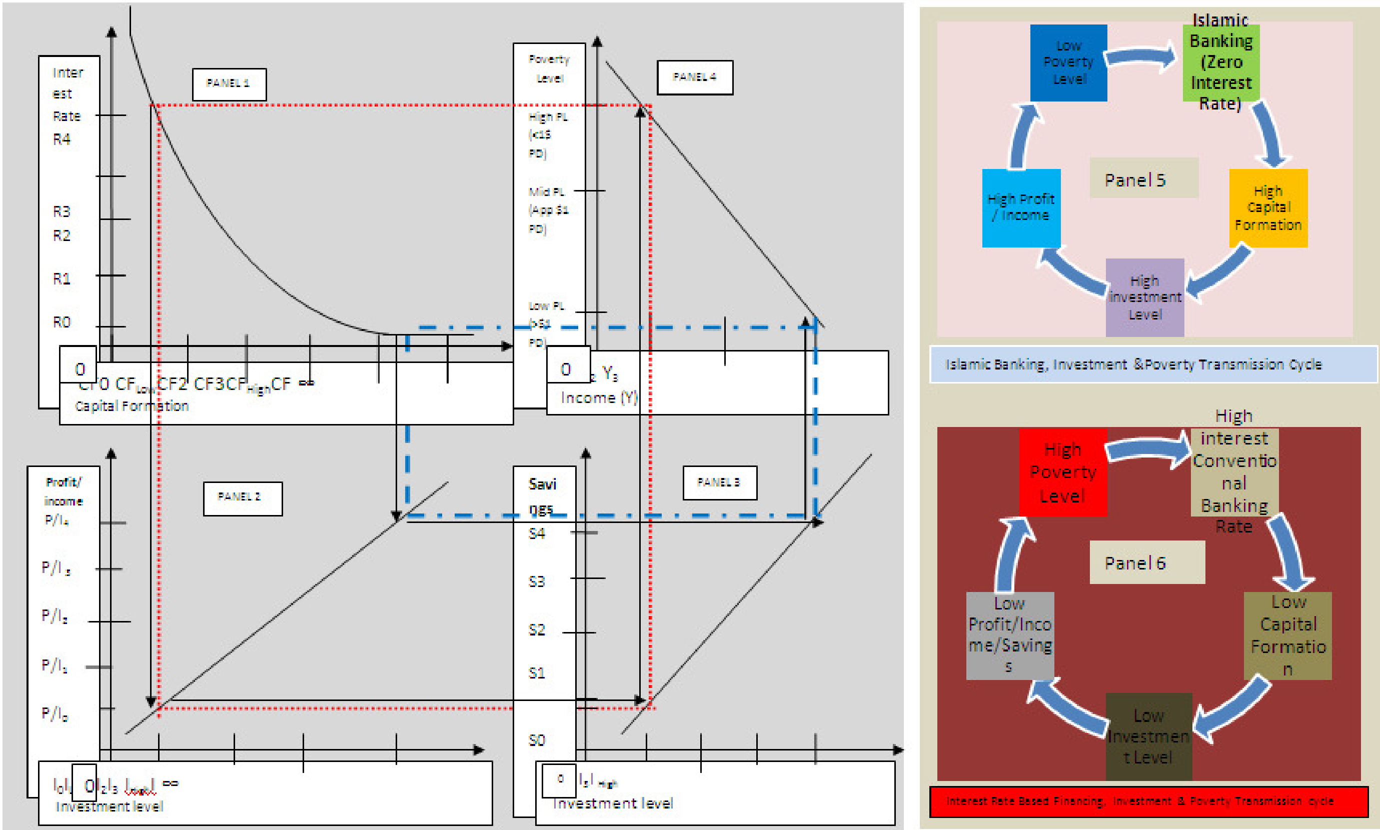

Figure 1: Islamic Banking / Non-Interest Rate and Conventional Interest Rate Banking Transmission Mechanism Framework by Yusuf Sulaimon Aremu

4. Empirical Analysis

Despite the unavailability of Islamic/ non interest-rate banking data because of the nascence of the concept in Nigeria the few available ones are presented and analyzed below:

Year	March 2012	June 2012	Sept. 2012	Dec. 2012	March 2013	June 2013	Sept. 2013	Dec. 2013
N' M	-	1.5	852.7	2494	5056.3	7366.2	7379.8	9410.4
Growth Rate	-	-	567.5%	200%	103%	46%	2%	28%

Table 1: Non interest banks gross loans and advances to customers (N' Million)
(Note: Non Interest Banking was introduced in 2012)
Source: 2014 CBN Statistical Bulletin and Authors' computation.

