

The Impact of Commercial Bank Lending on the Business Development: Special Reference to Batticaloa Region

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1. Background of the Study

Batticaloa region occupies the central part of the Eastern province. Batticaloa is divided into 14 Administrative Divisions. Its population is 586 400 (Census and statistical Department, Sri Lanka 2016). The economy of the Batticaloa region is depending mostly on Agriculture and Fishing. Industrial and Service sectors also contribute considerably to the economy of Batticaloa region. The total number of business entities functioning in Batticaloa, is estimated as 9377. The total number of small scale industries is counted as 781. Of the total labour force of this region, 24.8% is engaged in Agriculture sector. 29.4% of the labour force is related with Industrial sector. 45.8% engaged in Service Sector (Census and Statistical Department, Sri Lanka 2017).

For any developing country to grow and develop economically, greater attention and concentration must be given to business sector. Small business development is an important area which generates more employment and increases the income level of the people in many countries. Finance has been identified as one of the most important factors determining the survival and growth of business of a region. Access to finance allows business to undertake investments to

expand their businesses. Small businesses traditionally have faced difficulty in obtaining business loans. This is because the commercial bank loans extended to the small businesses are often limited.

Schumpeter (1932) established that banking sector facilitate technological innovation through their intermediary role. It leads to business development. Nwanyanwu (2012) noted that the banking sector helps to make credit available by mobilizing surplus fund from depositor and channel it in form of credit/loan to investors. Through these functions investors are able to expand their business.

There are two types banks are identified in the banking sector of Batticaloa region. They are Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs). They have been providing loan facilities to the business enterprises. At present, following commercial banks have been functioning in Batticaloa region. Peoples' Bank and Bank of Ceylon are the state owned banks. Commercial Bank of Ceylon PLC, Hatton National Bank, Sampath Bank, Seylan Bank, Union Bank, National development Bank, Nation trust Bank, Amana Bank, and DFCC Bank are the well-known private banks. These

commercial banks have been functioning with their 71 branches in Batticaloa region (Census and Statistical Department, Sri Lanka 2017).

Earlier, during the civil war, banking activities in Batticaloa were limited. Commercial banks were reluctant in providing business loan to the business enterprises. But after the ending of civil war in 2009, the government encouraged the commercial banks to provide more loan facilities to the business people. The banking sector in the Batticaloa region continued to support economic growth and development by enhanced banking services and the supervision of the banking network. In 2010, 27 banking outlets newly opened in the Eastern Province. Loans for the business enterprises increased sharply. The banking sector assets base increased. Growth in banking assets observed mainly due to the increase in loans and advances (Central Bank of Sri Lanka 2017). This study examines the impact of commercial bank lending on the development of the business in the Batticaloa region.

2. Research Problem

Since the end of the civil war, government of Sri Lanka has been encouraging the financial activities of commercial banks in the Batticaloa region. Colombo based commercial banks have opened new branches in the above area. State owned commercial banks such as People's Bank and Bank of Ceylon also have extended their branch network in this region. Central Bank of Sri Lanka introduced a special

development credit scheme titled "Kilakkin Uthayam" in 2009 and implemented through the commercial banks in this area (Central Bank of Sri Lanka 2009). Loan facilities to the business have been increased in reduced interest rate. Many formalities which were implemented by the commercial banks earlier in business lending have been lifted in order to increase the business activities. New business entities in various fields have been established. Existing business enterprises are able to extend their business activities. These developments should be studied in proper manner. This study investigate the relationship between the commercial lending of some selected commercial banks and the business development of Batticaloa region after the ending of the civil war. Is there any significant impact on the business development by the lending of selected commercial banks functioning in the Batticaloa region during the post war period? This is the research problem for this study.

3. Objectives of the Research

The main objective of this research is to examine the impact of commercial bank lending on the business development of Batticaloa region after the ending of the civil war. Finding the impacts of the size of the loan (amount), rate of interest, and the repayment of the loan, and finding the dimensions of the business development are the sub objectives of this study.

4. Significance of the Study

This study will be of very importance to the government, policy makers, monetary authority, academic and the general public. Through the business development, this war affected region could be improved. Levels of employment, income, living standard could be enhanced by the business development. The finding of this study will help government and the monetary authorities to see the effectiveness lending policy of commercial banks of this region. This research further serves as a guide and provides insight for future research on this topic.

5. Literature Review

A number of research studies were reviewed by the researcher. “Impact of Bank Lending on Economic Growth in Nigeria” (2014), a research done by Aliyu Mamman and Yusuf Alhaji Hashim was reviewed. The above study concludes that there is a statistically significant impact of bank lending on economic growth in Nigeria. Makali Jason Mulu in 2014 presented a thesis for the partial fulfillment of the requirement for the award of MSc in Finance titled “The Effect of Commercial Bank Loans on the economic growth of Kenya”. The results of the study showed that Kenya’s economic growth is not strongly determined by the loans issued by the banks. Lynette Ragonmal submitted a

Table:01 Sample size and distribution

research work in 2015 for the degree of Master of Commerce and Management, titled “Impact of Commercial Banking Development on Economic Growth in Small Pacific Countries: A Case study of the Vanuatu Economy”. The results show that the financial development has a positive and significant relationship with growth. “Commercial Bank Lending and Economic Growth—The Nigerian Experience 1970—2013”, another literature reviewed. The author of the study is Joseph Olusegund Ajibola. His conclusion is, Bank credit generally is an enabler for economic growth, although at a sluggish pace. Imoughele, Lawrence Ehikioya and Ismaila Mohammed are the co-authors of a research paper titled “The Impact of Commercial Credit on the growth of Small and medium scale enterprises: An Econometric Evidence from Nigeria 1986-2012”. The above study was made to investigate empirically the impact of commercial bank credit on Nigeria’s small and medium scale enterprises.

