

Commercial Bank Loans, Small and Medium Scale Enterprises (SMEs) and Economic Growth in Nigeria

Fiyinfoluwa Deborah ADELEKE
LCU/PG/001760

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Certification

This is to certify that **FiyinfoLuwa Deborah ADELEKE** with the matriculation number **LCU/PG/001760** carried out this research work titled: **Commercial Bank Loans, Small and Medium Scale Enterprises (SMEs) on Economic Growth in Nigeria** in the Department of Management and Accounting Lead City University, Ibadan, Nigeria for the award of Masters Degree (MSc.) in Accounting and this has not been previously submitted.

Dr J.A. Adejuwon
Supervisor

Date

Dr. T. M. Akinbo
Head of Department

Date

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Dedication

This work is dedicated to God Almighty and my supportive family.

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Acknowledgement

The researcher is grateful to the institution - Lead City University, Ibadan, Oyo State librarian who gave me the access to information I used in this research work.

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“Even though the above-mentioned institutions and persons have assisted in the correction of this research work, I alone stand responsible for the errors, if any, found in the work”.

Abstract

The focus of this study is to critically investigate the dynamic commercial banks loan, small-scale businesses in terms of SMEs' access to credit facilities on economic growth in Nigeria. It is guided by financial mediation theory, credit creation theory, and pecking order theory, with a focus on the Credit Creation Theory. The research design is ex-post facto, and the population includes the entire Nigerian economy and SMEs that received commercial bank loans. Purposive sampling is used, and data from secondary sources with the period of observation was limited to ten (10) years which span from 2013 to 2022, primarily the CBN bulletin, are analyzed using simple percentages, correlation analysis, linear regression, and ANOVA. The results shows that in correlational analysis, there is a weak negative correlation between commercial banks' loan to SMES and GDP, and strong positive correlations between commercial banks loan to SMES and both SMES' contribution/output and average capacity utilization with ($P < 0.05$). Commercial Banks Loan to SMEs had a non-significant effect on GDP (Adj R2 = 0.03164, $F(5,137) = 0.325213$, $p = 0.574543$); Commercial Banks Loan to SMES and Average Capacity Utilization (Adj R2 = 0.472707, $F(5,137) = 20.72255$, $p = 0.0002$); and return on asset (Adj R2 = 0.354618, $F = 13.08832$, $p = 0.0016$). Furthermore, there is a significant difference between the means of the four variables being compared (average capacity utilization, SMES' contribution/output, commercial banks loan TO SMES, and GDP) with ($F = 147.3154$, $p < 0.05$). Increasing commercial loans to Nigerian SMEs can positively influence economic growth by improving SMEs' contribution/output and average capacity utilization. Policymakers and financial institutions should offer favorable loan terms, targeted sector support, and improved access to finance to stimulate growth, job creation, and poverty reduction.

Keywords: Commercial Banks Loan, SMEs Credit Facilities, Economic Growth, Average Capacity Utilization SMES' Contribution/Output, GDP

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**List of Acronyms
Meaning**

Abbreviation

GDP	Gross Domestic Product
GNP	Gross National Product
SMEs	Small and Medium Enterprises
OECD	Organisation for Economic Cooperation and Development
IFC	International Finance Corporation
CRMS	Credit Risk Management System
TFP	Total Factor Productivity
CU	Capacity Utilization
CIRD	Centre for Industrial Research and Development
SAP	Structural Adjustment Programmes
SICF	Small Industries Credit Fund
SSICS	Small Scale Industry Credit Scheme
ABC	African Banking Corporation
NERFUND	National Economic Reconstruction Fund
NIDB	Nigerian Industrial Development Bank
BOI	Bank of Industry
SDG	Sustainable Development Goals
CBN	Central Bank of Nigeria

Chapter One

Introduction

1.1 Background to the Study

Every economy aims to achieve higher growth rates while maintaining macroeconomic stability, as measured by key indicators such as real interest rates, exchange rates, inflation rates, and, most importantly, the contribution of SMEs to economic growth. The average rate of capacity utilization. The ratio of output generated to output that could have been produced with the installed equipment if the capacity had been fully used. Small and medium-sized enterprises in an economy become more efficient when the country's capacity utilization rises, and vice versa. How successfully small to medium-sized firms (SMEs) in an economy can use their potential is determined in part by the country's development funds. As a result, economic prosperity is critical to humanity's advancement and well-being. Economic development theories have evolved over time in response to historical events and economic dynamics.

Gross domestic product (GDP) or gross national product (GNP) is the total value of a country's or set of countries' products and services, and economic growth is the rise in that value¹. Economic development is commonly described as a percentage change in GDP or GNP from one era to the next¹. Money has a significant influence on the success of SMEs in Africa, in addition to human capital and infrastructural development². Because supporting SMEs is a catalyst for attaining the essential efficiency for sustainable growth and development, the efficiency of SMEs is frequently regarded as a ladder to a sustainable economic growth and development in every economy throughout the world. Development through SME finance refers to a commercial bank's attempts to encourage, stimulate, and accelerate growth by providing loans and advances to SMEs involved in physical development, redevelopment, commerce, and industry¹.

In recent years, the global economy's growth rate has been solid yet irregular. The Covid-19 epidemic had a significant impact on the global economy, producing a severe drop in 2020 before recovering in 2021. The pandemic recovery is expected to proceed, but more slowly³. The sickness had a similar impact on Nigeria's economy; it fell in 2020 but recovered in 2021. Nigeria's economy is vulnerable to global economic shifts since it is primarily reliant on oil exports, which are subject to swings in worldwide oil prices. The government has been attempting to diversify the economy in order to reduce this reliance and foster development in other areas, especially SMEs. Regional and national economic developments have an impact on Nigerian SMEs. The 2020 downturn was especially hard on SMEs, with many battling to stay afloat and running out of cash. The sector benefited from the comeback in 2021, although not all sectors of the economy are rebounding equally, and many SMEs are still struggling⁴. Although the government has implemented measures to assist SMEs, such as loan guarantees and tax cuts, more has to be done to sustain the recovery and nurture the sector's expansion.

In both developed and developing countries, the establishment of small and medium-sized firms is critical to socioeconomic progress⁶. A nation's progress in the growth of its small and medium-sized enterprises is a major driver of socioeconomic sustainability and productive employments for the nation's able-bodied men and women eager to work, equality in income distribution, citizens' well-being, and improved living standards, due to SMEs' significantly greater contribution to employment opportunities than large firms⁷. As a result, small businesses with quick development are critical to economic advancement. Successful businesses are more likely to survive, and industrialized economies have benefited immensely from the rapid rise of small businesses⁶. These are substantially to blame for the significant increase in employment in these industrialized nations.

Gross domestic product (GDP) or gross national product (GNP) are two terms that are frequently used to quantify economic growth (GNP). These are the most common metrics used to assess an

economy's performance and activity². GDP represents the entire value of all commodities and services produced inside a country's borders, regardless of the producer's country of origin³. GDP per capita, which is a measure of economic activity per person, is calculated by dividing GDP by the total population. Furthermore, the number of SMEs and the rate at which they form, the employment and income generated by SMEs, the level of innovation and productivity within SMEs, and the volume of SMEs' exports and imports are some of the metrics that can be used to assess how well SMEs perform and what role they play in economic growth. These measures may help decision-makers assess the efficacy of SME assistance programs and identify areas for improvement. As a result, this study considered GDP, the nation's average capacity utilization, and how SMEs contributed to economic development.

The "rate of SMEs contribute to economic growth" refers to the amount that small and medium-sized firms (SMEs) can contribute to overall economic development in a certain country or region³. This can be measured in a variety of ways, including the number of jobs created by SMEs, the amount of money they generate, and their percentage of GDP. Furthermore, a country's average capacity utilization rate indicates how well its industrial capacity is utilized. It is calculated by dividing an industry's actual output by its total potential output. The resulting ratio demonstrates how successfully the nation's industrial capacity is utilized. The average capacity utilization rate can be used to identify economic patterns and estimate future economic conditions and growth.

The numerous benefits it has accrued over the years in terms of fostering economic development and creating employment opportunities are the foundation for the widespread attention paid to SMEs sector operations in advanced nations. Because of its intensive labor model and capital-saving nature, the SMEs sector is envisioned as an industrial mechanism capable of assisting the globe in providing the over one billion new jobs required by the end of the twenty-first century. It is thus regarded as the most important factor in the development of economic growth, poverty

alleviation, and job creation in Nigeria⁸. Understanding the strategy and solutions for building and sustaining a truly sustainable private sector dominated by SMEs has improved around the world as SMEs have been recognized as major economic drivers; Nigeria should not be an exception. SMEs are critical to a country's economic growth⁹.

Small and medium-sized enterprises (SMEs) in emerging countries require cash to expand and advance the economy. Adequate finance may assist SMEs in investing in new equipment, developing their firms, and adding jobs, so increasing productivity and economic growth. On the other hand, a lack of access to capital may limit SMEs' ability to develop and assist economic growth. As a result, access to financing is critical for developing-country SMEs to grow and advance the economy. According to research, having access to funding may help SMEs in poor nations thrive by allowing them to invest in new equipment, expand their enterprises, and generate jobs¹⁰. Growing SME activity may assist overall economic expansion by improving SME access to funding in emerging economies.

There is no doubting, however, that access to finance is critical for the sector's sustained and sustainable growth due to its role in fostering the growth and development of existing enterprises, which in turn supports the expansion of the national economy. It also aids in the formation of new enterprises and the advancement of the innovation process. In this context, the amount of SME funding is considerably positively connected with overall economic growth (as measured by per capita income) and financial development (as measured by the ratio of private credit to GDP)³. As a result, a robust financial system is required to meet the financing needs of SMEs. Although banks are the primary source of outside loans for SMEs, they may not necessarily have easy access to bank financing. Indeed, much has been written about how difficult it is for SMEs to obtain bank financing. These challenges have been demonstrated to exist on a worldwide scale in both rich and developing countries, but more so in the latter. Libya, a developing country in transition, also fits into this pattern.

National data reveal that SMEs contribute variably to economic development based on the specific economic structures of emerging countries. Finance has been highlighted as a crucial component influencing the survival and development of SMEs in both emerging and developed countries in various business studies, and such research will continue⁶. However, empirical evidence suggests that a shortage of funds in Nigeria is a hindrance to the expansion of SMEs. The inability of SMEs to tackle macroeconomic challenges is hampered by a shortage of finances, and the difficulty in obtaining sufficient funding from financial institutions is a key impediment. Small enterprises' ability to obtain capital continues to pique the curiosity of business owners, researchers, government parastatals, commercial banks, and trade organizations, to name a few. Adequate financing is required for SMEs to participate actively in the host economy.

Small and medium-sized enterprises (SMEs) are a vital driver of economic development in Nigeria, creating significant employment and increasing the country's GDP (GDP). Finding funding is one of the most difficult hurdles for SMEs in Nigeria, and commercial bank loans may assist them overcome this barrier by providing the funds they require for business growth and employment creation¹¹. When small and medium-sized firms (SMEs) have access to commercial bank loans, they can invest in new equipment, expand their operations, and generate jobs. This could boost output and stimulate economic growth. Furthermore, SMEs that can expand and create jobs can help alleviate poverty and inequality, promoting overall economic development. On the other side, if commercial banks are hesitant to lend to SMEs or if lending rates are too high, the SME sector and general economic development in Nigeria may suffer. Commercial bank loans to SMEs can thus boost Nigeria's economic growth, but this relationship is hampered by a number of factors, including the availability of collateral, interest rates, governmental regulations, political and economic stability, credit risk, and others¹².

It has been demonstrated that the small business sector contributes significantly and realistically to Nigeria's economic development. Small and medium-sized businesses have created more direct

jobs per dollar invested than large organizations¹³. Because the sector relies on the continual application of local technical know-how to prosper, they frequently serve as training grounds for improving self-reliance, establishing linkages across industries, particularly in agriculture, and raising the economy's competitiveness. A country's potential to undergo social-economic development over time has been demonstrated by a variety of economic checks and monitoring systems; as a result, its effect and advancement are critical to political regimes around the world⁶. SMEs play critical roles in economic growth in both emerging and established countries around the world, filling employment gaps, creating wealth, and accelerating urban and rural development. SME performance must improve in order to boost job creation, productivity, entrepreneurship, competition, and the potential of SMEs to provide products and services to larger enterprises. Government measures that assist SMEs, such as access to funding, training programs, and other support services, can boost SMEs' performance and enable economic development.

The commercial banking industry in Nigeria is rated as the second largest banking industry in sub-Saharan Africa, with a total asset worth N39.6 trillion (Naira) as at the third quarter of 2019, with a total number of 22 commercial banks, 860 micro-finance banks, 5 discount house, 64 finance companies and 5 development finance banks recognized by the Central Bank of Nigeria¹⁹.

The Nigeria banking industry dominates the entire financial system in Nigeria as it accounts for about 90% of the total assets in the system and about 65% of the market capitalisation of the Nigeria Stock Exchange. By market capitalisation on the country's exchange, financial services are the second-largest industry after industrial products. At 2010 constant prices, the financial (non-insurance) sector contributed 2.7% of GDP in 2015²¹.

The activities of commercial banks are largely indispensable to socio-economic development. One of many indispensable roles of commercial banks in Nigeria include offering credit facilities to Small and Medium Scale Enterprises (SMEs). SMEs are often described in alignment with

their capital, investments, project costs, annual financial reports and industrial financial performance²². An overwhelming percentage (90%) of companies registered are micro, small, and medium enterprises. With these statistics, it is imperative to note here that Small and Medium Scale Enterprises (SMEs) are indispensable and important catalyst for socio-economic development in Nigeria²³. This implies that the performance of SMEs directly impacts the socio-economic development of the country. It is important to note that funding has been a major challenge for most SMEs in Nigeria due to the fact that government funds do not get to a large percentage of them. As funding is important in business survival, most SMEs in Nigeria that do not have access to government funding turn to commercial banks for funding and credit facilities.

Due to information asymmetry, commercial banks in Nigeria do not examine the financial needs of SMEs, resulting in an unfavorable selection process and a bias toward large enterprises¹³. By making money the most tempting reason for their development, this trend has hindered SMEs' ability to make more important contributions to the Nigerian economy. According to Central Bank of Nigeria figures, deposit-money bank loans to small enterprises in Nigeria totaled more than 46 billion naira in 1999. It thereafter fell to roughly 12 billion naira, where it remained until 2017. Because of the continued exchange rate depreciation, rising consumer prices, and crushing poverty, many Nigerian small enterprises have been forced to rely only on domestic funds, severely limiting their potential to develop and contribute to the economy. To assist SMEs, the Nigerian government has established a number of financing facilities and other support initiatives. However, the majority of the funds are transferred through commercial banks, who are unable to give SMEs with timely access to such funds for any cause or reasons. As a result of this tendency, the expected contribution of SMEs to economic development, job creation, and poverty alleviation is limited¹⁴.

A multitude of variables, including interest rates, governmental regulations, political and economic stability, and credit risk, may constrain the relationship between commercial bank loans

to Small and Medium Enterprises (SMEs) and economic development in Nigeria¹⁵. The investigation's main issue, though, was the lending rate. High interest rates can stifle a sector's and the economy's growth by making it more difficult for SMEs to obtain loans and discouraging investment. Furthermore, if borrowing becomes prohibitively expensive for many enterprises, excessive lending rates may make it difficult for SMEs to get loans. This may discourage investment and impede its development, slowing overall economic growth. High loan rates may also make it more difficult for existing SMEs to expand and create new jobs, stifling economic development even further. Low lending rates, on the other hand, may make it easier for SMEs to obtain loans and invest in their enterprises. This could lead to increased SME development and overall economic growth. Low interest rates on loans may encourage the formation of new SMEs, hence increasing job opportunities and diversifying the economy. The lending rate may have a substantial impact on the relationship between commercial bank loans to SMEs and Nigeria's economic progress. While high lending rates may discourage investment and slow economic growth, low lending rates can boost SME investment and growth¹⁷.

Small and medium-sized businesses may face hostility from official credit providers since they are frequently viewed as the "lower end" of the credit market by institutions that make money available. Even if credit is authorized, the aforementioned has a significant influence on risk-instalment costs and necessitates thorough credit control. A tough scenario has evolved as a result of their inability to support loan offers with conventional advocate assets such as real estate, mortgages, pound shares, or other high-grade bonds⁵. This is why, in contrast to other growing countries, government alternative financial structures and funds have developed in Nigeria over the years. Financing is the most challenging hurdle to the appeal of the SME sector, but it is not the only one. Because SMEs lack adequate collateral assets, such as tradeable securities, first-class mortgages, and high-quality bonds, they are classified as high-risk enterprises. The authors of this study, on the other hand, believe that through government action, SMEs should be allowed

to obtain commercial bank loans and that commercial banks should be induced to view SMEs as possible loan applicants. Given the limited resources available, it is critical to examine the extent to which commercial bank loans to SMEs affect Nigerian development, as the government is expected to play a large role in commercial financing of SMEs. That is the goal of this research.

1.2 Statement of the Problem

What drives economic development is one of the most basic economic questions that has garnered a lot of attention in economic literature so far. Companies rely on a number of internal and external funding sources. However, there is still a lack of clarity in the research on the connections between various sources and how they affect investment. Bank credit or loans are a popular external finance solution for SMEs. Bank credit is essential for providing external finance to Small and Medium Scale Enterprises, (SMEs). However, this essential source of funding for Small and Medium Sized Enterprises in Nigeria seems to be non-functional. This is shown by the ratio of loans to small-scale businesses to the overall credit of commercial banks, which reveals that in the last quarter of 2010, small-scale businesses received a pitiful 0.15 percent of the total credit of commercial banks⁵. The fact that this ratio has been declining over time and has been declining uninterrupted in the post-consolidation period is more concerning.

