TRADE CREDIT DYNAMICS ON PROFITABILITY OF SMALL AND MEDIUM-SCALE ENTERPRISES IN NIGERIA

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ABSTRACT

The issue of accessible funding has remained one of the major challenges facing the growth of Small and Medium-Scale Enterprises (SMEs) in Nigeria. With the reducing flow of funds from the financial institutions to the SMEs and its implications on their performance, the need to employ trade credit as an alternative finance becomes relevant. Therefore, this study examined the effect of trade credit dynamics on the profitability of SMEs in South-West Nigeria. Secondary data for 120 firms, from 2014 – 2016, was used for the study. Panel pooled OLS, panel fixed effect, panel random effect, hausman test and generalised method of moments (GMM) were used to analyse the secondary data. The panel fixed effect analysis revealed that trade credit had negative and significant impact on the profitability of SMEs. The GMM result indicated that the dynamic changes of trade credit had not significantly improved SMEs profitability. The study concluded that the ineffective dynamic changes of trade credit contributed to the negative impact of trade credit on SMEs profitability. The study recommended that SMEs should determine firm specific optimum level for trade credit usage as alternative finance for positive impact. Suppliers should extend discount periods and relax assessment procedures to ensure positive dynamic impact on SMEs profitability.

Keywords: Trade credit, alternative finance, SMEs, profitability, trade credit dynamics.

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INTRODUCTION

Small and Medium Scale Enterprises (SMEs) are essential for the development of any economy because they form the bulk of economic engagement in developing economies. SMEs definition varies from one country to another, depending on the scope and range of activities covered by them and the amount of capital required to finance their operations. For this research the definition given by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistic (NBS) will be adopted. That is, SMEs in Nigeria are those firms with an asset, excluding land and building, of not less than ₦5,000,000 and not more than ₦500,000,000.00, with the number of employees not less than 10 and not more than 200 (SMEDAN and NBS, 2013).

SMEs are major contributors to key development indicators, but they are confronted with many hindrances that limit their, growth and going-concern (Aliero and Yusuf, 2015). Researches on SMEs profitability and development have shown that low profit and failure rate in developing economies is higher than in the developed economies (Arinaitwe, 2006). In countries at same levels of development with Nigeria, SMEs contribute a much higher proportion to GDP than currently observed in Nigeria compared to other emerging markets (Oyelaran-Oyeyinka, 2010). SME in Nigeria currently stands at 72,838; employing about 1.9million people (SMEDAN & NBS 2013), compared to India with 36.2million SMEs and employing 101.2million people or Vietnam with 242,453 SMEs and employing 32.5million people (Saurabh 2015). Furthermore, SMEs in Nigeria represent about 90% of the manufacturing sector in terms of number of firms, but only contribute approximately 1% of GDP compared to 40% in Asian countries and 50% in the US and in Europe (Oyelaran-Oyeyinka, 2010).

The most common constraints hindering SMEs growth and survival in Nigeria are lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for product and services (Okpara 2011; Oyelaran-Oyeyinka 2010). Banks have become increasing unable to meet the growing demand for loans by private and public enterprises, Eferakeya (2014). Financial institutions are capable of providing funding for SMEs needs, but these needs have not been fully met, leaving a vacuum to be filled (Olutunla and Obamuyi, 2008). Therefore, SMEs have had to source for alternative sources of financing for their operations. A very common source of such alternative finance for these firms is trade credit.

There is the need for SMEs to evaluate and access alternative sources of finances available for investment in solving inadequate financing problems, and given that trade credit offer many potential benefits to a developing economy especially to SMEs that might have opportunity for growth, this study will aim to determine the impact and the dynamics of trade credit on profitability of SMEs in South-West Nigeria in order to assist in resolving the inadequate financing problem faced by SMEs.

LITERATURE

Trade credit is an important source of working capital extended or generated by the business itself. It can be defined as delay of payment permitted by the creditor or supplier of raw materials, against the goods purchased from him.