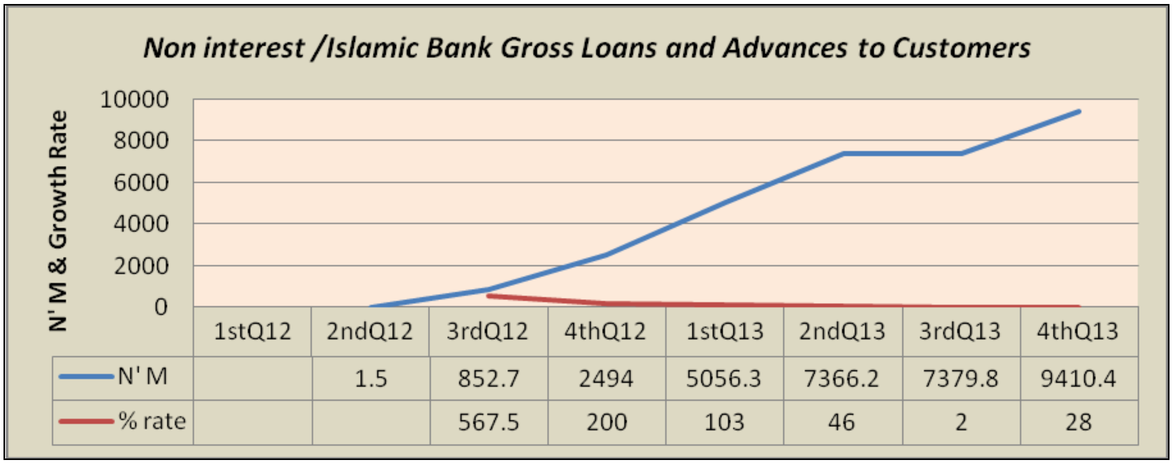

Figure 2: Non interest rate banks gross loans and advances to customers (N' Million)
Source: Authors Computation (Dec., 2015)
(Note: Non Interest Banking was introduced in 2012)

The loans and advances performance of the non-interest bank in Nigeria is impressive because of its geometric growth rate in the third and fourth quarter of the inauguration year, 2012. In the year 2013, the growth rate of gross loans and advances to small scale enterprises dwindled from 200% to 28%. This might not be unconnected to the fact that the issued out loans need to be retrieved. Hence, needs to reduce the accumulated loans to avoid unreasonable bad debt. This indicates that there are effective and efficient loans and advances management by the zero interest rate / participating banking.

Period	Commercial Banks Loans to Small Business Ent.	Comm Banks loan to Small Ent. As % of total Credit	Growth Rate of Credit to Small Ent. By Commercial Banks
2012q1	14,875.1	0.2	-
2012q2	15,065.4	0.1	1.30%
2012q3	14,995.8	0.1	-0.42%
2012q4	13,863.5	0.1	-7.55%
2013q1	13,114.7	0.1	-5.40%
2013q2	12,425.7	0.1	-5.25%
2013q3	24,179.2	0.2	94%
2013q4	15,353.0	0.1	-36.50%

Table 2: Commercial Banks Loan to Small Scale Enterprises
Source: 2014 CBN Statistical Bulletin