Small and medium scale enterprises assumes critical roles and functions in the industrial and socio-economic development of any country. In the past years, the need to concentrate on developing SMEs in developing parts of the world has gained popular media amongst several empirical discourses and reviews. A more recent study posited that there is a need to concentrate on the development of small scale business in developing countries, especially in Nigeria as it has the potential of contributing to economic development in terms of creating employment opportunities, boost foreign investment opportunities amongst several others²⁴. Contributions of small and medium scale businesses to Nigeria's economic development are boldly expressed in

how SMEs are ranked as one of the leading employer of labour in Nigeria and how it helps in improving and developing indigenous knowledge and bring about divergence of the overall socio-economic development of the country. Another scholar also argued that the foundation of economic growth and development in developed countries of the world largely thrives on the exponential performance of its small and medium scale enterprises industry.

Another major problem SMEs encounter in Nigeria is thrives on the fact that SMEs are not largely considered by the government or regulatory agencies when formulating and implementing business policies. Scholars have also argued that funding and financing are the foremost problem SMEs face in Nigeria, which further constrain the growth and exponential economic performance of small scale business in the country. The availability and accessibility of commercial bank credit facilities to SMEs to a large extent determines their level of operation and performance. Previous empirical studies that investigated the dynamic relationship between commercial banks and small scale businesses performance posited that despite the varying contributions of SMEs to economic development, their performance in the past decades has to a large extent been restricted by many factors ranging from government regulations, funding amongst others^{11,12,14}. The focus of this study therefore, is to critically investigate the dynamic relationship between commercial banks and small scale businesses in terms of SMEs access to credit facilities. This study also seeks to examine the possible socio-economic contributions of SMEs if they have more access to commercial banks loans.

1.3 Aims and Objectives of the Study

The broad objective of the study is to examine effect of commercial bank loans to small and medium scale enterprises (SMEs) on economic growth in Nigeria. The specific objectives are to;

- i. investigate the effect of commercial bank loans to small and medium scale enterprises (SMEs) on Gross Domestic Product (GDP) in Nigeria;

- ii. evaluate the effect of commercial bank loans to small and medium-scale enterprises (SMEs) on average capacity utilization in Nigeria; and
- iii. investigate the effect of commercial bank loans to small and medium-scale enterprises (SMEs) on SMEs' contribution to the Gross Domestic Product (GDP) in Nigeria.

1.4 Research Questions

1. What is the effect of commercial bank loans to small and medium scale enterprises (SMEs) on Gross Domestic Product (GDP) in Nigeria?
2. To what extent does commercial bank loans to small and medium-scale enterprises (SMEs) have effect on average capacity utilization in Nigeria?
3. What is the effect of commercial bank loans to small and medium-scale enterprises (SMEs) on SMEs' contribution to the Gross Domestic Product (GDP) in Nigeria?

1.5: Hypotheses

H₀₁: Commercial bank loans to small and medium scale enterprises (SMEs) have no significant effect on Gross Domestic Product (GDP) in Nigeria.

H₀₂: Commercial bank loans to small and medium-scale enterprises (SMEs) have no significant effect on average capacity utilization in Nigeria.

H₀₃: Commercial bank loans to small and medium-scale enterprises (SMEs) have no significant effect on SMEs' contribution to the Gross Domestic Product (GDP) in Nigeria.

1.6: Significance of the Study

This study is relevant on the basis that it attempts to improve the socio-economic performance of small scale businesses by highlighting their challenges regarding funding and access to bank loans.

Findings from this study will provide the basis for future empirical reviews that investigate the dynamic relationship between commercial banks and small scale businesses.

1.7: Scope of the Study

The purview of this study is limited to investigating the effect of commercial banks credit facilities on SMEs performance in Nigeria and how these credit facilities can improve small scale businesses performance and in turn contribute to socio-economic development in Nigeria. This study seeks to adopt a period of 10 years as its time frame of observing the relationship that exists between this study's variables. As a result, this study will examine the impact of commercial bank loans on SMEs financial performance and its impact on economic growth in Nigeria from 2011 to 2021.

1.8 Limitation of the Study

The primary challenge encountered during this research pertained to data sourcing, as a considerable portion of the required data was not readily accessible.

1.9 Operational Definition of Terms

Banks: Bank within the context of this research work can be defined as an establishment for the custody, loan, exchange, or issue of money for the extension of credits.

Commercial Banks: A bank organised for main purpose of handling a wide range of financial transactions, which include providing financial products and services.

Commercial Bank Loan to SMES: This represents all loans made by commercial banks to SMEs throughout the period of this study, as reported by CBN Bulletin.

Small and Medium Enterprises (SMEs): include non-subsidary, independent firms that deploy fewer than the stipulated number of employees.

Economic Growth: can be defined as an increase in the production of goods and services of Nigeria.

Finance: is described as the provision of money when and where it is needed.

Loan: is a certain sum of money borrowed.

Operationalization of the Variables

The model specified is based on empirical studies on the commercial bank loans to SMEs and economic growth in Nigeria,

This shows the relationships among variables;

$$Y = f(X)$$

Y = Dependent Variable

X = Independent Variable

Where

Y = economic growth

X = commercial bank loans to SMEs

$$Y = (GDP_1, ACU_2, SMEs-OUTPUT_3)$$

$$X = (CBL-SMEs_1)$$

Where: y_1 = Gross Domestic Product

y_2 = average capacity utilization

y_3 = SMEs' contribution / Output

x_1 = commercial bank loans to SMEs

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Chapter Two

Literature Review

This chapter presents the review of related literature considered relevant to this study. The literature was reviewed conceptually, empirically and theoretically.

2.1 Conceptual Review

2.1.1 Economic Growth

The phrase "economic growth" refers to the progressive expansion of a country's economy. Typically, the gross domestic product, or the total value of all products and services generated in an economy, is used to calculate its size (GDP). According to the Organisation for Economic Cooperation and Development (OECD), "Gross Domestic Product (GDP)," economic growth is the increase in a country's output of goods and services over time. It is a numerical indicator of how much the value of an economy's products and services increases over time, generally a year. Economic development is frequently regarded as an important indicator of a country's living standards and overall economic health¹.

Economic growth can be classified into two types: Per capital economic growth accounts for population growth while measuring the increase in production of goods and services per person¹. Absolute economic growth is the rise in total goods and services output.

Productivity and efficiency rise as businesses invest in new technologies and manufacturing techniques; the labor force and population expand as more people join the workforce and support economic activity, and consumer spending and investment rise. Export growth occurs when countries sell more goods and services overseas; Taxation, regulation, and government spending may all have an impact on economic development. Economic growth is not the only indicator of a country's success; other elements such as economic inequity, environmental degradation, and

social well-being are also influenced. As a result, when analyzing a country's economic success, it is critical to consider the big picture.

Economic growth can be measured using either real or nominal values. Nominal economic growth refers to the increase in the dollar worth of output over time. The volume generated as well as the cost of the products and services delivered may change. Economists frequently refer to real economic growth, which is essentially growth in output excluding the impact of price fluctuations. This is done to better correctly portray how much a country generates at any given time in comparison to other times. GDP growth is a measure of economic growth, although the causes influencing each component's development are quite different. Public spending, capital creation, private or public investment, employment rates, currency rates, and so on all have varied effects on economic growth, and whether a state is developed or not has a different impact on these effects.

Economic growth as an increase in real GDP, GDP per capita, or national output measured in constant prices². Human resources (such as investing in human capital and increasing the active population), natural resources (such as land and subsurface resources), an increase in the quantity of capital employed, and technological discoveries all have direct effects on economic development. Institutions (financial institutions, private administrations, etc.) are indirect variables that influence economic development, as are aggregate demand size, saving and investment rates, financial system efficiency, budgetary and fiscal policies, capital and labor migration, and government effectiveness.

Despite the fact that entrepreneurship prioritizes expansion, it will be difficult to define and quantify exactly what growth means in the commercial world. Some business owners may see development as nothing more than securing the survival of their company, whilst others see it as a means of enabling them to meet their own personal fulfillment requirements as well as their

responsibility to their families, the environment, and society³. Others view expansion through the prism of the company's performance, as measured by sales volume, profit margin, and market share^{3,4}.

When examining how economic expansion affects businesses today, numerous factors must be considered. Economic growth can lead to larger profits, a major improvement in average living standards, the creation of additional job possibilities for residents, an increase in tax revenues that can be used to support more government services, increased company confidence, and an increase in capital investment. Technological progress.

Corporate development and economic expansion go hand in hand in a country. GDP growth is referred to as economic growth and is frequently utilized as a barometer of a country's overall economic health. On the other hand, business development refers to the process of establishing and developing businesses, which is frequently facilitated by laws and programs that support entrepreneurship and small business expansion.

Economic growth is caused by a variety of factors, including productivity gains, population growth, and technology developments. SMEs can enhance productivity and contribute to economic growth by bringing innovative items, services, and business models to market. According to an International Finance Corporation (IFC) study, small and medium-sized enterprises (SMEs), which account for up to 90% of businesses and 50% to 60% of employment in developing countries, are important contributors to economic growth⁴. Furthermore, the World Bank observed that every 1% increase in the number of SMEs in a country increases GDP per capita by 0.6%.

Furthermore, the World Bank discovered that fostering a favorable business climate for SMEs through efforts such as easing rules, improving access to funding, and strengthening the rule of law may help economic growth³. Economic growth and the development of SMEs are

inextricably linked, with company development playing a significant role in encouraging economic growth by increasing productivity and creating jobs. Policies and activities that promote entrepreneurship and small business development are critical for encouraging company growth and contributing to overall economic growth.

However, economic growth in relation to SMEs in a country are GDP, rate of SMEs contribution to GDP and average country capacity utilization. The "rate of SMEs contribute to economic growth" refers to the amount that small and medium-sized firms (SMEs) can contribute to overall economic development in a certain country or region. This can be measured in a variety of ways, including the number of jobs created by SMEs, the amount of money they generate, and their percentage of GDP. Furthermore, a country's average capacity utilization rate indicates how well its industrial capacity is utilized. It is calculated by dividing an industry's actual output by its total potential output. The resulting ratio demonstrates how successfully the nation's industrial capacity is utilized. The average capacity utilization rate can be used to identify economic patterns and estimate future economic conditions and growth.

2.1.1.1 Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is a measure of a country's economic activity that is often used to estimate the size and health of a country's economy⁶. It is the total cost of all goods and services created in a nation within a certain period, often a year. It is used to evaluate the expansion and development of a nation's economy⁷. Three methods may be used to determine GDP: The value of goods and services produced inside a nation is assessed using the production method. The income method evaluates a nation's production of goods and services in terms of the income it generates; The nominal GDP assesses the value of goods and services produced at current market prices; the expenditure approach measures the total amount spent on goods and services consumed inside a

nation. The value of goods and services produced at constant prices after inflation is measured by real GDP, on the other hand.

It is crucial to remember that a country's GDP does not represent the only indicator of its well-being; it also has an impact on economic inequality, environmental degradation, and social well-being. As a consequence, it is crucial to consider the whole picture while evaluating a nation's GDP. The financing of small and medium-sized businesses (SMEs) and a nation's GDP have a complicated and varied connection. In general, SMEs need access to capital to expand and thrive, and a healthy SME sector may significantly boost a nation's GDP.

2.1.1.2 Rate of SMEs' Contribution to Economic Growth

The rate at which SMEs contribute to economic development may vary depending on the country and the various sectors involved. SMEs, on the other hand, are widely seen as making a significant contribution to economic growth. In developed countries, for example, SMEs frequently account for a considerable portion of job creation and economic development. Small businesses with fewer than 500 employees, for example, account for almost two-thirds of net new private-sector employment in the United States⁷. Similarly, SMEs account for almost two-thirds of the European Union's workforce and roughly half of its GDP⁸.

SMEs can have an even greater impact on economic growth in developing countries since they can stimulate entrepreneurship and propel economic development. Because they contribute significantly to GDP and employment in many countries, SMEs are frequently viewed as a primary force driving economic advancement and poverty eradication. According to World Bank study, SMEs in emerging economies account for up to 45% of total employment and up to 33% of GDP⁴.

SMEs are commonly regarded as significant contributors to economic growth and development, while the precise rate at which they contribute to economic growth may vary. It is vital to

remember that the nation's environment and policies, such as the availability of funding, rules, and taxes, may influence how quickly SMEs contribute to economic development. The products and services produced by small and medium-sized businesses (SMEs) are referred to as their output. They may contain a wide range of goods and services, depending on the industry and type of firm. SMEs are companies that have less than a certain number of employees or revenue.

The output of small and medium-sized enterprises (SMEs) can play a significant role in a country's economic development. SMEs are frequently regarded as the foundation of many economies, particularly those in developing countries, and they can aid development in a variety of ways, including: SMEs are more adaptable and flexible than larger businesses, allowing them to be more innovative in their products and services; SMEs provide opportunities for entrepreneurship, which can lead to the development of new industries and the expansion of existing ones; and SMEs can promote market competition.

Small and medium-sized firms (SMEs) are seen as a critical engine of economic development due to their ability to produce employment, stimulate innovation, and foster competition. SMEs frequently have a big impact on local economies, and they may help to reduce poverty and economic inequality. They may also help new firms and technologies thrive. SMEs are also more adaptable and responsive to market changes, which may contribute to the economy's overall resilience.

Slowing SME credit continues to be a hindrance to the sector's ability to contribute to Nigeria's economic development and progress⁹. SMEs in Nigeria face four major challenges: a hostile business environment, a lack of cash, inadequate managerial skills, and a lack of access to cutting-edge technology. To retain competitiveness and assist economic expansion, SMEs clearly rely on financial institutions for financing, corporate development, and the procurement of cutting-edge technology. Multiple taxes, insufficient infrastructure, and an adverse

macroeconomic environment are all issues that limit growth. One of the most prominent is a shortage of finance.

There is a long history of community finance, microfinance, and government-based SME financing agreements in an effort to provide financial services to the SME sector outside of the commercial banking system. However, performance remains a concern. The Financial System Strategy, the government's long-term strategic strategy, was sparked by harsh criticism of the financial industry's performance ("FSS, 2020"). Regulations, a scarcity of dependable assets, a scarcity of data on SME activities, and inaccurate credit information all significantly limit SME funding in Nigeria. Policies relevant to small-scale enterprises continue to fail due to a lack of data required to appreciate the difficulties and operations of present government SME-based efforts. The existing credit information system does not meet the needs of the SME sector. If the narrative is to change, the Nigerian government and organized private sector must develop a structure in which privately managed credit bureaus and the Credit Risk Management System (CRMS) can properly cover the SME subsector.

SMEs have a number of challenges, including low productivity, insufficient lending alternatives, limited government support, and inequitable financial aid distribution. These are the major impediments to the expansion and development of SMEs, which ultimately impede the country's overall progress¹⁰. In contrast to SMEs, which continue to struggle to obtain significant financial assistance, larger firms may easily obtain adequate financial aid from a variety of sources. These are the key impediments to SME growth and development. Obtaining financial help and non-financial business support services will lead to the expansion of SMEs¹¹. Despite the fact that several studies have demonstrated the effects of financial development, such as higher overall economic growth, economists have been unable to reconcile competing theoretical predictions and the ongoing policy debate over the distributional effects of financial development across firms¹². As a result, multiple supports, such as money, a network, technology, and so on, from a

variety of sources, including friends, financial institutions, the government, international institutions, and so on, are critical for the expansion of SMEs since they can increase production and employment¹⁴.

As a result, international organizations such as the World Bank, the International Monetary Fund, USAID, and non-governmental organizations are involved in providing funds and technical assistance for the development of SMEs in developing countries, thereby boosting economic growth and regional development. As a result, it is obvious that SMEs require aid from supporting institutions. The delivery of support services for SMEs and entrepreneurship, SMEs required regular development help from supporting institutions¹⁴. SMEs that a range of social networks are primarily required to increase SMEs' performance, which is consistent with the majority of studies on SMEs completed to date. When SMEs confront credit issues, the importance of support from the government, neighbours, families, friends, and well-wishers to help SMEs run smoothly has been recognized¹⁵.

An organization's growth is sometimes defined as an increase in the following elements: profit, size, sales, productivity, and formality. In actuality, measuring development by the size of an organization is becoming increasingly rare. The success and future viability of a corporation are inextricably linked to the growth of SMEs¹⁶. Furthermore, the strongest indicator of SME performance is growth. Corporate development is also essential for accomplishing financial goals for businesses. The growth and development of SMEs are frequently critical prerequisites for their survival¹⁷. Neonatal expanding enterprises outperform baby non-growing businesses in terms of success. Finally, it is acknowledged that the expansion of SMEs is a requirement for economic success, job creation, and poverty eradication through the provision of assistance from various organizations¹⁷.

According to Snodgrass and Winkler, the three primary aspects that may influence the development of SMEs are the demand for products and services, the business climate, and the responsiveness of the private sector to demand. The majority of economists and international organizations recognize SMEs' diverse roles in many economic activities because of the multiple benefits they give, such as job creation, economic growth, consumption of domestic raw resources, and improved export earnings¹⁸. It is critical to recognize that SMEs had a critical role in influencing national and economic policy concerns in all nations, but especially in developing ones. Governments, international organizations, and local governments to support the world's poorest people¹⁹ trust small enterprises.

2.1.1.3 Analysis of Output of SMEs

The SME sector is best thought of as the alternative to a highly dualistic economy with most of the capital in the large-scale sector and most of the workers in the very small-scale sector. An economy which is dominated by SMEs, can generate a low level of inequality in the distribution of primary income (before tax and transfer) whereas the dualistic economy characterized by the combination of much large enterprise and much micro enterprise typically generates a high level of primary inequality. Its intermediate technology characteristic is what gives the SME sector a special role (together with small-scale agriculture) in the generation of adequate or decent employment. When most jobs are in the micro enterprise sector, too many of them are destined to be low productivity and hence low income in character¹⁹.