Peterson and Rajan (1997) examined trade credit and some of its evidence and found that firms use trade credit relatively more when credit from financial institutions is not available. Deloof and Jegers (1999), examining trade credit, corporate groups and the financing of Belgium firms, found that trade dues are determined by the firm's need for funds and the internal availability of funds. Ojenike and Olowoniyi (2014) studied the determinant of trade credit in Nigeria and the empirical findings revealed that firms are credit constrained and therefore resort to trade credit as alternative source of finance. SMEs access to commercial bank loans is not a certainty and they often face stumbling blocks. Obamuyi (2007) explored loan delinquency among SMEs in Ondo state Nigeria and the study revealed that poor credit worthiness; lack of collateral security and high default risk are some of the reason commercial banks do not grant credit to SMEs. Therefore, access to trade credit finance may enable SMEs to enlarge operations to a level that would not have been attained without such alternative financing.

Some government also uses trade credit as a source of short term finance. Bhole and Mahakud (2004) analysed the trends and features of trade credit of the entire economy, public limited companies, and private limited companies and foreign companies in India from 1966 to 2001, and found that the government sector has remained a substantial user of trade credit through the entire period. Trade credit can also facilitate access to bank finance. Alphonse, Ducret and Severin (2006) investigated if trade credit facilitate access to bank finance and concluded that trade credit can also be considered as a complementary source of short term finance with bank debt. The research also reviewed that trade credit can work as a signal about firm's quality, and as such facilitate access to bank credit.

Trade credit can also offer benefits to the provider, which is the supplier of the goods. Martinez-Sola, Garcia-Teruel and Martinez-Solano (2014) investigated the relationship between a firm's provision of trade credit and its profitability and revealed that managers can improve firm's profitability by increasing their investment in the provision of trade credit. Hill, Kelly and Lockhart (2012) examined shareholder wealth implications of supplying trade credit finance to customers and concluded that investors recognize trade credit as an effective instrument in mitigating frictions hindering sales growth. Thus, suppliers are positioned to derive increased strategic benefits from credit policy. The suppliers of trade credit have a better knowledge of their customer's market and can therefore access the customer's quality better than the financial institutions. Also, in cases of default, a supplier may stop future supplies and may be in a better position to repossess and resell products; hence they confidently extend trade credit to SMEs. Furthermore, suppliers are less concerned with cash diversion by their customers because they lend goods unlike banks who lend cash which has greater likelihood to be abused.

Rehman and Khurshid (2016) reviewed the impact of trade credit on profitability of non financial firms in Pakistan, with specific focus on how trade credit from both the supplier side and the demand side influences the SME's profitability. By investigating one hundred companies, they concluded that, by providing trade credit, suppliers can enhance the growth and profitability of non financial firms. Kpakiyai and Mugo (2015) examined the effect of trade credit on financial performance of small scale enterprises in Eldoret town, Kenya, with specific focus on how trade credit affects three measures of performance; liquidity; profit margin and return on assets. Using a sample of 50 audited Kenyan SMEs and secondary data, inferential statistic and descriptive statistic was employed for the analysis, specifically mean and standard deviation. The inferential statistic was used to determine the degree of relationship while multiple regression model was used to test the hypothesis. The study found out that trade credit positively affected liquidity, profit margin and returns on assets.

Also, Tang (2014) investigated the relationship between trade credit and profitability in Small and Medium Scale Enterprises in Netherlands with specific objective on how trade credit from both the supplier side and demand side influences the profitability of SMEs. The study made use of a sample 71 Netherland SMEs from 2009 to 2013. The findings revealed that account payable is positively related to SME's profitability but there was no clear relationship between account receivables and SME's profitability. Li, Yu and Yang (2013) conducted a study to reveal if trade credit does boost firm's performance in China, using ordinary least square estimation, the study revealed that trade credit is significantly and positively correlated with firms performance. However, using instrumental variable approach to solve potential endogeneity issues, trade credit no longer impacts firm's performance. The study concluded that trade credit play a limited role in improving firm performance.