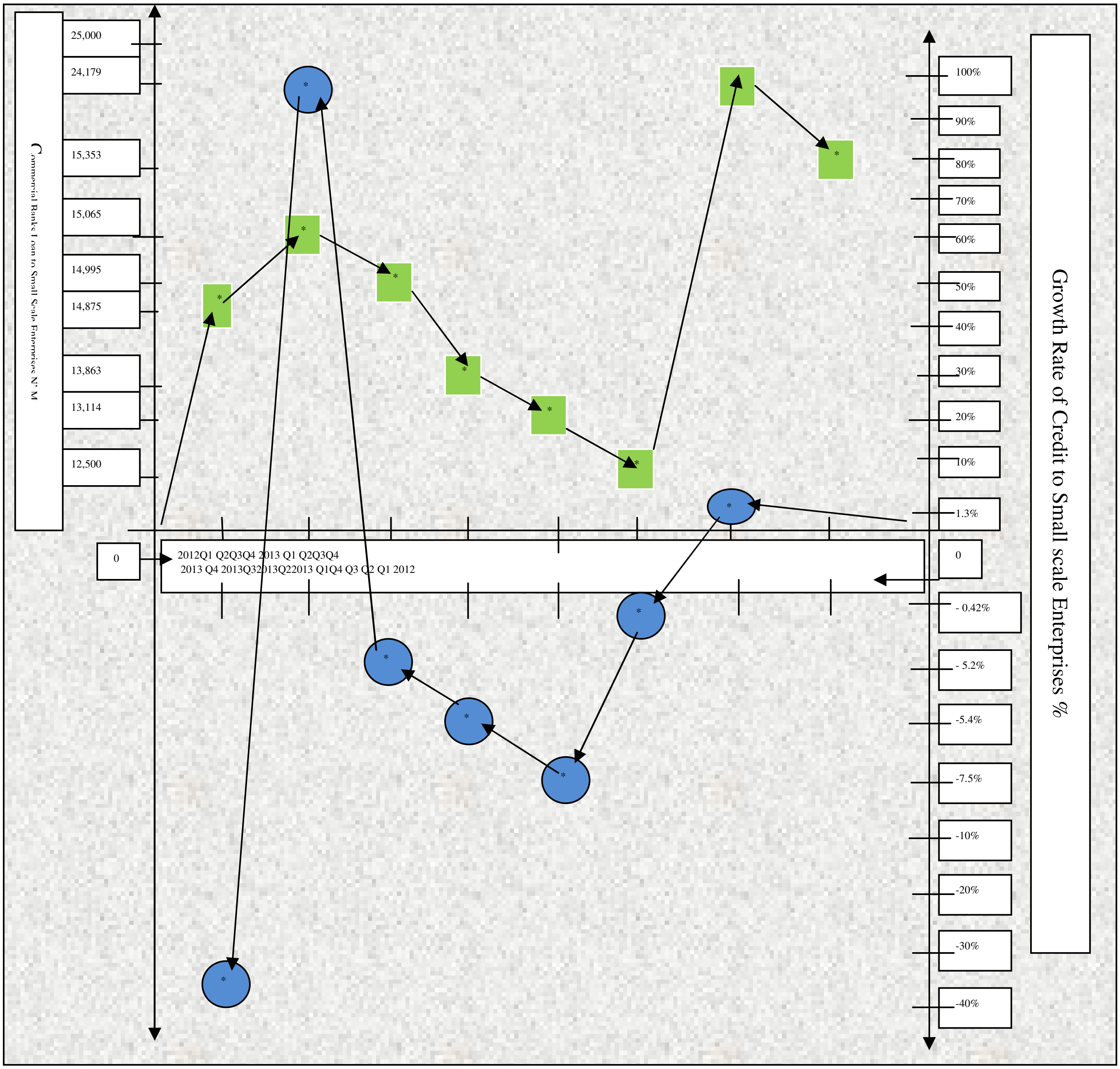

Figure 3: Commercial Banks Loan to Small Scale Enterprises
Source: Authors' Dec., 2015

The table and figure 3 above indicate that commercial (conventional) banks loans to small business enterprises are not promising besides the high interest-rate impose on the loans by commercial banks and the stringent requirement attached to its procurement the percentage of the total loans and advances issued to small business enterprises is nothing to write home about. The percentage of total loans issued by commercial banks to small business in the 1st quarter of 2012 is 0.2%. While, the percentage of the total credit issued to this subsector in the subsequent quarters of the year was as low as 0.1%. The percentage of total loans issued by commercial banks to small business in 1st and 2nd quarter of the year is 0.1% while it was increased to 0.2% in the 3rd quarters and was reduced to 1% in the 4th quarter of 2013.