Developing countries without substantial SME sectors tend not only to have capital and the income from it concentrated in the larger firms but also to have a labour elite in that sector, able to bargain for wages much higher than elsewhere in the economy. With the economy's capital stock almost completely used up by the large firms, usually a result of capital market imperfections, there is little remaining capital to be distributed among the many workers not hired by large firms;

this produces a large micro enterprise sector with the SME sector squeezed out for lack of capital. The equilibrium wage in the micro enterprise sector is very low and capital incomes are low there as well. In short, income is very unequally distributed. When the SME sector is large, these extremes in the distribution of both capital income and labour income are avoided²⁰. The SME sector also plays a key dynamic role in generating growth, especially pro-poor growth. Nearly all developing economies have large micro enterprise sectors that, like the SME sector itself, are highly heterogeneous in many respects—the goods or services produced, the entrepreneurial capacity of the owner, and the potential for growth, etc.

SMEs tend to dominate a country's new and fast growing industries. Economies which discourage SMEs in any general sense are therefore likely to discourage some newer dynamic industries from putting down the roots they might otherwise do. In this respect, and in others, SMEs are associated with dynamism. An economy composed essentially of older larger firms runs the risk of becoming induration. If there is to be price-lowering and quality-improving competition, it will come from SMEs. Often, given the relative scarcity of capital in the country, large firms achieve lower total factor productivity (TFP) than do SMEs. But even when they do have an advantage on that count, there remains the serious possibility that they will lower GNP and social welfare by engaging in monopoly pricing and practices. It is not infrequent to see the potential of smaller firms strangled by the monopoly position of large buyers in the intermediary chain⁷³.

Globalization brings the threat of a weakened SME sector, since its role in (direct) exporting is less than proportional to its size; in other words one activity in which economies of scale are important is international commerce. But globalization may also increase the importance of keeping the SME sector strong since its role in providing subcontractors for large exporters may be quite important in cases where transportation costs are not low. In a globalizing world it is naturally important that as many major categories of firms as possible have the capacity to

compete in world markets. The importance of an efficient collaboration between large firms and SMEs through subcontracting is at its peak in outward oriented countries especially those competing in international markets in products involving a good deal of labour. Being able to rely on efficient low-cost subcontractors can substantially increase the competitiveness of the large exporters, and has been an important factor underpinning the successes of Japan, Taiwan and Korea⁷⁴.

The frequency with which SMEs manifest a capacity to grow fast and to innovate has, partly as the other side of the same coin, higher failure and exit rates than do large firms. In part this reflects a “survival of the fittest” process in which firms lacking strong entrepreneurial skills or simply in bad market niches do not survive. Few estimates have been made of the sort of deadweight loss associated with firm failure and the extent to which it lowers the average efficiency in resource utilization of the SME sector as a whole⁷⁵. The issue is complicated, since sometimes failure is a factor contributing to the longer run development of entrepreneurial capacity, since some of the physical capital of failing firms is not wasted but purchased and used by other firms, etc. Even short of actual exit, many small firms suffer significant shrinkage at certain points in their lives, with negative implications for the job security of their employees.

The costs of such insecurity are hard to tot up and the difference vis-a-vis large firms is one of degree. Getting the most from the SME sector requires better support systems, either from government or collective action by the SMEs themselves, than those required by larger firms. This is essentially because some needs of SMEs are in effect public goods while the parallel needs of larger firms can be effectively handled privately. The implication is that in countries with governments of limited competence the SME sector will not perform to its real potential⁷⁶.

Finally, SMEs are simply not an efficient way to produce goods and services characterized by large economies of scale. This places an upper limit on the share of GDP that they can produce

effectively. In some cases, where economies of scale are present but not strong, the SMEs constitute the better option because their production cost disadvantage is more than offset by the advantages of having a competitive rather than a monopoly price in the market.

2.1.1.4 Average Capacity Utilization

The ratio of actual production to a sustainable maximum output, or capacity, is known as capacity utilization. This is the percentage of a company's or country's installed production capacity that is actually used. As a result, it refers to the relationship between actual production and potential output that may be generated with installed equipment if entire capacity was employed. It may also refer to the actual to predicted production ratio²¹. The economic literature has extensively explored capacity utilization from a number of theoretical and empirical perspectives, and it is frequently used to explain changes in macroeconomic variables such as the inflation rate or labor productivity. Many other capacity utilization (CU) indicators have also been produced, however there is no universal agreement on the optimum technique to describe and quantify capacity utilization due to interpretation concerns (CU). Similarly, data show that capacity utilization in the industrial sector has been underperforming and severely poor in contrast to other countries around the world.

The relationship between the rate of industrial capacity utilization and the rate of inflation in the United States of America. She discovered a statistically significant and favorable link between the two factors²². However, she projected from her regression results that for every percentage point that all industries' capacity utilization rate exceeded 82%, inflation would rise by about 0.15% point. The capacity utilization rate is more affected by inflation than by unemployment in both the United States and Germany. They also validated the non-accelerating inflation rate for the United States at a capacity utilization rate of roughly 82% using Federal Reserve Bank Measures. Studied the notion that trade liberalization encourages the utilization of economic capacity in the Turkish

rubber sector. Using the Generalized Leontief cost function, he discovered a positive relationship between the two variables.

In Nigeria, employed a survey and expert opinion technique to calculate the capacity utilization rate across Nigerian firms²³. They discovered that erratic power supply, variations in demand, insufficient capital, and a lack of imports and local raw materials all had an impact on corporate capacity utilization rates. The real exchange rate, federal government capital expenditure in SMEs, particularly those in the manufacturing sector, and per capita real income are all factors influencing Nigeria's manufacturing capacity utilization rate. The rate of inflation, as well as actual loans and advances to the manufacturing sector, had a negative impact on the capacity utilization rate of the industry.

The price of sugar and actual energy consumption in the industry have a significant negative relationship with the usage of technology-based capacity in Nigeria's sugar business²⁴. Furthermore, the industry's technology-based capacity utilization rate influences skilled people salary, actual research expenditure, human capital, and the duration of import substitution. Akpan et al. demonstrated that increases in industrial sales, the capital-labor ratio, the official tariff rate on sugar imports, the actual exchange rate, and the features of the liberalization policy phase had an effect on technical efficiency²⁴.

2.1.2 Small and Medium Scale Enterprises

SMEs are establishments with few or no number of staff existing and carrying out business activities to make profit. The diversity of definition and characterization of SMEs is identified by scholars, this is because their activities vary in size and country. A definition which suits SMEs in an African context may be different from that in European, American or Asian context. A scholar affirms the many criteria in use to define SMEs¹. They include the number of employees possessed, sales size and loan size. The research further analyses that while sales size may

provide accurate definition and determination, loan size may not stand a good criterion because loan capabilities are not documented by banks, they are only examined for a while and not stored in database.

Small Medium Enterprises from employee quantity perspective as small firms which possess employee within the range of existing figures between 50-500 depending on country of operation and scope. We are provided with further information in the study that while European Union characterizes SMEs with no fewer than 250 employees, the United States characterizes them with no fewer than 500 employees². In Europe, they occupy 935 of the population based on employee characterization while in USA, they occupy 38% population based on method of characterising, they are found mostly in sectors which render services, and however, some other popular sectors include: hotel business, wholesale and retailing, construction and communications³.

The economic status of countries in the continent must have been put into consideration before putting up this definitional criteria. The possible danger which lies ahead as identified by the literature is that the glaring differences in these classification pose future issues in eligibility criteria. In time when support are intended for SMEs from NGOs and monetary bodies, these margin in classification would come to play in affecting certain SMEs against the others⁴.

The definition of small medium enterprises include employment, assets, turnover and formula. When they are assessed by employment, in the case of African SMEs, they would probably not fit into a clear definition because they employ very few or none at all. Definition by assets is not exempted, most of these categorization place African SMEs in the line below. Hence, their definition and scope are often different and exhibiting huge difference from that of developed countries.

The Companies and Allied Matters Decree of 1990 identifies SMEs as establishments with assets not more than one million naira and annual turnover of not more than two million naira, the

empirical research finds SMEs in Nigeria way below this characteristics, hence, the scholar classifies them based on the type of businesses they engage in, ownership structure and capital base. Type of businesses mostly engaged in by these SMEs include service oriented works that deal basically in importing and exporting and usually exhibit weak chances of long survival periods, governmental policies in avoiding too much imports have been found to also be a major factor affecting their survival. ; ownership structure is often a sole proprietorship business and capital base often include personal savings and accumulation from formal and informal financial institutions which include money lenders, banks, friends and families, among others⁵.

Small scale industries is an important component of every free world economy because the attainment of industrial and economic self-reliance of any country largely depends on the development and efficient management of her small industrial sector⁶. These are some of the classifications of SME's in Nigeria:

i) Micro/Cottage Industry: That is an industry with total capital employed of not than N15 million working capital but excluding cost of land and or a labour size of not more than 10 workers.

ii) Small – Scale Industry: An industry with total Capital employed of over N1.5 million but not more than N50 million, including working capital but excluding cost of land, and or labour size of 11 – 100 workers.

iii) Medium – Scale Industry: An industry with a total capital employed of over N50 million but not more than N200 million, including working capital but excluding cost of land, and or a labour size of 101 – 300 workers.

iv) Large – Scale Industry: An industry with a total capital employed of over N200 million, including working capital but excluding cost of land or a labour size of over 300 workers.

Comparatively, most advanced countries seemed to have agreed on a maximum limit of 500

employees as a small Firm. In the face of keen international business competition, there is need for various national government throughout the world to actively support the indigenous business in order to compete favourably at the international scene. It should be realized that the optimum size of a ceramic or jewelry industry, the required working capital, or investment capital and the number employed vary from business to business over a period of time.

For purpose of analysis, small retailing is defined broadly as comprising any organization of one or more stores that owned and operation allows for close and continuous personal involvement in day-to-day operations at the retails level. Ownership and management are typically tied together. There is a high degree of incentive to recognize problems as they develop and find workable solution, closely supervise store personnel, come indirect contact with customer so as to meet their demands in exacting manner, such organization inherently have a high degree of flexibility, for decision making takes place within the store⁶.

This conceptualization does not correspond with 'small' per se. many retailers, in spite of their size, are not very flexible, and many marginal companies could hardly be described in this perspective. In contrast, however, numerous small retailers have the capacity for effective competition with large organisations. It is these companies, which suggest that there is new growing strength in small retailing. Small scale industries may be defined as a super impose concept of a variety of terms and notions: cottage industry, household industry, rural industry, etc, for they all denote certain types of small processing and manufacturing⁷. Small scale industries are enumerated below:

- (a)** A closer, personal or face to face relationship between the owner/manager and the operating personnel.
- (b)** Scarcity of capital.

- (c) Smallness; the economic compass of industrial establishment in the small industry and in the same country.

The development of craft and small scale industries in Nigeria, a craftsman is defined as a person “who works independently in the production of goods and services with or without power, alone or with the help of up to ten workers, helpers or companions and selling only the product of his work”. Small scale industry is defined as the industrial activity whereby the owner or his representative performs a considerable part of the managerial activities without working himself and employing up to 100 workers or helpers with or without the use of power⁸.

Nigeria considered small industries to include all productive units employing less than ten full time workers and not using mechanically driven tools or machinery. The Federal Government of Nigeria in the early 1980's defined small scale business as a business unit with a capital investment not exceeding N200,000 in machinery and employment limit was 50 persons⁹. In Japan, during the 1980's small scale enterprises are divided into three categories for the purpose of government support and assistance:

- (a) For a manufacturing business, the investment limit is 50 million Yen or an employment ceiling of 3000 persons.
- (b) For the service and commerce sectors the corresponding investment ceiling 10 million Yen or employment of 50 persons.
- (c) In the mining sector, the investment ceiling is 50 million Yen or employment of 1000 persons.

The Nigeria Industrial Development Bank, in 1987, defined small scale business as a business unit with project cost (Investment and working capital not exceeding N750,000). In 1989, small scale business in Nigeria are defined as those with total investments of between N100,000 and

N2million exclusive of land, but including working capital¹⁰. “Micro-cottage industries” are defined as those whose total investment cost does not exceed N100,000 including working capital but exclusive of land, due to the structural transformation required in the industrial sector and the inevitably higher production costs, small scale is defined by the Centre for Industrial Research and Development (CIRD), Obafemi Awolowo University in Nigeria as a business enterprises whose initial capital investment (excluding cost of land and buildings) is less than million but more than N100,000¹¹.

In spite of their differences, all these definitions and criteria share the common idea that small scale industries are generally low in terms of number of persons employed and in the amount of investment and annual business turnover. The basic presumption underlying the desire ability of nurturing the small-scale industrial sector are the perceived multiplier effects, which it has on the performance of the economy and economic development in general.

2.1.2.1 The Roles of Small and Medium Scale Industries

It is generally agreed that a way out of the problems of economic development for many developing countries is to devote vigorous energy to the development of local manufacturing industries. However, the emphasis was on the development of import substitution industries with all their attendant problems¹². These problems have now brought the importance of locally based small and medium scale industries in economic self-reliance into additional prominence. Some of the advantages which small scale industries provide and their importance in the general economic development of a nation are as follows.

- i) Optimum Utilization of resources:** small scale industries permit the tapping of resources which otherwise would remain idle. These include labour, capital, raw material and entrepreneurship.
- ii) Lower Capital/Labour Ratio:** Experience has shown that small scale industries are adaptable to employing more labour-intensive methods of production thereby employing a significant

proportion of the labour force. Small scale industries therefore encourage self-reliance which is an important pre-requisite to economic independence.

iii) Foreign Exchange Generation/Savings: Many of the consumer and simpler goods now being imported can be economically produced locally by small scale industries.

iv) Diversification of Industrial Structures: Small scale industries contribute significantly to the strengthening of the industrial structures. They can be linked with large industrial enterprises in complementary relationships.

v) Small scale industries serve developing countries not only by their output of goods and services but also by functioning as nurseries of entrepreneurial and managerial talent.

vi) The small and medium scale industries sector is a convenient starting point to fully industrialized Oyo State. In addition, small industries can play an important role in the development of state's economy, these roles includes:

Provision of new employment opportunities for growing number of young educated school and college leavers.

(a) The mobilization of private savings.

(b) Mitigation of rural migration.

(c) Even distribution of industrial enterprises in different parts of the state.

(d) Development of new technical skills and entrepreneurs.

All these projected advantages which would be discussed in detail, would go a long way to boost the achievements of the Oyo State Government on her rural integration policy.

(a) Provision of New Employment Opportunities: Small Scale Industries attract indigenous labour and could be responsible for a substantial part of the total manufacturing work force in

Oyo state. It is a common notion in both developing and developed nations that multinational industries alone have big financial capital and sophisticated equipment but they do not control the labour force in any nation. Hence, the encouragement of small scale industrial sector can help to reduce the gap created by these capital-intensive industries. The small scale industries can play an intermediate role in the development of medium and large scale industries, which in turn reduces regional disparities through the creation of employment opportunities in the rural area, and mobilize local resources¹³.

The small scale industries constitute the surest approach to our technological take-off since it is at the small scale industrial level that we can deal with techniques that our people can handle. The encouragement of the enterprises, particularly in rural areas, can serve to counteract seasonal variations in employment in the agricultural sector by utilizing excess labour that, otherwise, would be underemployed in agriculture. Thus, if encouraged, these enterprises could provide opportunity for employment on a large scale and therefore, making the possibility of equitable distribution of national income realistic¹⁴.

(b) Foreign Exchange Generation and Savings: An important feature associated with small scale industries which is particularly relevant to the current economic problems is that these industries characteristically depend less on imported inputs relative to their total capital investment than large-scale industries. A low import content in the capital structure of small scale industries obviously reduces the need for foreign input. This reduces pressure on the limited foreign exchange earnings and thus helps to eliminate some of the balance of payment difficulties.

(c) Mitigation of Rural-Urban Migration: Encouragement of small industrial enterprise could also help to eliminate the unhealthy imbalance in the rate of economic growth between rural and urban areas and thus help towards aid in checking rural-urban migration and the associated problem of unplanned urbanization.

(d) Development of Technical Skills and Entrepreneurship: One of the most important contributions of an active, healthy small factory sector is in the realm of human development. Economic growth requires more and more men with skills in organizing and managing. Channels are needed by which suitably talented and motivated individuals can find their way to new and constructive types of economic achievement. Small scale manufacturing can provide one such channel. The growth of small scale industries helps to develop middle level managers on horizontal patterns and this is quite important for the development of a decentralized economy. Consequently, small scale enterprises seek to diffuse economic power by helping to check unbalances between various localities of a country and between different income groups in the same locality¹⁵.

Small factories serve a newly industrializing country not only by their output of goods but also by functioning as a nursery of entrepreneurial and managerial talent. It was observed that “small industry will be a testing ground where those comparatively few, individuals of exceptional drive and ability can prove their merit”. This implies that with the growth their enterprises, small industrialists may become medium or large industrialists. They may move into other position of economic, social or political leadership. Hence, the maximization of this potential contribution should be one of the foremost aims of a development-minded government in framing policies that affect small industries¹⁶.

(e) More Even Distribution of Industrial Enterprises in Different Part of the State: The role of small industry in achieving a greater measure of geographical decentralization or dispersal of industry is an important topic to development of planners and also to politicians in many countries. Often it is merged with discussions of rural industrialization. Small scale industry can and should play a very helpful role in any well-planned policy for promoting a wider spread of manufacturing industries.

(f) Mobilization of Private Savings: Small scale industry is also capable of contributing to the formation of material capital. A “very little of the capital that goes into small-scale industry in newly developing countries could be mobilized through savings institutions”. In fact, much of such financial capital is direct savings which would not have come existence as productive capital without the incentive of the independent small enterprises. Thus, the capital that goes into independent, small enterprises in largely additional capital which otherwise be very unlikely to become developmental capital or to come into existence at all¹⁷.