Kim (2016) explored the motive for trade credit in Korean firms. Using data from 14,660 firm-year observation, the study concluded that while trade credit is consistence with the financing constraint hypothesis, it does not harmonize with growth hypothesis. Kwenda and Holden (2014) determined trade credit in corporate financing in South Africa using dynamic panel data. The study concluded that firms should have a target account payable level for it to be an efficient alternative source of short term finance. Furthermore, Carvalho and Schiozer (2014) examined the determinants of supply and demand for trade credit by Micro, Small and Medium-Sized enterprises in Brazil. The study made use of survey data from a survey of managers of 481 firms in 32 cities in Sao Paulo, Brazil between the periods of 2008 to 2010. The multivariate relationship model employed was premised on agency and transaction theories of trade credit. The analysis techniques used was path analysis that uses a system of simple regressions estimated by simultaneous equations. The study revealed that trade credit and short-term bank credit are supplementary finance sources for MSMEs and not substitutes which show that trade credit can be used by formal credit institutions as creditworthiness indicator.

Andrieu, Stagliano and Zwan (2016) also researched into bank debt and trade credit for SMEs in order to examine the link between firm age; firm size and firm's ability to obtain

capital in a sample of European SMEs. The study employed simultaneous technique for the analysis. The results revealed that age and size are positively linked to debt capacity because young and small firms are more subject to refusal as a result of the higher risk they pose to financial institutions. The study concluded that trade credit is positively related to bank credit financing, and they complement each other. Fukuda, Kasuya and Akashi (2006) examine the role of trade credit for small firms during the banking crisis in Japan with the specific aim of exploring whether the substitution hypothesis of trade credit holds even under serious financial crisis. The study revealed that the substitution hypothesis held in Japan when the financial institutions were sound and not facing crisis, but the substitution hypothesis broke down during financial crisis. Furthermore, the result revealed that both bank credit and trade credit contracted simultaneously during the crisis, hence the complementary hypothesis also holds.

Kohler, Britton and Yates (2000), examining trade credit and the monetary transmission mechanism, showed that the trade credit channel is an essential channel for monetary policy transmission mechanism, and that it offsets the financial institution credit channel. The researchers compared the flows of trade credit with the indicators of business cycle, and those of monetary stance, and found that during recession the quoted firms, that is the firms which have direct access to capital markets, extend more trade credit and receive less credit. The researchers also found that in the period of tight monetary policy, the quoted firms both extend and receive less trade credit, which questions the offsetting hypothesis that the quoted firms should extend more trade credit under conditions of monetary tightening. Roddinelli and Kasarda (1992) research about small enterprise development revealed that, about 42% of the street vendors surveyed in Iloilo City in the Philippines borrowed from private credit providers to start SME business and paid from 5% to 40% interest each month. The research also revealed that lack of financing was the main reason for 68% of the SMEs employing less than five workers. Therefore trade credit financing can be an alternative source of financing for financially weak SMEs in cases where loan requests are rejected by commercial banks.

Although there have been some critics with the opinion that firms do not voluntarily cut bank loans, since they increase their demand for a less desirable alternative like trade credit, firms cut it due to economic downturn or recession, nevertheless trade credit importance cannot be overlooked.

METHODOLOGY

Secondary source of data was for the study. The financial and accounting data used in the study, which included information on profit after tax, trade payables, overdraft, and net assets, were obtained from the Federal Inland Revenue Services of Nigeria (FIRS).The data were collected for the period of 2014-2016

This study modified the model of Martinez-Sola, Garcia-Teruel and Martinez-Solano (2014) for the study.