Growth Rate of Credit to Small Enterprises by commercial banks is insignificant considering the fact that almost 70% of the adult population carries out their economic activities in this subsector of the economy and the key roles that Small scale enterprises play in the economy. The small scale enterprises only enjoy the positive growth rate of credit 1.3% and 94% from commercial banks in the 2nd quarter of 2012 and 3rd quarter of 2013 respectively. The growth rates of credit to this subsector are –0.42%, -7.55%, -5.40, -5.25% and -36.5% in the 3rd, 4th, 1st, 2nd and 4th quarter of 2013 respectively. This does not augur well for the development of this subsector that caters for employment needs of average Nigerians, and serves as the source of input to medium scale enterprises (Yusuf et al., 2015).

Period	Risen a lot	Risen a little	Stayed about the same	Fallen a little	Fallen a lot	No idea	Table 3 B: Net Response Total saying'rise'	Total saying 'fall'	Net rise
2009 q2	36.2	24.0	10.2	6.0	6.1	17.1	60.2	12.1	48.1
q3	34.3	25.5	13.5	6.1	3.0	17.5	59.8	9.1	50.7
q4	29.4	28.5	14.3	5.4	4.6	17.7	57.9	10.0	47.9
2010 q1	33.0	22.1	14.8	11.0	2.9	16.1	55.1	13.9	41.2
q2	25.6	27.2	14.3	10.4	6.5	16.0	52.8	16.9	35.9
q3	31.1	18.8	13.6	9.6	6.6	20.3	49.9	16.2	33.7
q4	27.6	21.9	13.1	10.3	6.9	20.2	49.5	17.2	32.3
2011 q1	27.5	24.3	14.9	8.8	5.6	19.0	51.8	14.4	37.4
q2	24.1	26.6	12.4	11.5	8.8	16.6	50.7	20.3	30.4
q3	27.6	26.2	15.3	9.2	4.7	16.9	53.8	13.9	39.9
q4	29.8	28.0	16.4	7.0	4.6	14.3	57.8	11.6	46.2
2012 q1	23.9	23.2	19.3	8.9	5.7	19.0	47.1	14.6	32.5
q2	27.3	25.0	17.0	8.5	4.5	17.7	52.3	13.0	39.3
q3	26.2	27.0	18.6	7.4	2.7	18.0	53.2	10.1	43.1
q4	27.5	25.0	15.0	8.9	3.5	20.0	52.5	12.4	40.1
2013 q1	28.1	27.6	15.6	7.4	3.1	18.2	55.7	10.5	45.2
q2	27.4	23	15.8	8.3	2.9	22.4	50.4	11.2	39.2
q3	29.7	21.9	18.6	8.2	3.1	18.6	51.6	11.3	40.3
q4	29.6	24.2	17.2	8.3	4.1	16.7	53.8	12.4	41.4
2014 q1	29.1	23.1	20.2	7.9	2.9	16.7	52.2	10.8	41.4
q2	27.5	25.8	20.1	7.6	3.3	15.7	53.3	10.9	42.4
q3	23.3	26.5	22.7	8.7	4.1	14.7	49.8	12.8	37.0
q4	25.1	24.3	20.1	9.2	3.1	18.2	49.4	12.3	37.1

Table 3: How would you say interest rate on bank loans have changed over the last 12 months?
Source: CBN Statistical Bulletin 2014 (Survey of Small Scale Business Operators' Opinion on Interest Rate).

Having analyzed the available data on the performance of commercial banks to credit needs of Small-scale enterprises as against the performance of Zero Interest rate / Islamic banking, it is important to consider the view of the customers, the small scale enterprises operators – demand side of the credit. The table 4 above was extracted from CBN Statistical Bulletin 2014 depicting the position and opinion of the SMEs operators about the increase and change in the rate of interest rate over the last 12 months. Throughout the 16 quarters between 2012 and 2014, the net responses of the respondents are that the interest rate on the credit obtained by them is too high.

This research work further extracted the responses depicting the judgment of the business operators on what natures of interest rate either very low / approximately zero interest rate or high interest-rate will be of benefit to their businesses and Nigerian economy.