The various roles of small scale enterprises discussed above points to the fact that development of small scale industrial sector in developing countries does not only help in economic diversification and development. It is also crucial in the achievement of these socio-political objectives without which a country or state may begin to disintegrate. It needs to be pointed out for small scale industries to perform their assured roles, massive assistance-financial, technical, marketing and management must be given¹⁸.

The need for this assistance emanates from the comparison usually made of small scale industries with large scale industries which tend to show that small-scale industries are placed at a disadvantages not only in term of granting of government fiscal incentives but also in terms of not being able to reap the advantage conferred by large-scale operation. Hence, small industries are confronted with inhibiting problems which are largely not of their own making. This assistance should be designed on a price me basis but as integrated assistance programmes, since it is only integrated assistance measure that can help small-scale industries solve their problems¹⁹.

Throughout the course of this part of the review, attention has been focused only on the relationship between small scale industries and development. But since the small scale sector is a subset of the entire industrial sector, there is still the need for further investigation into the correlation between the industrial sector in entirely and development, especially within the

context of developing countries. The adverse opinion of many against most of the cottage and small industries is partly due to the impression which the actual functioning of them has created viz: lack of business and commercial motive pervading almost the whole process. The commercial motive pervading almost the whole process²⁰.

The organized and scientific way in which every stage of a large industry functions is lacking. Lack of appropriate labour intensive techniques due to non-availability of complementary goods was identified as the main reason why an underdeveloped country, with increasing population, suffers from unemployment syndrome, cottage and small scale industries are said to be of immense help in solving this problem. Various forms of unemployment were identified and it was concluded that the employment structure for agriculturists and non agriculturists in the rural areas are inter-linked from time immemorial. Underemployment is identified as structural adjustments. The small units were of course, assigned an important role in the Indian economy, and especially in view of the large volume of employment offered them ²¹.

The theoretical inconsistency between larger employment and higher productivity is to be solved by the adoption of an intermediate technology suited to the objective conditions prevailing in India. A selective approach for identification of some definite fields and processes and types of products that offer favourable opportunities to small enterprises would be necessary in order to arrive at a right assessment of their worth²².

Thus, if we consider the effort of the public sector in the cottage and small scale industries as mere pilot schemes, we have no objection to their limited utility. It was almost accepted that application of power to the cottage enterprises and organization of the small units of industries with power and modern tools would be an economic proposition and make them viable with the large units from the view point of cost of production, but recently a strong challenge has come even against such small enterprises working with modern tools. The process of industrialization

cannot be expected within a prescribed time limit without affecting unemployment and social sufferings of the people in rural area. Village and small industries are the suitable median to smoothen the pace of development and lighten the region of the growth of a developing economy²³.

Small scale industry remains among the most neglected segments of the Nigeria economy relative to its potentials. Various indication of the output structure consistently highlights concentration of the activities in three industrial categories-textile and clothing furniture and metal product/engineering services. One glaring area of inadequacy is the poor showing of the food sectors. Although this may be due partly to the fact that most of their operations are based at home, on street corners or in the open market and hence, usually omitted in officials survey, it points to the fact that we were yet to take sufficient advantages of the enormous potentialities of food processing for national self-reliance²⁴.

Creative development requires people of considerable education and unusual abilities. Small companies have tremendous difficulty in recruiting and keeping such people. If an organization wants advance development, it is pertinent that it has the services of skilled technical people. Small business has some disadvantage with regard to recruiting and keeping such people. They often have a less certain future, fewer fringe benefits and the little in the way of training programmes. It is significant that creative technical men participated in the decision to undertake advanced development project. In spite of their problems, small scale industries make a significant higher contribution to the strength of the national economy than is indicated by their output level²⁵. Thus, it has been estimated that in Anambra state, their employment generation capacity relative to that of large and medium scale industry is eleven times per units of value-added, twelve percent unit of gross output.

Furthermore, in contrast to large scale industries, small scale industries are to be found in significant numbers everywhere in every state, in towns large and small as well as in villages. They are front-line troops in the battle for even development, as a result of which the government has taken a direct hand in creating and sustaining industrial employment, especially in the small scale self employment sector. Small scale industries have proved particularly vulnerable to the strains of the Structural Adjustment Programmes (SAP). Many small businesses do accept aid from outside agencies as explicit²⁶.

A number of firms try to find literature which they hope will contain suggestion relating to their particular situations, but lack of time to digest these materials coupled with the irrelevance of much of it to their specific problems limits its usefulness. Many executives of small business turn to friends to help them with their operating dilemma. As sound-thinking and well meaning as these people may be, they seldom possess the salient facts in regard to the company or industry involved, or the varied experience necessary to give much solid help particularly in a specific situations²⁷.

2.1.2.2 Economy Development and SMEs

Economy development is attained when potential values are comprehensively applied to society. Furthermore, public economy distribution is essential for prosperity and welfare improvement in Nigeria. However, Small and Medium Enterprises (SMEs) play a critical and strategic role in economic distribution. Creative-economy-based SMEs has grown tremendously over the years, utilizing cultural heritage, creativity, and surroundings as future pillars²⁸. Furthermore, in the current situation, countries are developing awareness regarding the importance of improvements in the creative economy through SMEs. However, those with sophisticated industries have implemented rules to protect their human resources through Intellectual Property Rights.

Some of the challenges that SMEs face include limited access to banks for capital funding and lack of credit security. Banks require them to provide fixed assets, such as land or buildings. Additionally, convoluted bureaucracies and administration processes restrict SMEs' capital discretion²⁹. To develop solutions for SME capital problems, other funding sources have been created. For instance, crowd funding is a capital model for creative industries that collects funds using social media networks and provide entrepreneurs with instant or alternative capital loans. When using this model, business actors should be technologically savvy because the financing process depends on internet utilization.

To gain financial access, parties only interact through social media platforms. However, this process is challenging hence current the discussions on SMEs' readiness in accessing crowd funding loans. Furthermore, this study investigated crowd funding appropriateness as a capital solution for SMEs to improve the creative economy and how innovation enhance business efficiency in funding activities. Crowd funding improves decision making in project or event investments³⁰. Crowd funding is a financial resource request on and offline in exchange for a reward offered by the creator, such as "acknowledgment, experience, or product." Therefore, SMEs have better access to business development capital because crowd funding does not require credit collateral.

The mechanism of this fiduciary loading is providing the governance of the collateral object on the debtor's hand. Some critical features when using fiduciary guarantees are a property security known as *droit de suite* and material right characteristics. By giving *Droit de Suite* characteristics, the rights of creditors continue to follow the object into whomever it is transferred to, including to third party guarantor. This strategy is very beneficial for SMEs (debtors) because they still use their collateral assets to run businesses. However, there is a likelihood of obstacles in the implementation of this model³¹.

2.1.2.3 The Problems and Constraints of Small and Medium Scale Industry in Nigeria

This section is directed towards the problems that confront small and medium scale industries in Nigeria. Most of these problems affect the level of operation of the business as they are mostly not within the control of the industry. Therefore, understanding their nature is quite important as we geared towards the development of small scale industries in Nigeria⁵⁶. The following are the problems facing Small Scale manufacturing industries in a developing economy like Nigeria:

i) Raw Materials Shortage: The problems of rising production cost and difficulty of utilizing import license to procure necessary raw materials, the manufacturing sector experienced a lull in its activities, in 1986". However, the position of raw materials in the production process that its unavailability makes the difference between a buoyant economy and a dwindling one. Shortage of raw materials at standard prices will therefore, affect the entire industrial sector⁵⁷.

The small scale industries are forced to use the services of middlemen who provide them with raw materials usually at higher costs. Their inaccessibility to raw materials at reasonable costs coupled with their meager financial resources may induce them to use cheap and substandard materials. In some small scale business enterprises, raw materials are sourced externally, hence the fate of such enterprises to foreign exchange behavior. The fluctuation of foreign exchange may therefore make it difficult to plan and that may precipitate some stock that may destabilize the setup. The need to source most of raw materials required for production therefore becomes inevitable. There are dominant reasons for importing the raw materials and they are as follows:

- (a). Non availability of local raw materials
- (b). Inadequate supply of domestic substitutes
- (c). Low quality of local raw materials/substitutes

The above stated problems act as constraints to integrating backward through sourcing a significant quantum of raw materials locally. This implies that Government needed to do a lot in areas of inter industries linkages by promoting downstream industries producing intermediate and capital goods; instituting policies that would improve competitiveness of local raw materials.

ii) Poor Management/Inadequate Competent Personnel: Management has always been a problem in this sector as most small scale businesses do not have the required management expertise to carry them through once the business start growing. The situation gets compounded as training is not usually accorded priority in such establishments. A small scale company, because of its size and scope of operation, cannot attract nor could it afford the “A-Class” type of management⁵⁸.

The top class Managers needed to man this type of industry usually prefer to take appointment in large companies or the public sector which could give them room for advancement. Those that are left to take up appointment with medium sized industries are those unable to secure lucrative appointment, or those with inadequate educational/professional qualification and training or the inexperienced. The implication of having the wrong management in the right places is that wrong decisions are made because there are no enough professionals to give necessary advice⁵⁹.

It is also established that weaknesses in organisations in information technology, administration, finance and human resources management and accounting arise from the dearth of personnel with adequate educational and technical background among the Small scale industries promoters and their staff. Poor managerial ability also manifests in and is reinforced by lack of appropriate training and leadership development in various aspects of small scale industries management. In spite of the fact that business schools and training institutions are available in Nigeria, they often not addressed specific training requirements of small scale industries in areas of accounting, marketing, information technology, technical processes and standardization. This further suggest

that expansion in the sector and considerable increase in capacity utilization could create room for new employment opportunities and assist in employment generation⁶⁰.

iii) Financial Constraints: The small scale industrialist needs funds for both expansion and working capital. It is obvious also that the company cannot satisfy this requirement without assistance from owners or some financial institutions. To obtain the necessary funds for expansion and working capital, Small scale industries will have to compete in the financial market with large and more reputable companies for funds. From the records, Small scale industries are denied required funds /loans because of their doubtful ability to repay the loans in time, and where they could obtain the loan or finances, it is usually at higher costs. The peculiar problems of these industries have made them unattractive to banks which rather than meet the statutory minimum investment/lending to the sub-sector, prefer to pay the penalty for non-compliance enforced by the Central Bank. Besides, banks usually demand for collateral on any advance which sometimes the Small Scale industries cannot provide⁶¹.

Much as the Small scale industries have little chances with banks, it similarly cannot avail itself of the stock exchange. Firstly, it cannot meet the requirement of public ownership of its share, which is a pre-condition for operating on the Stock Exchange, and even if it can, the floatation costs will be enough deterrent. It is in recognition of the importance of the small scale industries that various Governments have been making policy pronouncements on the problems of funding of this sub-sector. For example, the small scale credit guarantee scheme was set up in each State to give loans to small businesses with capital not exceeding N150, 000 in machinery and equipment. The amount is to be used for expansion, working capital and establishment of new ventures. It may be instructive to note that maximum lending rates are usually applied for Small Scale Enterprises which are classified as high risk investors. Therefore, in addition to higher rates there are other constraints in credit facilitation⁶².

iv) Problems of Market and Marketing Services: Small scale industries faced serious market constraints, including the inability to sell their products, and lack of access to appropriate and relevant information and advice. Because most Small and medium scale lack adequate staff with managerial skills, proper marketing planning and strategies are absent. Increase globalization and trade liberalization in Nigerian has encouraged the dumping of cheap, fake and substandard products on Nigeria markets. This has dampened the demand for Nigeria made products. In Nigeria, we require an active full pledged organ for market-related support services to the sector, to enable the Small and medium scale industries benefit from tenders in the Public Service, facilitate their access to international markets or buy raw materials in bulk at lower prices or arrange for their participation at national and international exhibitions. The state of infrastructure in Nigeria has forced industrialist to provide many of the infrastructural facilities themselves⁶³.

The additional cost of providing these facilities leads to increase in cost of production with resultant effect on prices of local products. Consequently, local products were rendered uncompetitive relative to imported equivalents. Marketing of products manufactured by small scale industries is very pertinent to performance of sector in Nigeria. The major challenges facing Small scale industries generally in the area of marketing as follows: Poor packaging, Inadequate marketing information, Multiple and overlapping regulatory framework which lead to high costs and loss of confidence, High cost of advertisement, Poor infrastructure, Poor quality products, Weakness in market identification and development, Weak access to market, Weak product competitiveness and Weak demand. All Stakeholders should therefore be involved in the resolution and tackling of above challenges in order to enhance the development of the Small scale sector in the country⁶⁴.

v) Inadequate Infrastructural Facilities: Infrastructure facility refers to social overhead capital which the governments provide and are available to both the ordinary consumers and the industrial sector. They include such things as: Supply of Electric Power, Water Supply, Good Post

and Communication Lines and Transportation Systems. The level of our industrial development ensures that most of the facilities required for smooth functioning of the sector are not there. For example, shortage of electric power, the timing of supply, which is usually erratic, and then high rates at which power is supplied lead to under-utilization of installed capacity. Another aspect of this problem is the lack of industrial estates equipped with basic Infrastructure, such as Roads, Electricity, Water and Telecommunication. The importance of the infrastructure to Small scale industries cannot be overemphasized. While large firm may provide these facilities themselves, Small scale industries are handicapped by lack of resources. Many large firms provide their own water supply, generate their own electricity, construct roads, and provide own security. Inability of Small scale industries to provide these has accounted for death of many Small scale industries in Nigeria⁶⁶.

Indeed, low cost and high quality infrastructure tend to enhance competition in regional and global markets and improve product competitiveness and industry growth and survival. In view of the foregoing, therefore, unless the situation of power and alternative energy supply is addressed, the manufacturers, small scale industries, will continue to experience sever constraints in operation and their products will ever remain less qualitative and uncompetitive. Also, Government has to take quick actions to improve the water, security and road network conditions because these infrastructures are also central to business operations.

vi) Problems with Policy, Incentives and Operating Environment: Small scale industries immensely require conducive policies, package of good incentives and operating environment to perform and produce products that are competitive locally and internationally. There have been many good policies formulated in the past by the government to improve, but weak implementation has made it impossible to realize the goal. A Government that is genuinely committed to the promotion and development of Small scale industries would make sure the following frameworks, including others, are in place.

-Stable fiscal and monetary setting with reasonable interest and exchange rates, financial markets and moderate tax rate.

-Policies that minimize the cost of business.

-Policies that facilitate business such as infrastructure and security.

-Diligent implementation of policies and incentives schemes

In addition, the number of regulatory agencies, the multiple taxes at various levels of Government, the cumbersome importation procedures and high port charges continue to exert burden and hardship on the operation of the Small scale industries.

2.1.2.4 Specific Survival Measures to Promote the Growth and Development of Small Scale Industries

There are various measures to promote the growth and development of small scale industries so as enjoy the benefit on employment generation in Nigeria. These measures include fiscal and industrial policies, creation of institutional structures, programmes and schemes, aimed at proffering solution to the many challenges confronting small and medium scale industries in the country.

i) Financial Support for Small and Medium Scale Industries: The Small Industries Development Programme was set up in 1971, with an objective to provide financial support for the SMEs. This led to the creation of the Small Industries Credit Fund (SICF), which was formally launched as the Small Scale Industry Credit Scheme (SSICS). The States' Ministries of Industry, Trade and Co-operatives managed this scheme. It operated as a matching grant between the federal and state governments, and was designed to make credit available on liberal terms to the Small and Medium Scale Industries. Over the years, a variety of initiatives have been put in place to provide financial assistance for the Sector. These include setting up of the Development

finance Institutions, such as the Nigerian Bank for Commerce and Industry (NBCI), Nigerian Industrial Development Bank (NIDB)⁶⁷.

The Establishment of the Bank of Industry Limited (BOI) is one strong incentive for Nigeria's Industrial development via Small and Medium scale industries. The BOI was conceptualized to 'transform Nigeria's industrial sector and integrate it into the global economy through giving cheap financing and business support services to existing and new industries in order to achieve capabilities to produce goods that are attractive to both domestic and external markets', utilize domestic inputs; generate huge employment opportunities; and produce quality products for the export market. The Small and Medium Industries Equity Investment Scheme (ISMIEIS) is a recent public and private initiative by government and the Bankers committee. It is set up to solve not only the lingering issue of provision of adequate, reliable and cost effective funds to the small and medium industries but also to other pertinent issues relating to the sub-sector⁶⁸.

ii) Provision of Consultancy and Extension Services: The industrial development centres (IDCs) of the Federal Ministry of Industry were established to provide consultancy and extension services for Small scale industries in the country. Specifically, the functions of these IDCs are to provide:-

- (a) Technical advice and assistance regarding the selection of proper manufacturing processes for new products, selection of the right machinery, equipment and raw materials for the purpose.
- (b) Assistance in the installation and operation of machinery.
- (c) On the job training of artisans in handling machines and tools;
- (d) Assistance in the repairs of machinery and tools and tooling facilities at IDCs workshops;
- (e) Advice and assistance to resolve operational problems of Small scale sector;

(f) Advice and assistance to small-scale industrialists to improve the design and quality of their products;

(g) Training of proprietor and supervisory staff of Small Scale Industries in modern management methods and practices suited to their enterprises;

(h) Marketing counseling regarding pricing, packaging, sales strategy, advertising and marketing methods for the promotion of sales of their products; and

(i) Feasibility reports for intending Small scale industries.

iii) Acquisition of Skills for Small and Medium Scale Industries: The Industrial Training Fund (ITF) was established by Decree 47 of 1971, and was geared towards promoting and encouraging the acquisition of skills for both large and small-scale industries in the country. The ITF mandate emphasizes the liberalization of technological knowledge foreign participation in industrial development and transfer of technology.

iv) Production of Standard Products: In order to encourage production of standard products in Nigeria, the Standards Organization of Nigeria (SON) and National Agency for Food and Drug Administration and Control (NAFDAC) were established to regulate and enforce quality in production activities in both the large-scale industries and Small scale industries. The NAFDAC and SON have the mandate to establish a quality assurance system, including certification of production processes, products and laboratories. It has power to seize, confiscate and destroy sub-standard goods, products, food and drugs and to seal up defaulting production facilities.