PAT = f(PAYABLES, OVERDRAFT, NETASSETS)

$PAT_{it} = \alpha_{1i} + \beta_1 PAYABLES_{it} + \beta_2 OVERDRAFT_{it} + \beta_3 NETASSET_{it} + \mu_{it}$

a priori expectation: $\beta_1 < 0$, $\beta_2 < 0$, $\beta_3 > 0$

Where,

$i = 1, 2 \ldots N$, $t = 1, 2 \ldots N$

α   represent intercept

$B_1, \ldots \beta_n$ represent estimating parameters

PAT represents profit after tax,

PAYABLES represents the account payables,

OVERDRAFT represents the overdraft,

NETASSETS represent total assets,

μ represent the error term u

Pooled regression, Panel Fixed Effect, Panel Random Effect and Hausman Test, were employed as techniques to examine the impact of trade credit on profitability of SMEs in South-West, Nigeria. Lastly, Generalised Method of Moments was used to determine trade credit dynamics on SMEs profitability.

The dependent variable analysed was profit after tax (PAT), this gave the profit from trading. The profit after tax was proxy to measure SMEs profitability. The key independent variable was account payables (PAYABLES), which provided information on trade credit used in the business. The control variables included, overdraft (OVERDRAFT) which provided information on other short-term credit finance used in the business, and net assets (NETASSETS), which provided information about the size of SMEs. While it is perceived that size is positively correlated to profitability, there has been no consensus on relationship between profitability and size hence, conclusion can only be drawn from study embarked on, (Martinez-Sola, Garcia-Teruel and Martinez-Solano2014).

RESULTS AND DISCUSSION

Table 1: Descriptive Statistics

	PAT	PAYABLES	OVERDRAFT	NETASSETS
Mean	20180570	15085144	9201458.	45210433
Median	19728287	12650911	9021516.	46084494
Maximum	1.63E+08	87220891	41680225	89208281
Minimum	-6969888.	973839.0	-21526346	11652281
Std. Dev.	14109575	11739480	6514297.	13812696
Skewness	6.078050	3.239619	0.918580	-0.266574
Kurtosis	61.07360	17.43603	7.220469	3.840362
Jarque-Bera	51924.64	3693.099	312.5158	14.60922
Sum	7.14E+09	5.34E+09	3.26E+09	1.60E+10
Sum Sq. Dev.	7.03E+16	4.86E+16	1.50E+16	6.73E+16
Observations	354	354	354	354

Source: Author's computation (2018)

Table 1 provides the summary of descriptive statistics of the variables. The result reveals the mean, median, maximum, minimum and standard deviation as well as the Skewness, Kurtosis and Jarque-Bera statistics of the variables of interest are evident. The various statistics indicate that the variables have different distributions. The skewness statistic reveals that PAT, PAYABLES and OVERDRAFT are positively skewed while NETASSET is negatively skewed. Kurtosis statistic shows that all the variables are leptokurtic (fat tail) in nature that is the values are more than 3 (three). The Jarque-Bera (JB) test of normality which is large – sample asymptotic test is also reported in the table and the JB statistic result shows that all the variables are normally distributed.

Pooled Ordinary Least Square Result

Table 2: Pooled OLS

Dependent Variable: PAT				
Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27785892	2829367.	9.820533	0.0000
PAYABLES	-0.098696	0.065474	-1.507401	0.1326
OVERDRAFT	-0.017352	0.118366	-0.146597	0.8835
NETASSETS	-0.131757	0.054326	-2.425292	0.0158
R-squared	0.522981	F-statistic		2.744183
Adjusted R-squared	0.514607	Prob(F-statistic)		0.043034
Durbin-Watson stat	1.264628			

Source: Author's computation (2018)

From the result, the beta coefficient of PAT was positive at constant with the value of 27785892.This means that when all variables are held constant, there will be a positive variation up to the tune of 27785892 units in PAT.