6. Methodology

6.1 Sample size and distribution

The total number of borrowers in the study period was 10500. 200 borrowers were selected as sample based on the ratio of borrowers of each commercial bank. Sample distribution follows.

No	Banks	Number of borrowers	Sample size
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1	People's Bank	3885	74
2	Bank of Ceylon	4358	83
3	Commercial Bank	473	09
4	Hatton National Bank	578	11
5	Seylan Bank	630	12
6	Sampath Bank	420	08
7	DFCC Bank	52	01
8	Nations Trust Bank	54	01
9	National Development Bank	50	01
	Total	10500	200

6.2 Data Collection

A structured questionnaire prepared in Lickert scale was mainly used for the primary data collection. Interview and discussion also used for the primary data collection. Secondary data were collected from various reports of the commercial banks taken into this study. The questionnaire used for the collection of primary data contained statements regarding both personal and research data. There are two main variables are identified. Commercial bank lending is considered as independent variable and impact on business development is considered as dependent variable. Size of the loan (amount), interest rate and the repayment of the loan are considered as the sub variables of the independent variable. Income level and the employment opportunities are considered as the sub variables of the dependent variable. Statements regarding to these sub variables are given in the questionnaire and the responses from the borrowers were collected.

6.3 Method of Data analysis

The data collected from the customers were analysed by the Univariate analysis method and Bivariate analysis method. The latest version of SPSS package was used for the Univariate analysis. Descriptive statistics have been used to get the results. The correlation analysis and the simple regression analysis were used to do the bivariate analysis.

7. Assumptions

There is no any change in the government policy regarding the lending activities of commercial banks in this region. No any change in the lending policy of commercial banks. The information given by the bank customers and the bank officers are true and correct. No any major crisis in the business situation in this region. Law and order conditions are being normal in this area.

8. Results and Discussion

As per the univariate analysis, the following results have been obtained. 200



questionnaires were distributed. But it was able to collect only 198, which is 99% of the sample size. According to the collected data, about 60% of borrowers are male and 40% are female. 55% of the borrowers are within the age group of 26-35 years, 27% of the borrowers are aged between 18-25 years, and those who are above 35 are 18%. 72% of the borrowers are married, and 28% of them are unmarried. 72% of the borrowers from commercial banks have qualified GCE Advanced level and the above. 28% of the borrowers have secondary level of educational qualification. The average present monthly income of the 62% of the borrowers is Rs.60000. 38% of the borrowers get less than Rs.60000 monthly. Regarding the size of the loan (amount) which was lent by the commercial banks, it was found that the borrowers have a higher level of satisfaction which is reflected by the Mean value of 3.8. As far as the interest rate charged by the banks is concerned, borrowers are very much satisfied. The mean value for this variable is 3.6. The borrowers showed a higher level of repayment activities. This is reflected by the higher value of Mean, which is being as 3.9. That shows they are now able to get more income and able to repay the loan regularly. In overall response regarding the business lending of commercial banks in Batticaloa region, 158 borrowers out of 198, showed higher level of satisfaction. Regarding the impacts on business development, the borrowers showed a higher level of satisfaction which is indicated by the higher mean value of 4.1. The bank customers who obtained lending facilities from the

commercial banks in this region agreed that they are able to increase their income level, expand their business network, accomplish new technical innovation, and create new employment opportunities. In overall results, out of 198 respondents 173 agreed that the business lending of the commercial banks in this region has made considerable positive impacts on the business development of Batticaloa region.

As per the bivariate analysis, the following results have been obtained. According to the Pearsons correlation analysis, a positive and significant relationship was found between the size of the loan amount and the business development. The correlation coefficient of these two variables is 0.379. Between the interest rate and the business development also a positive and significant relationship was found. The value of the coefficient is 0.326. Between repayment of the loan and the business development, the value of the correlation coefficient is 0.524. This also shows a positive and significant correlation. As per the correlation analysis, overall results show that there is a positive and significant relationship between the commercial bank lending and the business development in the Batticaloa region. According to the simple regression analysis, all the sub variables such as size of the loan amount, interest rate, and the repayment of the loan are found to have a positive and significant influence on the business development of the Batticaloa district. The strength of B value of those sub variables are the following. The size of the loan 0.211, Rate of interest 0.203, and the Repayment of

the loan 0.305. The overall B value is 0.273. As per the correlation and regression analysis, it is found that commercial bank lending has a positive and significant impact on the business development of the Batticaloa region.

9. Conclusion.

Under the title of “The Impact of commercial bank lending on the business development”, a study has been done in the Batticaloa region. Finally the researcher has come to the following conclusions.

More borrowers from the commercial banks in the region are males. More borrowers are under 35 years. More borrowers are Advanced level qualified. Major part of the borrowers is married. More business people who borrowed for their business earn more than Rs.60000 monthly. Borrowers of this region are highly satisfied with the size (amount) of the loan provided by the commercial banks in this time period. They are much satisfied with the rate of interest charged by the commercial banks for the business loan. The businessmen are maintaining a good level of repayment which encourages further lending. Most of the borrowers in this region are encouraged very much by the lending of commercial banks. They are able to increase their monthly income from their business activities with the help of the business loan. They are able to expand their business network in this region. Their capacity to provide more jobs to the people of this region has been extended. Conclusively, the commercial bank lending has a positive and

significant impact on the business development of the Batticaloa region in the post war period.

10. Recommendations

Increasing the size of the loan amount, reducing further the rate of interest on business lending, lifting the strict formalities in business lending, initiating lending facilities to the new types of business activities are recommended by the researcher.

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