2.1.1.6 Employment in the SMEs

SME's are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy like that of Nigeria. Employment generation contributed to global GDP and SMEs play a critical role of principal safety net for the

bulk of the population in developing economies. Their labour intensity structure accounts for their recognition as a job creating avenue. SMEs constitute major avenues for income generation and participation in economic activities in the lower income and rural brackets of developing societies especially in agriculture, trading and services⁶⁹. The employment opportunities provided reduces rural-urban migration and allows for even development. National economic development prospects hinge on entrepreneurial energy of vibrant SMEs as most big business concerns grew from small scale to become big icons. SMEs protect nations from geographical cost-benefit permutations of a few multinationals who are ever prepared to close up their businesses at the slightest provocation or appearance of economic downturn. Many economies developed and developing have come to realize the value of small businesses. They are seen to be characterised by dynamism, witty innovations, efficiency, and their small size allows for faster decision making process. The benefits of SMEs cannot be overemphasized they include; contributions to the economy in terms of output of goods and services, creation of jobs at relatively low capital cost, especially in the fast growing service sector. It's a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically⁷⁰.

2.1.2.7 Roles of SMEs in National Economy

Scholars have identified various roles played by SMEs in relation to economic development. An article identifies the essence of industrialization to economies of developed states, hence, attributes the success of these economies to the activities of industrialization. The article further identifies SMEs to be active part of the industrialization process making SMEs account for the highest percentage of factors responsible for economic development. More so, in developing economies as we have across Africa, the study argues further that SMEs prove to be the actual solution to unemployment issues, due to their existence and operation scattered all over the

continent, they reduce the cases of unemployment as often found to be a major factor affecting development in developing countries⁷⁷.

Further roles identified in this study include labour intensity enhancing equitable income distribution than bigger markets; allocation of resources in both formal and informal financial markets; and production capacities enhanced thereby serving as link between small and large firms. Another scholar's opinion agrees with the employment creation function of SMEs by asserting that while bigger firms downsize and lay workers off, SMEs bridge the gaps and create job opportunities for individuals, it consequently enhances productivity and economic growth⁷⁸.

A United Nations Working document examines the roles of SMEs from the perspective of attaining Sustainable Development Goals (SDG). By employment creation, SMEs are considered to have partaken in the eradication of poverty as part of the SDGs, while big and multinational corporations exist in big cities and urban areas, SMEs do not exist in urban centers alone, they also exist in rural areas and by this, they also perform the function of connecting to the poor and marginalized group of people in such communities. The SMEs are also privileged with the right and opportunity to create ideas which could birth positive outcomes rather than depend or adhere to ideas of superiors in bigger organisations. This is another problem solving method which is attributed to the functions of SMEs in national economy⁷⁹.

All SDGs objectives are identified in the examined document and each explained according to functions of SMEs in national economy, therefore, it identifies further: hunger eradication, healthy life, education for all, gender equality, water availability and management, access to energy, economic growth and all other items contained in the SDG as prepared by the United Nations. In Nigeria specifically, a thesis examines the structure, position and roles of SMEs in national economy, it recognizes SMEs as the "engine of growth" in any nation as they are considered to be the drivers to the attainment of economic objectives. Even though the thesis

examines SMEs in Nigeria, there is paucity on the economic functions they perform in the economy. This is due to the numerous varying problems and challenges they encounter which overhauls the role they are supposed to play in the economy. Unlike other developed countries where SMEs perform crucial and evident roles despite facing funding issues too, researches in Nigeria have confirmed that SMEs are faced with numerous challenges which does not allow their effective existence and performance in the economy⁸⁰.

Thus, there have been no significant relationships between activities of SMEs and economic growth of the nation. Studies have also encouraged the enactment of policies which recognize SMEs and giving them a platform to perform creditably thereby assisting in attainment of economic objectives.

2.1.2.8 Challenges Faced by SMEs in Nigeria

Challenges faced by SMEs are global issues and not restricted to certain countries alone. However, these challenges are met by growing importance and recognition of SMEs in developed countries and studies have confirmed the important roles played by SMEs in developed countries. This is not the case in developing countries of Africa, Nigeria specifically. Roles SMEs play in Nigeria economy are much insignificant because they are faced with huge challenges which do not even give them a chance to play such great roles as it is in developed nations⁸¹. All empirical studies examined have very scanty literature and evidence to discuss the significant roles for SMEs in Nigeria economy. What is found mostly in these reviews are various factors and conditions which worsen the pitiable situations of SMEs in Nigeria.

To start with, a Literature centered on Portharcourt SMWEs alone informs that a large percentage of SMEs wind up and cannot even survive five years in business, a small percentage put efforts to stay relevant for up to six/seven years while very few survive and make it to maturity stage. Hence, there is the need to investigate causes and effects. The study therefore identifies poor

financing which gives difficulty in accessing capital or support funds, inadequate infrastructures to support business survival which require SMEs to still pay for services originally meant to be provided by government, improper skills to manage the business, many SME executives are confirmed to lack basic entrepreneurial and survival skills in business⁸².

Taxation is also another factor. Based on these reasons, recommendations to assist SMEs include provision and availability of short loans and long term loans; setting up funding agencies, partnership dealing by the government with private sectors which means the government can call unskilled or competent SMEs to join in carrying out infrastructures or certain necessary project, the study further calls on government and experts to conduct training and research for SME owners and aspiring owners in order not to engage in policies which negatively affect organizational survival. . Final, tax payment should be minimal and appropriate⁸³.

Similar challenges are identified by another study but it goes further to give detailed statistical analysis and establishes more cogent reasons. The study cuts across 29 states in all geopolitical zones of the federation and it aims at establishing concrete and empirical challenges faced by SMEs and possible solutions to reduce these challenges to the barest minimum. In what is termed “a headline survey” the study presents an overview of estimation on statistical statistical findings which reveal challenges relating to tax payment, funding, and choice of capital, progress of the business, information source, and artificial intelligence⁸⁴.

Statistically, as found in the study, 57% of SMEs give factors such as multiple taxation and levy imposition, poor coordination from both federal and state agencies, no available technology as those conditions which affect their smooth payment of tax; 22% identified getting finance as a big problem; 16% stretched on finding the right customers, implicit in this is a locational factor which hinders them; 14% complained of insufficient cash flow. In furtherance of these challenges identification, 22% are pressured to reduce prices, 19% complained of continuous inflation, 6%

complained of low demand for products while 14% complained of high unpayable interest rates and 10% of rise in exchange rate. Looking at sources of finance, 48% confirm that sources of capital often emanate from support by friends and family while 15% identify credit facilities as their major capital sources. 46% of these SMEs prefer to engage in private equity than debt financing in capital issues. In addition, 31% of SMEs attested to positive growth within three years. Discussing further issues statistically, 48% often experience delayed payments due to activities and policies of bigger corporations, 33% confirm that these delayed payments affect their revenue and cash flow. 29% rely on internet, media and research for more insights and discoveries while 16% rely on professional service providers⁸⁵.

In summary, the issues faced by SMEs in Nigeria have limited their performances and ultimately affected growth and development of the nation. The major ways to challenge these issues start from the government, if the business environment is not enabling, there is just little that can be done by the administrators because every step still falls back to government policies and regulations.

2.1.3 Evolution and Overview of Commercial Banks

Even though the central bank regulates activities pertaining to economic policies and commercial banks, commercial banks however also play huge roles in economic growth. Existence of commercial banks is traceable to times before independence when the African Banking Corporation (ABC) was established in 1872 charged with the responsibility of providing notes to the Bank of England for British Treasury, then two banks came in afterwards: the bank of British West Africa, now known as First Bank and the Barclays Bank, now known as Union Bank. Many other commercial banks existed but failed along the line due to the existence of foreign banks⁹⁴.

The total number of commercial banks in Nigeria, as at 2021, there were total of 32 banks in Nigeria and 5 holdings in Nigeria. 8 of these commercial banks are licensed with international

authorization; 11 are with national authorization license; 4 banks with regional authorization license; one non-interest bank with national authorization; 2 non-interest banks with regional authorization; 6 merchant banking license with national authorization and 5 financial holdings in Nigeria⁹⁵.

The history of commercial banks to the commencement of activities of Central banks with the G.D Panton Report which monitors banking activities during colonial eras from 1892 to 1952. Even though commercial banks had existed before the 20th centuries, regulation began in 1959 with the full establishment of the Central Bank. Commercial banks have been divided into domestic controlled and mixed control, however, commercial banks are still highly regarded compared to other banks (mortgage, merchants, microfinances)⁹⁶.

2.1.3.1 Roles of Commercial Bank in General

Commercial banks have also played huge roles in economic growth and development. They have been recognized for fund mobilization, use of savings for investments purposes, flow of money tends to also improve the financial sector as in the case of the financial intermediation theory. Commercial banks are thus regarded as backbone of the economy⁹⁷. A study identifies intermediation as a macroeconomic role of commercial banks. They do this through savings, investment, borrowing and lending. When individuals save, banks give them out as loans, can also be diverted temporarily for other purposes, hence, capital formation would take place in the absence of financial assets and the implication of this is low economic development. There is then the call for financial assets and indirect financial claims of savings and demands.

Acceptance of deposits and granting of loans are two primary functions of commercial banks, through each sector of the country, they are able to mobilize funds through deposits and savings. This may come from individuals, firms, institutions, other banks and even government. Savings can come through deposits, fixed accounts and current deposits and with these savings, they get

some amount of interest. Through savings and deposits, they are able to carry out loan services to other sectors, interest and loan rates are charged as well, creating money in the process. However effective the functions of commercial banks may seem, they are still affected by such national factors as bad governance, corruption, leadership ideologies and challenges as well as political ideas. They affect either positively or negatively, the activities of commercial banks in contributing to the economic growth of a nation⁹⁸.

Secondary functions of these commercial banks are identified to becoming agents and facilitators to trade and its auxiliaries, resource allocation, savings encouragement and money creation through other activities. Another study further examines bank activities, liquidity ratio and financial intermediation and asserts that banks are agent of economic growth of Nigeria through them. A previously identified study confirms this assertion through employment creation, text generation, loan and investment contract thereby creating more money, as major ways through which banks contribute to economic growth⁹⁹.

Asides functioning as keepers of money, jewelries and other valuable documents of the public in general, commercial banks are still regarded as agencies through which shareholders, investors and other stakeholders purchase securities, shares and debentures, the public through the commercial banks are able to also pay for certain services totally not related to commercial banks, such as bills and certain data subscriptions. They are also regarded to aid foreign trade through the bill of exchange and other transactional activities. Self-sufficiency, fund availability, industrial development, market expansion, modern technology usage and research development are further identified as important roles performed by commercial banks¹⁰⁰.

The preferential sector financing roles of commercial banks is also identified, this is as a result of policies set up by the government to provide certain preferential services to particular sectors of the country. The main beneficiaries of these schemes are Small and Medium Scale Entreprises

(SMEs) who are often faced with issues bothering on financing and capital access. The National Economic Reconstruction Fund (NERFUND) is identified as the main body in charge of such policies. Studies conducted have increasingly identified the significant contributions of commercial banks in economic growth and development, these contributions are significant because they operate in environments which produces such access to them. It is important to know that certain factors have often affected the contribution of these banks to economic development, as identified previously, another researcher has additionally identified other problems to include: high competition, economic downturn and slowdown, rising and consistent inflation, economic instabilities, even policies from the central banks. While these conditions do not only affect profits of these commercial banks, they are also moved to undertake risks which may drastically affect their financial stand or boost their profit¹⁰¹.

One of the major sources of funds for the survival of the SMEs to perform their expected role of rapid industrialization and economic growth is commercial banks' credit. Commercial banks through their financial intermediation role, are expected to provide financial leverage for small and medium scale enterprises. But in most developing countries in Sub-Sahara Africa including Nigeria, small and medium scale enterprises are plagued with paucity of capital, thus affecting their ability to grow¹⁰². Given the fact that SMEs have been generally acknowledged as the bedrock of industrial development of nations across the globe and financial institutions especially Commercial Banks are theoretically expected to provide financial succor for their growth, the objective of this paper therefore is to examine how well the Commercial Banks in Nigeria have extended credit to the small and medium scale enterprises to facilitate their growth.

The significant role played by small and medium scale enterprises in the economic growth process of nations, has aroused the interest of researchers in this area of study. Consequently, there exists vast literature on the subject matter. Conceptually, there is no generally established definition of small and medium scale enterprises (SMEs). These enterprises can be variously

defined depending on the state of development of the country. The criteria for classifying an enterprise as small, medium or large varies from country to country and depending on the level of development of the country. For example, a small business to one country may be a large business to another¹⁰³.

In Nigeria the national council on industry in 2001 defined small-scale enterprise as an industry with a labour size of 11 to 100 workers or a total cost of not more than N50 Million, including working capital but excluding cost of land. In like manner, medium scale enterprise is defined as an industry with a labour size of between 101 to 300 workers or total cost of over N50 million but not more than N200 Million, including working capital but excluding cost of land. Again, small and medium Industries Equity Investment Scheme (SMIEIS) defined SMEs as enterprises with a total capital employed not less than N1.5 Million but not exceeding N200 Million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300¹⁰⁴.

Commercial banks play a significant role in economic resource allocation of many countries around the globe. They channel funds from depositors to investors as well as generating the necessary income to cover their operational costs. Commercial banks' ending significantly plays crucial roles in catalyzing industrialization in the economy, by facilitating the mobilization and transfer of funds for economic production. Therefore, well-functioning commercial banks spur technological innovations by identifying and funding entrepreneurs, thus creating chances of successfully implementing innovative products and production process¹⁰⁵.

One of the objectives of commercial bank lending is to improve private sector business activity, to enhance their contribution to economic growth. However, commercial banks have basic lending principles that act as a check on their lending activities. In most of the developing economies, commercial banks are often unable or reluctant to grant loans to small and medium

enterprises. Instead, they prefer lending to well established businesses that have well maintained financial statements and credit histories. The formal financing to SMEs is mostly obstructed by the collateral requirement in conventional banking. This can be attributed to the SMEs size and age, lack of business strategy, collateral, financial information, bank requirements as well as the owners or manager's educational background and business experience²⁰⁶.

Commercial banks prefer to lend to businesses with proper financial statements or records as well as sufficient collateral in form of tangible assets, which are difficult for SMEs to obtain. SMEs also suffer financing shortage due to information asymmetry and their inaccessibility to debt finance, forces SMEs to use internal capital, which may be insufficient for expansion.

Lending to SMEs

Lending is one of the major activities from which commercial banks earn their profit. Commercial bank lending is an important source of finance to many businesses especially the SMEs, which are more reliant on traditional debt to fulfill their business financial need. However, lending to SMEs by commercial banks poses the most serious credit risks. Credit risk constitutes the likelihood that the SME would default on interest and/or principal. Credit risk is a major concern to all financial institutions that are involved in lending to SMEs because the risk of default by SME clients can jeopardize the performance and survival of the lending institution²⁰⁷.

Commercial banks that are supposed to finance SMEs usually face lack of accurate and reliable information on the financial condition and performance of SMEs. Thus, in order to extend credit to SMEs, the commercial banks' lending decision is based on the strength of audited financial statements, long credit histories and good history of the principal owner, most of which SMEs do not have. Despite the fact that financial institutions have identified SMEs as fast growing entities, there are several constraints serving as bottlenecks to SMEs in accessing finance from financial institutions²⁰⁸.

As such, access to traditional bank finance by SMEs is a great challenge especially to newer, innovative and fast growing businesses, with a higher risk-return profile. Lending to SMEs is perceived to be more risky than to large established firms, thus, the requirement of collateral in form of tangible assets by most of financial institutions and non-financial institutions in addition to other stringent requirements to reduce repayment default rate. Commercial banks financing SMEs also face some difficulties in obtaining accurate and reliable information on the performance as well as the financial condition of the SMEs. As such, Commercial banks tend to hesitate in financing startups especially those with insufficient collateral²⁰⁹. In addition, most commercial banks tend to monitor the firms they lend funds so as to ensure that such funds are well utilized as per the initial contract and purpose. It becomes difficult to monitor SMEs than large established firms hence commercial banks are more likely to engage in credit rationing to SMEs than to large established firms.

Factors Influencing Lending to SMEs

Most of the available literature has revealed several factors that influence lending both on the supply and demand side. Small and medium size enterprises lie on the demand side while commercial banks lie on the supply side. Bank size, credit risk, bank liquidity and the rate of interest have been found to affect the ability of commercial banks to advance funds to small and medium size enterprises. Bank size is considered as one of the major determinant of bank lending decisions. Larger commercial banks provide a larger menu of financial services to customers as compared to smaller commercial banks²¹⁰.

The capital structure and bank size have a statistically significant and positive relationship with bank lending behavior and that larger commercial banks tend to lend more to customers. Additionally, lending to SMEs is considered riskier since they provide none or little collateral. Lack of cost-effective ways of credit risk quantification is one of the major reasons to why many

lenders are reluctant to lend to SMEs. This is because, SMEs do not have standardized procedures and the available data may be of unreliable quality and accuracy. Studies point out that banks charge high interest premium for the borrowers who have higher credit default risk²¹¹.

Credit risk is a statistically significant determinant of commercial bank lending. Liquidity and funding activity are highly correlated. Thus, commercial banks with a higher liquidity ratio are better protected as far as shocks to their deposit size (bank runs) is concern. This is an indication that they are able to lend more and are less vulnerable to economic shocks. Liquidity ratio has a positive and statistically significant relation to commercial banks' lending decision, hence the higher the liquidity, the more commercial banks lends. Interest rate also influences lending to all sectors of economy. An increase in interest rate increases the cost of borrowing money²¹².