A close examination at the result reveals that that PAYABLES, OVERDRAFT and NETASSETS have negative signs which imply that all the independent variables are negatively related to Profit after Tax (PAT). Moreover, the result displayed above, shows that the pooled regression coefficient of PAYABLES on PAT is -0.098696and its P-value is 0.1326, meaning that PAYABLES has a negative and insignificant impact on SMEs profit in Nigeria. The coefficient of OVERDRAFT and NETASSETS on PAT are -0.017352and -0.131757and their p-values are 0.8835 and 0.0158 respectively. This implies that OVERDRAFT is negative and insignificant to influence SMEs profit while NETASSETS is negative but significant to influence SMEs profit in Nigeria.

Also, the coefficient of multiple determinations (R^2) is 52.29% and the adjusted R –squared is 51.49% indicating that trade credit indicators explained about 52.29% of the variance in SMEs profit in Nigeria. Similarly, the p-value of F statistics is 0.043034 and it is significant at 5%. This implies that PAYABLES, OVERDRAFT and NETASSETS altogether can influence SMEs profit (PAT) and the Dublin Watson value of1.26462 implies the absence of

serial correlation. Therefore, linear relationships exist between the dependent and the independent variables of the model.

Panel Fixed Effects Result

Table 3: Fixed Effects

Dependent Variable: PAT				
Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	28615326	5490270.	5.212007	0.0000
PAYABLES	-0.200755	0.097789	-2.052940	0.0412
OVERDRAFT	-0.271291	0.165687	-1.637367	0.1029
NETASSETS	-0.064367	0.111734	-0.576073	0.5651
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.692471	F-statistic		1.860468
Adjusted R-squared	0.627768	Prob(F-statistic)		0.000028
Durbin-Watson stat	2.311880			

Source: Author's computation (2018)

The coefficient of multiple determinations (R^2) is 0.692471 (69.2%) and the adjusted R – squared is 0.627768 (62.8%) indicating that trade credit indicators explained about 69.2% of the variance in SMEs profit in Nigeria. Also, the p-value of F statistics is 0.000028; this is significant at 1%, 5% and 10% respectively. This implies that PAYABLES, OVERDRAFT and NETASSETS altogether can influence SMEs profit (PAT).

From the result, the coefficient of PAT was positive at constant with the value28615326, this means that when all variables are held constant, there will be a positive variation up to the tune of 28615326 units in PAT and the p-value is 0.0000 signifies that it's significant.

A close examination at the result reveals that PAYABLES, OVERDRAFT and NETASSETS have negative signs which imply that all the independent variables are negatively related to SMEs Profit (PAT). Besides, the result displayed above, shows that the pooled regression coefficient of PAYABLES on PAT is -0.200755and its P-value is 0.0412 meaning that PAYABLES has a negative sign but significant to SMEs profit in Nigeria. The coefficient of OVERDRAFT and NETASSETS on PAT are -0.271291and -0.064367and their p-values are 0.1029 and 0.5651 respectively. This implies that OVERDRAFT and NETASSETS are both negative and insignificant to influence SMEs profit in Nigeria.

Panel Random Effects

Table 4: Random Effects

Dependent Variable: PAT				
Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	28043034	3133003.	8.950848	0.0000
PAYABLES	-0.116323	0.068724	-1.692604	0.0914
OVERDRAFT	-0.074565	0.122359	-0.609397	0.5427
NETASSETS	-0.120140	0.060149	-1.997380	0.0466
	Effects Specification			
			S.D.	Rho
Cross-section random			6478263.	0.2144
Idiosyncratic random			12399032	0.7856

Source: Author's computation (2018)

From the result, the coefficient of PAT was positive at constant with the value of 28043034, this means that when all variables are held constant, there will be a positive variation up to the tune of 28043034 units in PAT.