Period	Go up	Go down to approximately zero	Make no difference	No idea
2009 q2	13.7	52.4	12.7	13.1
q3	14.1	54.5	17.5	13.8
q4	16.3	51.0	15.4	17.3
2010 q1	15.1	51.9	19.6	12.5
q2	22.1	47.5	29.0	1.2
q3	17.7	49.3	17.8	15.2
q4	21.4	43.3	20.4	14.9
2011 q1	23.7	42.6	19.4	14.2
q2	18.6	49.0	17.5	13.0
q3	18.1	43.0	23.0	15.9
q4	15.1	46.8	23.4	14.8
2012 q1	19.6	40.2	24.2	15.9
q2	16.6	42.6	25.5	15.2
q3	16.6	40.6	25.9	16.7
q4	17.2	43.8	23.0	15.9
2013 q1	21.4	40.9	21.7	16.0
q2	18.0	39.3	22.3	20.5
q3	18.6	41.0	23.8	16.4
q4	18.8	43.1	21.3	16.7

Table 4: What do you think would be best for the financing of your business and Nigerian economy - for interest rates to go up over the next few months, or to go down/zero, or to stay where they are now, or would it make no difference either way?
Source: CBN Statistical Bulletin 2014 (Survey of Small Scale Business Operators' Opinion on Interest Rate

From the table 4 above, restricting the analysis between those that indicate that interest rate should go up and those that have the view that the interest rate should go down to approximately zero. The table shows that 28% of the respondents supports that the interest rate should go up while 72% support that the interest rate should go down to approximately zero.

5. Concluding Remark and Recommendations

5.1. Concluding Remarks

In view of the above analysis, it is clearly revealed that commercial banks have failed woefully in the exercise of providing credit needs to this subsector of the economy; this may be resulting from their mandate to maximize their shareholders' wealth. More so, the fear of creditworthiness of these operators may be another hindrance factor of providing credit needs of this subsector of the economy. Most importantly, the high interest-rate on credit issued by commercial banks might be discouraging the small business operators from applying for loans in commercial banks as it is clearly noted that commercial banks are not participating banks in the issuing of credit to enterprises. Unlike Islamic banking that participates in the businesses of the customers they give the loan to, in order to ensure the successful running of the business and obtain better profit share as their income.

Consequently, the last option for the small scale business operators to obtain their financing needs is Non Interest-rate / Islamic banking which truly consider the peculiar nature of the small scale enterprises into consideration in the issuing out of loans. The participatory function/mode of issuing loans to ensure the success of the business that the issued funds would be committed to is another benefit which the Small scale business operators should embrace. This study concludes that with the establishment of Islamic financing and banking, the era of small-scale enterprises operators subjecting themselves to the economic agony in the hand of the reigning microfinance institutions popularly referred to as "Gbe omu le lantern" is winding-up if they could exploit this alternative financing means. With the advent of the non-interest financing, the opportunity of the small business operators to expand their investment will be high hence higher profit / income which will go a long way in dragging the operators in this segment of the economy out of poverty net. In order words, the economic functioning and well-being of the average downtrodden Nigerians would be improved as advocated by Amartya Sen 1990 in 'Capability Approach – capability of achieving the kinds of life they have reason to value'. This will be achievable with the reduction in their income poverty.

5.2. Recommendations

The Islamic banking window units of the conventional banks should be strengthened with appropriate legislation by the CBN and specify the proportion of the loan from this window that should be channeled to small scale enterprises (selective credit control). CBN should intensify its efforts to establish the Zero Interest rate banking institutions with the full fledge Islamic ethic in operation which should be nationalistic in outlook rather than the regional licensed Islamic bank. CBN should organize an effective sensitization on the benefit derivable from the zero interest rate banking to the SMEs operators and the procedure to be eligible to enjoy the stress-free financing mode irrespective of one's religious affiliation. More so, adequate insurance mechanism and workable guideline should be put in place for this financing option by the CBN considering the fact that this mode is prone to high default rate. Finally, this alternative financing mode should not be condemned or discriminated against on the reason of religious bigotry because the advanced and more developed banking system in the developed nations have exploited this mode of financing to improve their economies.

5.3. Further Research

Islamic / non interest-rate banking is a new phenomenon in Nigeria context the data required for empirical analysis is scanty in availability. This really limits the robust empirical examination of this piece. Hence, further research should focus on improving the empirical analysis to show that Islamic / non interest-rate banking is a veritable springboard of SMEs investment in Nigeria.

5.4. Acknowledgement

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