The lending rate is one of the major determinants of lending behavior by commercial banks in Nigeria of depositors' money and concluded that, it was necessary to reduce the lending rate in economy so as to encourage more borrowing for economic growth. However, lending interest rate has a positive and statistically insignificant relationship with commercial bank lending²¹³.

2.2 Theoretical Framework

The study employs three theoretical framework for analysis. The theories include the financial mediation theory, the credit creation theory and the pecking order theory. This study however, hinged on The Credit Creation Theory

2.2.1 The Credit Creation Theory

This theory discusses how banks create money for lending apart from initial deposits by customers. It became concepts discussed in academics in the late 19th century. Evolution and development of this theory has been traced to many significant events such as emergence of commercial banks and formulation of new systems rather than rules which gradually eradicated days of commodity exchange, the First World War, among others²¹⁴. The creation of money

called for more ways to generate this money and theories to back it up. Most discussions on credit creation theory is often about banks and commercial institutions since they have been behind money lending making them become instruments of lending.

Theory of money creation further emphasizes that money creation is necessary and essential for a nation's economic growth and survival just as blood is essential in human life. Creating a metaphor between money creation and human blood stretches the utmost importance of money in circulation regarding national survival of any nation's economy. As a lawyer and economist, this scholar understood and interpreted money creation from both perspectives where he asserts that credit creation can be a process and a contract at the same time which must be followed, completed and terminated, any money gotten is a form of credit while not every credit is money as credit can come in other forms²¹⁵.

On this note, the three processes he gives include the creation of such obligation to credit, the fulfilment of such obligation and termination follows. This position has further been supported and extended by another German scholar who argues in support of the claim that there are various ways by which credit could be gotten other than savings or production of savings, hence, businesses also get their capitals through credit creation services offered by financial institutions and not from personal savings, hence, the position that credit creation is an advancement of capital formation is valid because credit creation improves businesses' capital and enhances production capacities. Banks being the providers of these credits are then divided into bank of credits and bank of credit performance. The former gives out the credit not necessarily from savings/deposits alone while the latter mediates and regulates the activities of the former²¹⁶.

The work goes further to discuss the various schools of thoughts which have contributed to the credit creation theories, they include the Swedish School, the Austrian School, the Keynesianism, the post Keynesianism and the free banking school. The Swedish School considers credit creation

as a natural scope of banking activities and also posits that cash currency as well as velocity dimension are two dimensions of money. Hence, credit creation fulfills money circulation motive. The Austrian School is closely related to the financial intermediation theory which believes in intermediaries as agents of credit creation connecting the two parties. This theory of intermediation is discussed further and detailed in subsequent section as the study proceeds. The Nigerian school of thought originated by argues that while banks are seen as intermediaries, money is more than just an intermediation component, the creation of money is considered the creation of credit as well as wealth²¹⁷.

Credit creation methods are also discussed from two broad perspectives: the old and the new methods. The old methods is direct and straight forward, the central bank pushes out money to commercial banks and the commercial banks in turn selects and scrutinizes how to distribute to business owners as credit creation to promote capital formation. By so doing, the central bank becomes money creation while the commercial banks become agents and intermediaries. It involves just a simple process and ends once money is paid back by businesses. The study confirms further that most money creation take larger percentage of money supply forms in countries²¹⁸.

As simple as this method seems, it has been modified by factors in other to control excessiveness of money creation, such conditions include policies enacted by central banks which are cash ratio, cash deposits, and capital adequacy ratio, among others. The modern methods identifies the existence of other non-bank financial institutions and their roles in money creation. These non-banking institutions have existed as a result of several finance policies which birth their existence, hence, limiting credit creation to not just banks alone as well as devising other ways of credit creation²¹⁹.

Bank lending activities are motivated by some identified factors, demand for loans is an important factors, when loans are in demand, and more credit is created since it gives profit to banks about to give them. Another important factor is the amount of interest involved, it can either increase bank's profit for money creation or decrease it. Central bank policies are another factor, some policies are enacted which restricts loans while others are enacted which encourages loan taking. Lastly, borrowers' attitude will determine credit creation. In an environment where borrowers find it extremely difficult to repay loans due to certain factors, banks often find it more difficult to create credits too. Hence, banks give out credits in situations where borrowers have the full potentials to maximize profit and pay back loans, these are factors which banks put into consideration²²⁰.

2.2.2 The Financial Intermediation Theory.

The basic tenet of the financial intermediation theory is the identification of roles played by intermediaries in money/credit creation, these intermediaries are basically banks and other institutions arising. The theory holds three major functions of intermediaries in the money creation process: liquidity intermediation, risk intermediation and wealth intermediation. (1). Another researcher recognizes banks as financial intermediaries who use money mainly as a future product rather than present product, they help collect money from investors and give out to loan request bodies, hence, there is a process of creating new money from savers money by giving it out as loans and coming back with additional values²²¹. (2). Scholars have reviewed the financial intermediation theory with claims that it gives much accord to financial institutions while there are new emerging institutions who can be rightly regarded as intermediaries too. A scholar reviews the intermediation theory (3) and contends that tenets of the theory pays much attention to financial institutions which are less relevant compared to the developed systems.

Identifying risk management as a core aspect to the theory, it is further stretched that the financial systems in countries have undergone significant changes and transformations which have changed the scope and restriction to banks alone as intermediaries. Stock and bond markets have also widened giving room to innovations in finance and credit creation. The implication of this is that rather than deposits and lending which form the only basis of credit creation, innovation and trends have recognized the existence of non-banking institutions who do not use deposits at all and yet contribute immensely to credit creation and intermediation function through sales of securities as the case of insurance firms²²².

Three traditional roles of intermediaries in credit creation process are explained by a scholar in a bid to discuss the importance of intermediation on the economy of any nation. Investment risks are bridged by these intermediaries, hence, the roles they perform include: enhancing investments, decrease in capital transfer cost from the lenders to the borrowers and a change in the rate of savings. The literature goes further to give philosophical assumptions on factors which may drive intermediations in finance and these factors are grouped into supply generated factors and demand generated factors. The former consists of such factors as technical limits on financial intermediation, interest rate spread, legal system, possible inflation, bad loans, and concentration ratio while the latter consists of such factors as interest rates, past inflation, institutional deposit security and shadow economy²²³.

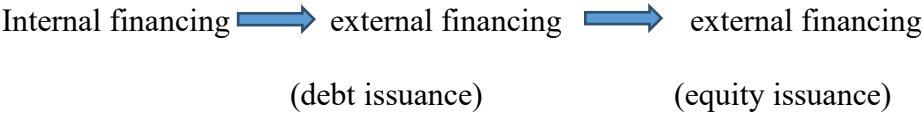
On what is known as “Amended Theory of Financial Intermediation” another scholar has argued that financial services are not declining but are increasingly expanding, thereby shifting intermediary functions from just banks alone to other emerging institutions. Hence, this implies that banks alone do not take credit for credit creation anymore. This leads to giving three major approaches to the contemporary financial intermediary methods which include the information problems, transaction costs and regulatory factors. Examining these factors reveal that market imperfections are given room for participation of intermediaries since they cannot link investors

and savers to each other. A critical assessment then further reveals the differences between the contemporary theories as well as what the author calls “the amended theory of financial intermediation theory”²²⁴.

The differences gives dynamism and market development to the new theory as against the static status of market differentiation in the contemporary theory; the new amended theory is considered an outcome of innovation of products and markets as against the contemporary one seen as a market of development of imperfections; more so, financial intermediaries in the contemporary theory exist as merely agents between investors and savers as well as money protectors but in the amended theories, they exist as providers of financial services and entrepreneurs; while contemporary theory sees intermediaries as allocating savings efficiently, the amended theory sees them as assets and risks transformations and lastly, the contemporary theory births transaction costs while the amended theory creates value²²⁵.

2.2.3 The Pecking Order Theory

The pecking order theory discusses a range of issues as they bother on capital assessment and use, hierarchy of these assessments and how they affect returns for both investors and organisations. It basically discusses company’s capital structure in hierarchical forms. It is mainly propounded by Stewart Myers and Nicolas Majluf in 1984 and they propose that managers of establishments follow and examine a list of hierarchical structures in sourcing for business capital/finance sources²²⁶. The illustration of this is provided in the structure below:



The illustration above represents the various stages at which firms get finance sources. These stages are accompanied by greater risks as it moves from one stage to another. The basic tenets of the theory are that internal financing is the best form of capital source and possesses lower risks

compared to others. A firm's use of its internal resource requires little or no returns demanded. Debt issuance and equity issuance require higher servicing and returns due to various reasons. The theory goes further to explain the level of information access and how it plays major roles on each level of finance hierarchies. Bank managers and insiders are said to possess much information and future outlook about the organization than external users (creditors and shareholders)²²⁷.

It is opined that external users who make up for debt and equity issuance demand returns which cover up for the risks they take in organisation's survival since they are aware of just little information about organisation's stand and survival extent. Even though creditors demand high returns, shareholders are said to demand for higher returns because they believe to be undertaking risks, a huge one for that matter. Scholars and researchers have worked on these assumptions to examine how firms' understanding of this theory assists their finance generation methods. A study examines the relationships between the pecking order theory as well as innovations embarked upon by organisations in getting capitals for firm survival and the result still finds out that while firms take many innovative measures, effects of these measures are still dependent on the pecking order hierarchy²²⁸.

The study also identifies information asymmetry in critical situations regarding SMEs as establishments in these situations. Another study examines the effect of these capital structures on firms decisions, it examines profitability and growth rate as determinants of capital structures, thus, firms in China desire to engage in internal and retained financing more than other structures which could bring debt/debt servicing on them. This is in agreement with another research which examines what forms firms engage in to get capitals in Pakistani firms, based on the Pecking order theory and data regression analysis method, the research finds that selected firms in Pakistan take much delight and priority in retained/internal financing and could consider debt

issuance, hence, debt equity are seen as a form of last resort, only adopted when other measures would not work²²⁹.

As proved in an empirical study conducted in Indonesia, the pecking order theory receives less attention and usage in firms compared to the tradeoff theory, this implies that firms do not go through any finance structure but engage in what is termed “optimal capital structure”. In opposition, a study conducted on Islamic firms in Saudi Arabia reveals that in difficult business moments, firms often resort to equity issuance rather than debt issuance based on Islamic rulings - which forbids payment of interest on loans, hence Islamic rulings are found to play major roles on firms financing principles and decision making²³⁰.

2.3: Review of Empirical Reviewed

There have been various empirical studies on SMEs and governmental policies not in Nigeria alone but across the world. Such studies have generated varying conclusions and recommendations with researchers drawing insights from case studies as they relate to research hypothesis. SMEs do not exist in third world countries alone, they are in existence in developed countries and they are also in dire need of growing support from government. Researchers have often inquired the role of government in supporting SMEs, the role of financial institutions, through governmental policies in facilitating the growth of SMEs and even the impacts of business activities of SMEs to the development of any nation. Even though this study focuses on SMEs in Nigeria, this section reviews studies conducted outside Nigeria, the essence of this is to further examine the scope and dynamics of SMEs and governmental policies across the globe to place Nigeria in a position²³¹.

In Nigeria, most empirical studies have studied the relationship between the activities of SMEs, commercial bank loans and the nation’s economy with available statistics to confirm their findings, these studies have also gone further to examine several factors as they affect SMEs as

well as possible solutions being recommended. The studies see SMEs as an important aspects of the nation's economy due to the several roles they play. A recent research in Nigeria, recognizes the effect and performances of value chains on SMEs on agro allied scale enterprise, this research identifies that manufacturers in the agricultural sectors are often faced with proper use of value chain in ensuring product distribution and consumption up till disposal after use. Attention is paid on agro businesses (SMEs) while research is anchored on the Value Chain Configuration Theory, Social Network Theory, Global Value Chain Theory and Upgrading Theory. These set of theoretical frameworks give such findings revealing significant relationships which exist between market operations and variables in the value chain activities such as revelation of significant relationships between logistics and the agro allied business owners and activities; between operational modes and results and; consumer service and business activities²³².

However, the research record an insignificant relationship between marketing and business activity. The overall conclusion of this study is that while marketing strategies are poor and low, value chain methods and procedures are used to effectively to attain impressive sale outcomes and they therefore enhance the activities of the SMEs in the agro sector²³³.

A researcher examines the role of commercial bank loans in the performances of SMEs in Nigeria, seeing SMEs as an important part of the country's economic sanity and asserting their presence and performance cannot be overlooked, the study identifies that they are still faced with numerous problems which affect their smooth running, the overall issue they face arise from the fact that they get low funding and commercial banks are at the core reasons for this according to the study, it argues further that they (commercial banks) are the reasons SMEs do not employ well enough because they cannot afford to either pay staff or pay enough due to unavailability of resources²³⁴.

The commercial banks are said to only be interested in profit making from loan disbursements hence, borrowing is at high interest rates or given to only bigger enterprises. Due to these findings,

the researchers recommend intervention support and policies from the SME Development Agency of Nigeria, Commercial Banks and Bank of Industry in giving out support to these SMEs. This finding agrees with the opinion of another researcher who confirms the essence of SMEs in national economic development while still highlighting issues they face as regards commercial bank loans²³⁵. The study recommends further that loans should be more accessible to SMEs and reduction in interest rates encouraged, it further discusses the need to make the naira value appreciated rather than depreciate in order to make imported goods and services less expensive and affordable. More support for locally made products and development of commercial banks in rural areas are more recommendations from the study.

As against the other findings of many researchers outside Nigeria which reveal the significant effect and relationship between bank loans to SMEs and the economy of a nation, some group of researchers' study contend that significant relationships do not exist between the variables and the national economy in Nigeria. Their study gives an overall assessment of bank loans, interest rates, SMEs and national economy spanning through the years of 1998-2017. Secondary sources constitute their data for analysis and they include data from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics between the concentrated periods. These secondary sources provide the researcher with the findings that little or no significant relationship existed between the examined variables and the Gross Domestic Profit of the country, hence, they leave the researchers to the recommendation that government should formulate and enact policies which creates a link between the SMEs and national economy, since the former account for a major part of the population, they have much significant to make in a nation's economy²³⁶.

The impact of Commercial Banks in financing small and medium scale enterprises (SMEs) in Nigeria for the period 2012 to 2020. The authors collected annual data from ten Commercial Banks and adopted panel data regression analysis. The results indicate that Commercial Banks have significant impact on SMEs' financing which implies that Commercial banks are capable of

making SMEs grow. In a related study, investigated empirically the impact of Commercial Banks' credit on small and medium scale enterprises in Nigeria between 1986 and 2012, using co-integration and error correction modeling technique. The findings revealed that SMEs and selected macroeconomic variables included in the model are co-integrated indicating a long run relationship between them. The findings further revealed that savings, time deposit and exchange rate have significant impact on SMEs' output in Nigeria, while interest rate has adverse effect²³⁷.

The paper therefore recommended among others that interest rate on credit facility granted to SMEs should be drastically reduced and soft loans devoid of stringent conditions be granted to the SMEs. Again examined the relationship between Commercial Bank credits indicators and availability of credit facility to small and medium scale enterprises in Nigeria. Using data extracted from the Central Bank of Nigeria (CBN) Statistical Bulletin for the period, 1980-2010 and adopting the generalized least squares estimation technique, the results showed that Commercial Banks' credits to SMEs have significant effect on Nigeria's economic growth by positively affecting gross domestic product. This implies that SMEs' financing is a great catalyst and driving force for economic growth. The paper recommended that soft and short term loans should be made available to SMEs for further growth²³⁸.

Furthermore, the access to credit is crucial for the growth and survival of small and medium scale enterprises (SMEs) utilizing data from 1992 to 2011 and adopting ordinary least squares regression, the study revealed that Commercial Banks' credit to SMEs and saving and time deposit of commercial banks exert a positive influence on SMEs' development while exchange rate and interest rate have adverse effects on SMEs' development. Therefore recommended that Commercial Banks should lend more to the SMEs at subsidized rate²³⁹.

The role of finance in the growth of small and medium scale enterprises in Edo State, Nigeria. The study adopted a survey research design and a sample of 122 respondents was used. Cronbach

Alpha was used to compute the reliability of the instrument and yielded 0.89. The findings showed that SMEs growth was hindered as a result of inability to access funds from financial institutions as a result of stringent policies required by banks and other financial institutions. Consequently, the authors recommended that necessary financial assistance should be given to the sector by government and other stake holders in order to accelerate the growth of SMEs in the rural communities to reduce the current unemployment and rural- urban migration. Funding has remained a major challenge to the growth of small and medium scale enterprises in Nigeria. This assertion was buttressed that 39 per cent of small scale enterprises and 37 per cent of medium scale firms in Nigeria are financially constrained. Arising from the issue of financial constraints to the growth of SMEs, some studies have documented that commercial banks have risen to the challenge in providing financial succor to the SMEs to support their growth in Nigeria²⁴⁰.

Examined the impact of bank loans on manufacturing output in Nigeria between 1992 and 2010. Utilizing error correction modeling technique, the findings indicated that banks' credit to the SMEs had significant impact on manufacturing output both in the short run and long run. On the other hand, a number of studies have shown that commercial banks' role in extending credit to the SMEs in Nigeria is not impressive. For example, Central Bank of Nigeria revealed that Commercial Banks' advances to SMEs have been on the decline over the years. Commercial Banks loans to SMEs as a percentage of total credits, decreased from 48.79 per cent in 2012 to 0.15 per cent in 2020. Other studies that share this view that Commercial Banks have not played a substantial role in small and medium business lending. The contribution of commercial banks to the growth of small and medium scale enterprises. The study adopted descriptive method of analysis using ratio and trend analyses. It was discovered that Commercial Banks contribute in financing SMEs but their contribution has declined as government via the Central Bank of Nigeria (CBN) directed that mandatory banks' credit allocation be abolished²⁴¹.