A close examination at the result reveals that PAYABLES, OVERDRAFT and NETASSETS have negative signs which imply that all the independent variables are negatively related to Profit after Tax (PAT). However, the result displayed above, shows that the pooled regression coefficient of PAYABLES on PAT is -0.116323and its P-value is 0.0914 meaning that PAYABLES has a negative and insignificant impact on SMEs profit in Nigeria. The coefficient of OVERDRAFT and NETASSETS on PAT are -0.074565and -0.120140and their p-values are 0.5427 and 0.0466 respectively. This implies that OVERDRAFT is negative and insignificant to influence SMEs profit while NETASSETS is negative but significant to influence SMEs profit in Nigeria.

Hausman Result

Table 5: Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.965849	3	0.1743

Source: Author's computation (2018)

Table 5 presents the result of Hausman test and the result reveals the chi-square value of 4.965649 alongside a probability value of 0.1743 with degree of freedom value of 3. This shows that there is enough evidence to accept the null hypothesis and fixed effect estimate is

appropriate. From the foregoing, it thus stands that among the two estimators (panel fixed effect and panel random effect) used for analysis in this study, fixed effect estimator presented in Table 3 is most efficient and consistent estimator that can track the true nature of the impact of trade credit on SMEs profit.

Generalised Method of Moments Result

Table 6: Generalised Method of Moments

Dependent Variable: PAT				
Method: Panel Generalized Method of Moments				
Instrument specification: @DYN(PAT,-2) PAYABLES OVERDRAFT				
NETASSETS				
Constant added to instrument list				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PAT(-1)	0.493235	2.672494	0.184560	0.8539
PAYABLES	-0.245037	1.028142	-0.238330	0.8121
OVERDRAFT	-0.736632	0.513105	-1.435637	0.1538
NETASSETS	0.002222	0.252878	0.008787	0.9930
	Effects Specification			
Cross-section fixed (first differences)				
J-statistic	1.44E-29	Instrument rank		4

Source: Author's computation (2018)

Table 6 above shows the dynamic effects of trade credit on SMEs profit. The result reveals that profit after tax lag one (PAT-1) coefficient is 0.493235 and its probability value is 0.8539. This implies that the dynamic panel effect of (PAT-1) is positive and the dynamic changes of trade credit have not been significant on SMEs profit in Southwest, Nigeria. The coefficient of PAYABLES value is -0.245037 while its p-value is 0.8121 indicating that trade payables has a negative and insignificant effect on SMEs profit and that if there is a unit increase in PAYABLES, the PAT will decreases with the value of -0.245037 in Southwest, Nigeria. Also, the trade overdraft coefficient value is -0.736632 and the probability value is 0.1538 indicating that there exist negative and insignificant effects of trade overdraft on SMEs profit. NETASSETS coefficient value is 0.002222 and its p-value is 0.99930 which implies that NETASSETS of the SMEs is positive but insignificant. That is, a unit increase in NETASSETS of the trade credit will increase PAT with the tune of 0.002222 in Southwest, Nigeria.

SUMMARY AND CONCLUSION

The objective was to investigate the impact of trade credit on SMEs profit in Nigeria using panel pooled regression, panel fixed effect, panel random effect, and hausman test. The panel ordinary least square result revealed that PAYABLES, OVERDRAFT and NETASSETS have negative signs which imply that all the independent variables were negatively related to Profit after Tax (PAT) of the SMEs. Moreover, the result displayed that PAYABLES has a

negative and insignificant impact on SMEs profit in Nigeria, OVERDRAFT was negative and insignificant to influence SMEs profit while NETASSETS is negative but significant to influence SMEs profit in South-West, Nigeria. Also, the coefficient of multiple determinations (R^2) is 52.29% indicated that trade credit indicators explained about 52.29% of the variance in SMEs profit in Nigeria, the p-value of F-statistics suggested PAYABLES, OVERDRAFT and NETASSETS altogether can influence SMEs profit (PAT). The Dublin Watson value is 1.26462 which implies the absence of serial correlation.