The impact of 2014 banking reforms on the financing of SMEs in Nigeria was examined. The study used a randomly chosen sample size of 500 respondents and employed Chi square test. The results revealed that there is no significant impact of 2014 banking reform on the financing of SMEs in Nigeria and suggested that there are some constraints that militate against access to credit from Commercial Banks by SMEs²⁴².

In a related study, the impact of post-bank consolidation on the performance of small and medium scale enterprises in Nigeria, using Lagos state as a case study. They drew a sample size of 50 from the supra-population of the study within Ikeja local Government area of the State and adopted mean, standard deviation and coefficient of variation in their data analysis. The findings showed that small and medium scale enterprises do not have access to finance through banks, due to neo-reorganization in banks as a result of post-bank consolidation and SMEs do not have perfect rapport with financial institutions as a result of their financial background in Nigeria. From the foregoing empirical literature, results are mixed on the role of Commercial banks' financing of SMEs in Nigeria. While some studies maintained and affirmed that Commercial Banks have contributed immensely to the growth of SMEs, others debunked such claims and opined that no substantial contribution has been made by Commercial Banks towards the growth of SMEs in Nigeria. This suggests that there is no consensus among researchers on the role of Commercial banks in the growth of SMEs in Nigeria. The debate rages on. This paper is therefore one of the several attempts to contribute to the on-going debate²⁴³.

Theoretically, the finance led growth hypothesis provides a veritable framework and a lucid explanation for the link between banks' credit and the growth of the SMEs. This theory, which was propounded by Schumpeter, maintains that the activities of the financial institution serve as a useful tool for increasing the productive capacity of the economy. In concrete term, the finance led growth hypothesis emphasizes that the existence of financial institution and the supply of their financial assets, liabilities and related financial services in advance of demand for them would

provide an efficient allocation of resources from surplus spending units to deficit units, thus boosting investment which in turn stimulate growth²⁴⁴.

A number of studies have argued in favour of the finance led growth hypothesis. These studies acknowledge the role played by banks in facilitating technological innovation by identifying and supplying credit to entrepreneurs with the least chances of implementing innovative products. Another theory that provides a useful explanation on the relationship between banks' credit and the growth of SMEs is the bank capital channel theory of monetary policy. According to this theory, monetary policy affects the supply of intermediated credit, particularly bank loans and is active through an imperfect market for bank debt. Given the different transmission mechanisms through which monetary policy affects economic activities, an expansionary monetary policy will increase money supply which will in turn increase Commercial Banks' reserve and their ability to create credit to investors including SMEs at reduced interest rates²⁴⁵.

On the other hand, a restrictive or contractionary monetary policy leads to a reduction of Commercial Banks' reserves which inhibits their ability to lend to the business public. Under a restrictive monetary policy regime the interest rate at which Commercial Banks borrow from the Central Bank is high and in like manner, the rate at which they lend to the business public is high. This model considers the lending behaviours of banks to SMEs to be influenced by capital adequacy requirement with interest rate as a major determinant. This theory is linked to many scholars. The dictates of monetary policy as purported by this theory in no small measure affect the relationship between Commercial Banks and small and medium scale enterprise in Nigeria²⁴⁶.

Data extracted from the CBN Statistical Bulletin between 1992 and 2015 reveals the negative relationship between these SMEs and poverty in the Nigerian economy. The implication of this is that SMEs are not properly assisted to help drive the nation out of poverty, hence the study recommends that the government should prioritise policies that pay attention and better assistance

to SMEs. This is in furtherance to another research which also uses same statistics between 2001 and 2017 and finds that SMEs are very powerful to promote activities which could grow the economy of the nation, yet statistics proved well enough that loans granted to SMEs and SMEs activities could not even bring reflecting returns to the national economy, no significance and no economic pull²⁴⁷.

This is also blamed on poor funding, thus also recommending just like other researches: the need to give more affordable loans to SMEs. It has been recommended further that monetary policies be formulated and looked into in such manners that they do not affect lending rate as well as hinder the survival of SMMEs. Outside Nigeria, in Africa, there are also empirical studies focusing on SMEs, commercial banks and policies establishing correlations, significances and variables which exist. A thesis conducted in Ghana examines the challenges faced by SMEs in accessing loans for business support and from a quantitative approach, even though the research acknowledges that both banking and non-banking financial institutes in Ghana are willing to give financial assistance to SMEs, there are still a host of other factors affecting their accessibility to these loans²⁴⁸.

The study finds out that collateral issues, high interest rates with very short payment periods which makes it difficult to pay back and finally the high record of loan defaulters who could not meet up with the payment schedule or amount. Implied from this study is that the researchers do not find faults with the loan terms and conditions from the institutions but blames the fact that SMEs could not afford to meet up with such terms and conditions in accessing loans. Thus, the study gives recommendations which calls on governmental policies to help close the gap between the loans accessibility and factors hindering them. Such recommendations include: the establishment and use of what they term “factoring services”; incentives to lending banks by the government and the enactment of the Credit Reporting Act (CRA)²⁴⁹.

A researcher in Kenya has studied how access to information and communication patterns affect access to loans for SMEs, the research investigates 599 registered and licensed SMEs in a city in Kenya (Meru County Municipality). The study finds out the importance of having access to accurate loan information which helps give important guidelines on how and what loan to take considering factors such as payment terms, interest rates and periods. It goes further to recognize the importance of providing accurate information by SMEs to banks as well. Thus, recommendations are that SMEs should be provided more with accurate and transparent information about loans they are about to take in order to measure risks involved. More so, SMEs should also be truthful and accurate in supplying details to banks who will lend them these loans in order to allay the fear/suspicion of fraudulent activities which may affect repayment of such loans²⁵⁰.

Another researcher in Tanzania is concerned about why loans are not often given to SMEs rather than why SMEs do not have access to loans. This implies that SMEs are often found to not possess convincing criteria for loan grant. Data for analysis are extracted from secondary sources of World Bank reports and brochures as well as primary sources which include open ended interviews for selected commercial banks. The analysis reveal the following findings: banks do not want to give out loans in some sectors which are considered too risky; lack of proper documentation by these SMEs which discredits them from qualifying for loans since their documentation are either considered risky, not worthy or dubious; lack of understanding by these SMEs on type of business to do, what business they are already engaged in, no proper direction and no possible future existence for such business²⁶⁰.

These factors are crucial and necessary for consideration by the commercial banks, hence, they look out for such factors like these which hinders them from approving certain loans. Hence, the study recommends that SMEs should not rely on loans alone for business survival; be provided with enough guides and orientation on business and loan seeking measures and government

intervention in loan process. These steps will guide SMEs decision making and provide them with better survival strategies²⁶¹.

In order to give a sketch of governmental policies as they affect SMEs, some group of researchers in China examine the relationship between the financial inclusion policy in China and the high bank concentration in identifying its consequences on SMEs. The research is anchored on the Market Power Theory and Information Theory, it studies how SMEs were affected by the financial inclusion policies which gave rise to emergence of firms in the banking sector, hence, making debt financing a bit difficult to access. Findings on the effect of bank concentration and financial inclusion on SMEs debt financing provides that there is a dynamics of improvement in credit availability to SMEs; further findings also reveal that the purpose of the financial inclusion policy on SMEs is affected by bank concentration, the latter seem to benefit more from the policy leaving out SMEs, consequently, smaller and private firms are not at an advantaged position as regards the access to resources; lastly, regional laws play minute role as national laws are more at play in finance ability²⁶².

As the global economic crisis hit China leaving devastating effects, a researcher has examined the effects of these crises on SMEs in china. Thus, the study focuses on the crisis and its effects as it touches every part of citizens' lives and businesses not leaving out SMEs, the study projects SMEs as integral part of a nation's economic development, hence, effects identified from these crisis include: drastic reduction in development rate regarding the economy, this is attributed to influence of globalization and interconnectedness and not restricted to SMEs alone but the Chinese economy in general. Fluctuation existed at a point but the overall effect was reduction. More so, export rate was not on the rise but became very slow and further worsened by a heavy drop in home and international demand. The effect also saw a decline in the fixed asset investment of the Peoples' Republic of China²⁶³.

The overall effects of these crisis had tremendous negative impacts on the existence and operations of SMEs too, aspects of effects on SMEs include: inconsistency in growth rate of number of SMEs (SMEs present in China as at 1996 were 82000 but dropped by 17.3% by 1997); fluctuation in the increase and decrease of employee statistics (it recorded loss of jobs and decrease in number of employed people. By 1996, China recorded a growth rate of 8.7%, by 1997, it decreased to 8.5%, by 1998, there was a rapid rise to 12.36% and by 1999, it dropped drastically to 2.06%); affecting the Investment Growth Rate (fell from 43.1% rate in 1996 to 37% rate, rose to 40% rate in 1998 and dropped heavily to 36.3% in 1999). Among other effects on SMEs include: decline in growth rate of production and production activities; low export and poor access to credit. After such effects were witnessed, the study also identifies efforts embarked upon by the Chinese government to put the economy on check. Active fiscal policies were embarked on, monetary policies were rather in favour of the citizens and business owners (interest rates were reduced, restrictions on lending were lifted and softened, reserve ratio for banks was brought down and there were more money into the economy); more important, there was increasing and dedicated attention and support for SMEs²⁶⁴.

Banking services have been found to be poor as compared to loan services in China, based on a stylized comparison model, a researcher compares the banking services in China, U.K, USA and Germany, findings reveal that within the scope of policies, infrastructure, credit activities and relationship Chinese banks do favourably well compared to other developed countries, however, there is need for improvement in banking services as such aspect is found to be lacking²⁶⁵.

The latter days of 2019 saw the breakout of COVID-19 in China while throughout 2020, the virus broke out globally and became a pandemic. Owing to this, there were several devastating effects of the virus on every aspect of human's life and national economy. In china where it broke out, it became worse and the country was on early lockdown, efforts to curtail the spread of the virus were met by several other consequences on the economic strength of China which does not leave

out the SMEs as well. This justifies the essence of a research which examines the impact of COVID-19 on SMEs and Line of Credit (LOC) in China. Demands of SMEs from financial lending institutions increased rapidly during the pandemic, while SMEs of State Owned Enterprises still got support, SMEs from non-state Owned Enterprises got affected mostly as well as SMEs who had minute or no relationships with banks too. They could hardly access loans to support their business in such difficult times. Therefore, the study recognizes the importance of governmental policies which also focus on Non-State Owned Enterprises and SMEs with no cordial or working relationships with banks. Since SMEs are integral part of the nation's economy, it is believed that they become part of solution to economic problems²⁶⁶.

Finally, two researchers project ways of tackling financial issues facing SMEs in China. Their study also recognizes the active roles of SMEs in Chinese economy, yet, they still emphasise that these SMEs face obstacles which affect their businesses especially in smaller cities which make recognition difficult, and they include but not limited to finance related issues, difficulty in paying tax, business location/environment, fear of bankruptcy which affects loan approval and unaffordable collateral. Based on these problems, SMEs, suggested solutions by these researchers include encouragement of financial access which implies that there should be leniency in accessing loans and there should be government policies which takes priority in them, hence, government can pay attention to the capital market and broaden collateral terms to give room for more collateral options. Fiscal measures are also discussed and other finance measures which are available as a result of technological improvement are also suggested²⁶⁷.

Instances of SME activities, policies and impacts on national economic development are depicted in researches conducted in the United States too, these issues and policies have not been left undiscussed by researchers²⁶⁸.

Another research in the USA examines the status of banks, loans and SMEs, the research exemplifies the presence of large numbers of small businesses in the USA (employee and non-employee businesses) who also pay tax and get loans from banks and Bank Holdings Companies. There are much presence of loan banks operating competitively in mega cities, major urban centres and even the growing rural areas. Their existence has been considered a remarkable development in the economy of the United States since they allow access to loans for small and medium scale enterprise.

The study recognizes the lack of registration of SMEs and even the seizure of business licenses of SMEs, yet there are still majority of them. In a statistics provided by the study, there are 23 million small businesses firms as of 2003, out of them, 5.7 million consists of employer firms (firms with employees) while 18 million consists of non-employer firms (firms without employees). These firms are small in employee population and financial worth, hence most survive on loans from banks and other financial institutions. Their financial support span mainly from loans and credits and according to statistics with banks taking 38% as loan givers, they end up owing loans with some unable or struggling to pay back²⁶⁹.

Based on the review above, it is essential to provide a review of another research which examines the effects of small loans by small banks on business growth of SMEs, this study sees small banks as saviours for small businesses due to low interest rate compared to big banks and Bank Holding Companies (BHC). A group of scholars from the US Small Business Administration examined the effects of small loans on growth of small businesses and banks, with the aid of secondary resources from the FFIEC Community Reinvestment Act (CRA) which encourages depository acts from banks in order to help communities, both growing, high earning and low earning people attain credit and spending needs; Business Dynamics Statistics (BDS) which measures dynamics and activities of businesses in relation to services rendered (job creation, employee status, birth and death, etc); The FDIC Consolidated Reports of Condition and Income which examines and

keeps track of bank assets such as entry status, exit status and account progress of up to 21818 banks between 1984-2019, their research is able to provide empirical evidences as to the importance and relevance of small loans for business performances especially small and growing businesses. Hence, the study reveals that such loans granted to the SMEs increase their asset growth and push for enough capital which further eliminates reliance on large banks for loans which require huge interest rates which may be unaffordable²⁷⁰.

The study finally concludes by recommending prioritization of government assistance and concentration on policies which help grow SMEs such that they get loan availability, help in eradicating unemployment issues, promote job creation, reduce dependency on big banks for loans and finally contribute to national progress. The employs Co-integration and Error Correction Modelling (ECM) techniques to investigate empirically the impact of rural bank loan on Nigeria's Small and Medium Scale enterprises (SMEs) between 1986 and 2012. The results revealed that SMEs and selected rural bank loan have a long run relationship with SMEs output. The variables were on SMEs, rural bank loan to Small scale enterprises, Savings and Time deposit with Commercial rural banks, Exchange rate of naira, Interest rate, number of commercial bank and Total government expenditure. The study also reveals that savings time deposit and exchange rate have a significant impact on the performance of SMEs in Nigeria. Furthermore, commercial bank credit to SMEs, total government expenditure and bank density has direct but insignificant impact on the country SMEs output this may be connected with stringent policy in accessing credit facility and the crowd out effect of government expenditure in the economy. The study also shows that interest rate has adverse effect on SMEs output²⁷¹.

Examines the role of commercial rural banks in financing small and medium size businesses in Nigeria. The main objective of the study is to examine the role of commercial rural banks in financing SMEs in Nigeria. Structured questionnaire were distributed to the respondents which includes the commercial banks staff and selected SMEs staff in Anambra State Nigeria. Three

research hypotheses were tested using the chi-square. However, the 109 questionnaire administered to the bankers and SMEs were analyzed and presented in tables with the use of percentage and chi-square method. Therefore, the study found that small and medium size businesses encounter problem in the procurement of loans from commercial banks; also commercial rural banks have contributed immensely to the development of SMEs through their loans and advances²⁷².

The effect of rural Bank Lending on small and medium scale enterprises lending in Nigeria. It is based on this, the study employed time series data from 2012 to 2022 to examine the impact of rural bank lending on small and medium scale enterprises (SMEs) lending in Nigeria using Augmented Dickey-Fuller (ADF) unit root test, Johansen co-integration test and vector error correction model techniques. The unit test results indicated that all the variables were non stationary at level but became stationary after first difference. The Johansen co-integration test showed evidence of long run relationship between small and medium scale enterprises lending and rural bank lending. The vector error correction model results revealed that lending to small and medium scale enterprises leads to economic growth in Nigeria. Also, the study found that bank lending rate does not impact on SMEs lending in Nigeria. The implication of these results is that lending to small and medium scale enterprises is crucial to the growth of Nigerian economy²⁷³.

The effects of rural commercial banks and growth of small and micro enterprises operating in Nairobi Central Business District. The study sought to answer the following research questions; How does collateral requirements by commercial banks affect growth of SMEs? How does financial information required by Commercial Banks at the appraisal stage affect growth of SMEs, How does interest rates charged by Commercial Banks affect growth of SMEs? and how has interest rates capping affected uptake of credits by SMEs? This study used descriptive survey research design and targeted a population of 838 respondents operating SMEs in the Nairobi

Central Business District. A sample size was computed using Yamane formulae. 225 respondents were interviewed from each shop selected. Questionnaires were used to obtain important information about the population. The study used both primary and secondary data. Primary data is the information the researcher obtained from the field. Primary data was collected using semi-structured questionnaires. The questionnaires were administered using the drop and pick method. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyze the data²⁷⁴.

The effect rural bank credit on small and medium scale enterprise in Kenya from 1985-2015, the study used ordinary least square method for its analysis, the variables were on commercial bank rural deposit, rural loan, interest rate, inflation rate and small and medium scale enterprises. The study also found a strong positive correlation between SMEs growth and development and knowledge on financial information where the correlation coefficient was 0.633. More so a strong negative correlation between SMEs growth and development and high interest rates was found as the correlation coefficient was - 0.602. Lastly the study also found a strong negative correlation between SMEs growth and development and interest rates capping (correlation coefficient = - 0.648). The study concludes that Collateral requirement has been one of the major hindrances for SMEs access to credit from commercial banks. Majority of the SMEs owners do not have sufficient collateral which is a major requirement for credit access. The current banks' lending rates have discouraged many SMEs owners to go for short term and long loans for their businesses, SMEs owners were not satisfied with the lending terms because of high interest rates, short repayment period and long-time taken to process the credit facility²⁷⁵.

The effect of bank financing on the financial performance of SMEs in Nairobi County, Kenya. This research was conducted through a descriptive research design. The descriptive research design was considered appropriate as it enables description of the characteristics of certain groups, estimation of the proportion of people who have certain characteristics and making of predictions.