Panel fixed effect result also presented that the coefficient of multiple determinations (R^2) is 0.692471 (69.2%) and the result indicated that trade credit indicators explained about 69.2% of the variance in SMEs profit in Nigeria and the p-value of F-statistics signifies that PAYABLES, OVERDRAFT and NETASSETS altogether can influence SMEs profit (PAT). It is equally revealed that PAYABLES has a negative sign but significant to SMEs profit in Nigeria, while OVERDRAFT and NETASSETS are both negative and insignificant to influence SMEs profit in Nigeria.

The result from panel random effect revealed that PAYABLES has a negative and insignificant impact on SMEs profit in Nigeria. OVERDRAFT was also negative and insignificant to influence SMEs profit while NETASSETS was equally negative but significant to influence SMEs profit in Nigeria. The result of Hausman test revealed that the null hypothesis of fixed effect estimates is appropriate. From the foregoing, it thus stands that among the two estimators (panel fixed effect and panel random effect) used for analysis in this study, fixed effect estimator is the most efficient and consistent estimator that can track the true nature of the impact of trade credit on SMEs profit.

Therefore, the panel fixed effect analysis revealed that trade credit had negative and significant impact on the profitability of SMEs with p-value of 0.0412. The study demonstrated that a naira increase in trade credit reduced SMEs profitability by -0.200755. The study contradict the perceived significant positive impact of trade credit on SMEs profitability and it aligns with the findings of Li, Yu and Yang (2013) which concluded that trade credit play a limited role in improving firm performance. The result is also in tune with the findings of Kim (2016) which concluded that trade credit is difficult to harmonize for firm's growth. As a result, trade credit has a significant impact on SMEs profitability, although negative.

The other objective was to examine the dynamic effect of trade credit on the profitability of SMEs in South-West, Nigeria. The Generalised Method of Moments result revealed that, although the profit after tax lag 1 (PAT-1) is positive, the dynamic changes of trade credit has not been significant on SMEs profit in South-West, Nigeria. Also, trade payables has a negative and insignificant effects on SMEs profit and that if there is a unit increase in PAYABLES, the PAT will decrease with the value of -0.245037 in Southwest, Nigeria. The overdraft coefficient revealed negative and insignificant effects of trade overdraft on SMEs profit, while NETASSETS coefficient is positive but insignificant. The result aligns with the findings of Kwenda and Holden (2014) which found that trade payable continuous usage must have a target level for it to be an efficient alternative source of finance. Therefore, there

is no significant dynamic effect of trade credit on the profitability of SMEs in South-West, Nigeria.

In Conclusion, considering the results of the analysis of the impact of trade credit on SMEs profitability in South-West Nigeria, the study concluded that trade credit currently contributes negatively and it has not been significant to influence SMEs profit, while overdraft and net assets contributions have been negative and insignificant to impact SMEs profit in South-West, Nigeria. In addition, the findings on the dynamics effect of trade credit on SMEs profit concluded that the dynamic changes of trade credit has not improved SMEs profit in South-West, Nigeria. It is also concluded that trade credit dynamics have been negative and insignificant on SMEs profit; trade overdraft also had negative and insignificant dynamic effects on SMEs profit, while net assets contributes positively but has insignificant effects on SMEs profit in South-West, Nigeria.

Recommendations

In line with the findings, the study recommended that suppliers should extend discount periods and relax trade credit assessment procedures in order to ensure positive dynamic impact on SMEs profitability. Regulatory authorities should embark on extensive sensitization programs for entrepreneurs on the operations of the trade credit and formulate policies that will ensure cost effective utilisation of trade credit finance by the SMEs in Nigeria. Government also needs to sustain the present consultations with the private sector by providing incentives and the needed enabling environment to stimulate and foster the survival and growth of SMEs. Finally, the suppliers should arrange periodic and spot visit to SMEs in order to ensure non diversion of supplies and also to create awareness of trade credit for SMEs business operations.

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