This study used quantitative, secondary data. The secondary data sources were obtained from the KPMG Top 100 SMEs survey in Kenya over a period of 5 years (2009-2013). The data was collected based on the information about the variables. Quantitative data was analyzed by descriptive analysis while qualitative data through content analysis. The study provides information to policy makers, scholars, academicians and investors on the effect of bank financing on the financial performance of SMEs. From the findings, the study established that bank financing and SMEs' size positively affected the SMEs' financial performance while SMEs' tangibility had an inverse relationship with the SMEs' financial performance²⁷⁶.

The impact of bank recapitalization on both credit availability to and equity investment in SMEs in Nigeria. The study formulates three hypotheses and applies three sets of simple regression to analyse banks aggregated secondary data extracted from various Central Bank of Nigeria(CBN)'s publications over the period 2001 through 2008. The study couldn't find evidence that bank recapitalization has significant impact on credit availability to SMEs but confirms that it has significant impact on banks' equity investment funds under Small and Medium Enterprises Equity Investment Scheme (SMEEIS). The study therefore, recommends that the Federal Government should come up with credit guarantee scheme to motivate banks to grant more credit to the SMEs. Also, CBN should facilitate the emergence of smaller banks that will provide an alternative to the preference of megabanks to finance big-ticket transactions at the expense of small borrowing such as that of SMEs. Furthermore, CBN should embark on awareness campaign to sensitize SMEs on SMEEIS and the requirement for accessing the funds in view of the gap observed between funds available and funds disbursed under the scheme²⁷⁷.

The impact of commercial banks in financing small and medium scale enterprises (SMEs) in Nigeria between 2010 and 2020. A sample of ten (10) commercial banks is drawn for the study and individual bank data and macroeconomic time series annual data were collected. Using panel data regression analysis, the results reveal that commercial bank has significant impact on SMEs'

financing as deduced from the results of constant effect, fixed effect and random effect models which show that commercial banks credit to SMEs, the ratio of credit to SMEs to total credit in the economy and equity of commercial banks explain a substantial proportion of changes that arise in SMEs' financing. This study suggests that commercial banks are capable of making SMEs grow²⁷⁸.

The relationship between SME credit and each of Unemployment and poverty respectively, using Pearson's correlation, and further examines the impact of Deposit money bank credit to SMEs on economic growth in Nigeria using Ordinary least squares regression. Data employed for this study was annual data from 1992 to 2015 obtained from the Central Bank of Nigeria Statistical Bulletin. The Pearson's correlation revealed a negative but insignificant relationship between SME credit and Unemployment, and a negative and highly statistically significant relationship between SME credit and poverty. The results of Ordinary Least Squares regression revealed that SME credit has a negative and highly statistically significant impact on economic growth in Nigeria. s the creditworthiness of SMEs in applying for loans, amongst other recommendations²⁷⁹.

Investigate the relationship between SMEs and economic growth of Nigeria. Their findings reveal that SMEs activities are growth enhancing through expansion in output and other various means of survival. However, academic tussles do prevail in the position of financial systems in SMEs. Empirically, adopted content analysis and found that financial intermediaries have an insignificant effect on the growth and development of SMEs, which may result in erosion of credit standards by bank repetitive risk, and insufficient regulation of microfinance institutions. However, results show that financial inclusion contributed positively to the success of SMEs using survey data. They employed content analysis and obtained that Mobile Money Transfer (MMT) has an increasing effect on the number of micro-businesses and enhances performance²⁸⁰.

The effects of financial inclusion on SME growth and economic development in Nigeria and revealed that financial inclusion (measured by mobile banking, banking services, and banking penetration) has a significant and positive effect on the growth and development of SMEs. Similarly, The financial inclusion with dimensions (mobile banking, banking services, and banking penetration) has a significant and positive effect on the growth and development of SMEs Furthermore, employed cross-sectional survey data and observed that financial inclusion positively and significantly impacts the operations and growth of MSMEs in Nigeria. Likewise, similar technique of analysis and discovered that the financial inclusion of business players can mediate the determinants of the success of SMEs in Indonesia²⁸¹.

The effect of financial on SME's contribution to economic growth using the OLS method and found that financial inclusion can boost SMEs through access to a loan in Nigeria. Survey data to investigate the effect of financial inclusion on SMEs and found that financial inclusion significantly influences small-scale entrepreneurs. The effect of financial inclusion and literacy on the performance of agro-based SMEs in Yobe using survey data. The findings revealed that financial inclusion has a significant and appreciating effect on the performance of agro-based SMEs in Yobe State²⁸².

The impact of banks loan to SMEs on manufacturing output in Nigeria for the period spanning 2010 to 2020. Employing error correction modeling technique, the study deduced that bank loans to the SME sector had significant impact on manufacturing output both in the long and short run²⁸³.

The impact of post-bank consolidation on the performance of SMEs in Nigeria, with special reference to Lagos State. A sample size of 50 was drawn from the supra-population of the study within Ikeja Local Government in Lagos State. Applying mean, standard deviation and coefficient of variation in its data analysis, the study revealed that SMEs do not have better access to finance

through banks, due to neo-reorganisation in banks as a result of post-bank consolidation and SMEs do not have absolute rapport with the financial institutions due to their financial background in Nigeria²⁸⁴.

The effect of access to credit on the growth of SMEs in the Ho Municipality of Volta region of Ghana by using both survey and econometric methods. The survey involved a sample of 78 SMEs in the manufacturing sector. Both the survey and econometric results showed that access to credit exerts a significant positive effect on growth of SMEs in the Ho Municipality. Obamuyi (2011) compared the performance of loans granted to SMEs by banks with that of micro-credit institutions in Nigeria, using Ondo State as a case study. Analysing through descriptive statistics, the study revealed that the average repayment rate for banks was 92.93% and 34.06% for micro-credit schemes; hence, suggested that banks performed at much higher levels than micro-credit schemes²⁸⁵. They examined how diversified operations of banks impact their loans to SMEs by using panel data on 28 banks. The result indicated that as aggressive derivatives traders, the impact of its total assets on SMEs loans is positive at 1% significance level and credit guarantees positively impact SME loans at 1% significance level, implying that large banks are encouraged to make loans to SMEs through the assistance of the credit guarantees scheme. There is a relationship between interest rates and the demand for credit as well as interest rates and loan repayment by the poor and the SMEs in Ghana. The results showed a negative relationship between interest rates and demand for credits as well as interest rates and loan repayment. The study suggested that lowering interest rates would increase the poor and SMEs demand for credit and loan repayment at banks and non-bank institutions which can be achieved through the amendment of the fiscal policy by the government²⁸⁶.

The Infrastructural constraints that militate against efficient performance of SMEs in the country. Findings of study revealed that manufacturing SMEs has a statistical significant relationship with industrial growth in Nigeria. The examined the factors that determine the growth of SMEs in

Nigeria for the period 1990-2018. Outcome of the study suggest that credit facilities, interest rate as well as inflation rate are key determinants of the growth and survival of SMEs in Nigeria. The relevance of the manufacturing SMEs to the growth 2of the Nigerian economy. Results of the study showed that the manufacturing SMEs made sizable contributions to the sustained increases in gross domestic product²⁸⁷.

The growth effect of SMEs financing in Nigeria. The result of study revealed that the variables – SMEs output by wholesale and retail trade as a component of GDP, commercial banks credit to SME and exchange rate of naira to the US dollar exert positive influence on economic development. The impact of SMEs financing on the economic growth of Nigeria Outcome of study revealed that loans to SMEs and other variables except money supply and deficit financing exerted a positive impact on GDP growth. The impact of financial reforms on the growth of small and medium scale enterprise in Nigeria. The study recommended that government should create an enabling environment to ease the cost of doing business in Nigeria²⁸⁸. The contributions of micro finance banks to the development of SMEs in Lagos and Ogun state of Nigeria. The result obtains showed that there is a low positive correlation between micro loan received by entrepreneurs and business expansion of MSMES in Nigeria.

2.4 Conceptual Model

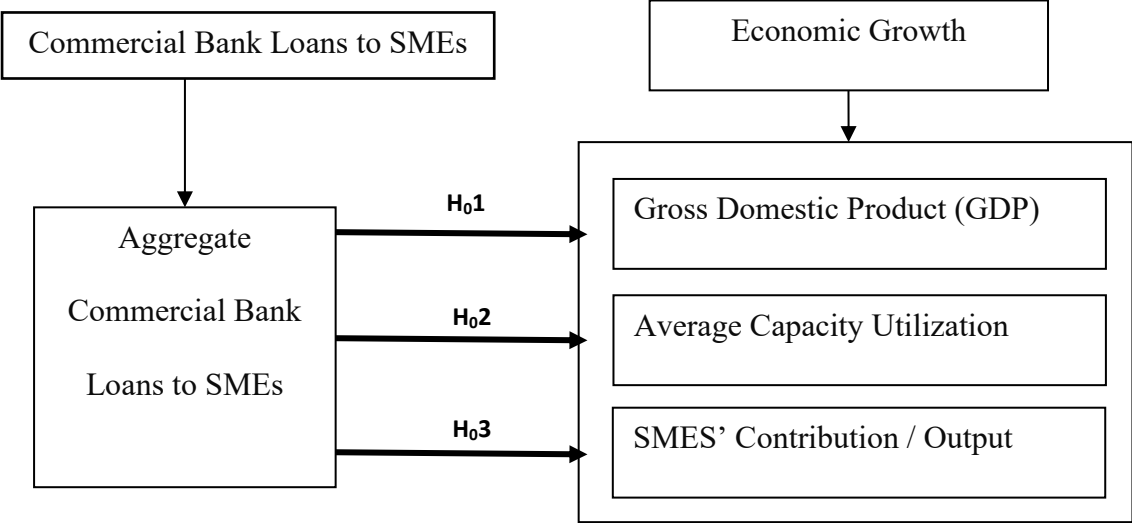


Fig 1: Conceptual Model of Commercial Bank Loans to (SMEs) and Economic Growth
Source: Researcher, 2023

The conceptual framework provides a clear structure for understanding the relationship between commercial bank loans to SMEs and various economic outcomes in Nigeria. The framework highlights the independent variables (commercial bank loans to SMEs), dependent variables (GDP, average capacity utilization, and SMEs’ contribution to GDP). The proposed study will use regression analysis to evaluate the relationship between commercial bank loans and the dependent variables. The hypotheses proposed in the framework suggest that an increase in commercial bank loans to SMEs will lead to an increase in GDP, average capacity utilization, and SMEs’ contribution to GDP. This relationship is expected to be mediated by the effect of increased loan availability on investment in fixed assets, job creation, expansion of operations, and improved access to market.

This conceptual framework can provide valuable insights into the impact of commercial bank loans to SMEs on the economy of Nigeria. The results of the study can inform policy decisions related to SMEs finance and support the development of strategies for promoting economic

growth and development in Nigeria. The study may also have implications for other developing countries facing similar challenges in promoting SME development and economic growth.

According to Table 4.7 above, 34 respondents, or 37.0%, agreed that monitoring internal control systems ensures adherence to relevant rules and regulations. Thirty (32.6%) strongly agreed with the statement, eleven (12.0%) were unsure, eight (8.7%) disagreed, and nine (9.8%) severely disagreed. According to this research, internal control system monitoring ensures compliance with all relevant laws and regulations. It can be inferred from the analysis that every employee's work check on the others since item 2 on table 4.7 shows that 50 (54.3%) of the respondents agreed, 34 (42.4%) strongly agreed, 2 (2.2%) were undecided, and 1 (1.1%) strongly disagreed with the statement. Table 4.7's item 3 reveals that 37 respondents (40.2%) agreed that internal auditors oversee the organization's financial operations. This research shows that internal auditors are active in monitoring the financial operations of the firm. Of the 47 respondents, 51.1% strongly agreed with the statement, 3.3% were unsure, 3.3% disagreed, and 2.2% severely disagreed. Table 4.7's item 4 reveals that among the respondents, 41 (44.6%) agreed that internal audit unit controls prevent restricted access to bank assets, preventing loss and abuse; 45 (48.9%) strongly agreed with the statement; 2 (2.2%) were unsure; and 3 (3.3%) disagreed. While 1 (1.1%) strongly disagreed with the statement, our study reveals that the internal audit unit's control over access to bank assets prevents loss and misuse by restricting limited access.

2.5 Summary of the Gap in Literature Reviewed

The current body of literature in the field of this study presents several notable gaps and areas that require further research. One prominent gap is the absence of empirical studies that directly investigate the effect of commercial bank loans on Small and Medium Scale Enterprises (SMEs) in Nigeria, especially concerning their impact on economic growth indicators, such as Gross Domestic Product (GDP). Existing literature tends to be largely theoretical in nature, and there is a scarcity of data-driven analyses, which are crucial for understanding the real-world dynamics at

play. Furthermore, the specific objectives outlined in this study, including examining the impact on GDP, evaluating capacity utilization, and investigating SMEs' contributions to GDP, are not extensively covered in the current literature. These objectives represent essential aspects of understanding the economic consequences of bank loans on SMEs, making them significant knowledge gaps that warrant further investigation.

Moreover, while some research exists on the general topic of SME financing and its influence on economic growth, there is a distinct need for studies tailored to the Nigerian context. Economic conditions, policies, and the dynamics of the financial sector can significantly differ in Nigeria compared to other regions. Therefore, research specific to the Nigerian environment is crucial to provide a more accurate and relevant understanding of this relationship. The dynamic nature of economic conditions and the financial landscape implies that many existing studies may not reflect the most current state of affairs. Research that incorporates up-to-date data is essential to provide insights into the contemporary conditions and dynamics of SME financing in Nigeria.

Lastly, existing literature may not adequately explore the policy implications of the relationship between commercial bank loans and SMEs concerning the overall economic growth of Nigeria. This study seeks to address this gap by offering a more nuanced understanding of how policy decisions can influence SMEs' access to bank loans and, consequently, impact the nation's economic development.

The literature gap in this area underscores the need for comprehensive research to provide valuable insights into the intricate interplay between commercial bank loans, SMEs, and economic growth in Nigeria. Such research will contribute to a deeper and more holistic understanding of this critical aspect of the nation's economy.

Endnotes

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Chapter Three

Methodology

This chapter presents the methodology used in the study and covers the following topics: Research design; study area; study population; sample of the study; sampling methods; research instrument description; validity of research instruments; reliability of the instrument; data collection methods and data analysis methods.

3.1 Research Design

This study adopted *ex-post facto* research design because the study will rely on secondary data¹. Secondary data for this study will be extracted from Central Bank of Nigeria (CBN) statistical bulletin and annual financial reports, data were extracted from commercial banks annual financial report which the study time frame of observation.

3.2 Population

The population of the study consists of the entire Nigerian economy and small and Medium Scale Enterprises (SMEs) that have received commercial bank loans. The data was drawn from bulletin of the Central Bank of Nigeria (CBN) for the period of ten years that from 2013 to 2022.

3.3 Sample Size and Sampling Technique

The sample for this study were selected using a purposive sampling technique, where only SMEs that have received commercial bank loans were included in the sample as it appears in the bulletin of the Central Bank of Nigeria (CBN) for the period of ten years that from 2013 to 2022². The scope of this study was limited to a period of observation of ten (10) years which span from 2013 to 2022.

3.4 Description of Research Instrument

The research was based on secondary data obtained from the CBN bulletin and other relevant sources such as financial reports, statistics, and articles. However, commercial bank loans to SMEs which is independent variable were measured with commercial bank loans to SMEs rate, dependent variables were measured with GDP, average capacity utilization, and SMEs' contribution to GDP

Model Specification

The model specified was based on empirical studies on the commercial bank loans to SMEs and economic growth in Nigeria,

This shows the relationships among variables;

$$Y = f(X)$$

Y = Dependent Variable

X = Independent Variable

Where

Y = economic growth

X = commercial bank loans to SMEs

$$Y = (GDP_1, ACU_2, SMEs-OUTPUT_3)$$

$$X = (CBL-SMEs_1)$$

Where: y_1 = Gross Domestic Product

y_2 = average capacity utilization

y_3 = SMEs' contribution / Output

x_1 =commercial bank loans to SMEs

The Modelling structure of the study on the commercial bank loans to SMEs and economic growth in Nigeria is adapted from the study

$$\text{GDP} = f(\text{CBL-SMEs}) \text{ ----- Equation 1}$$

$$\text{ACU} = f(\text{CBL-SMEs}) \text{ ----- Equation 2}$$

$$\text{SMEs-OUTPUT} = f(\text{CBL-SMEs}) \text{ ----- Equation 3}$$

Transforming equation 1,2 and 3 above to econometrics model we have;

$$\text{GDP} = \alpha + \beta_1 \text{ CBL-SMEs} + e \text{ ----- 4}$$

$$\text{ACU} = \alpha + \beta_1 \text{ CBL-SMEs} + e \text{ ----- 5}$$

$$\text{SMEs-OUTPUT} = \alpha + \beta_1 \text{ CBL-SMEs} + e \text{ ----- 6}$$

Where;

GDP: Gross Domestic Product

ACU: Average Capacity Utilization

SMEs-OUTPUT: SMEs' contribution / Output

CBL-SMEs: Commercial Bank Loans to SMEs

μ : Error Term

β_0 : Regression Intercept

β_1 Coefficient of the independent Variable to the dependent variable

3.5 Validity of Research Instrument

The validity of the research instrument was established by ensuring that the data collected is relevant and appropriate for the study, and that the data sources are reliable and credible.

3.6 Reliability of Research Instrument

Secondary data collected from statistical bulletins of organizations such as the World Bank or the Central Bank of Nigeria (CBN). To assess the reliability of secondary data collected from these sources, the study considered the following factors:

1. **Reputation of the Source:** The World Bank and CBN are well-known and reputable organizations known for their expertise in data collection and analysis.
2. **Timeliness of Data:** The data should be up-to-date and relevant to the study.
3. **Consistency and Coherence of Data:** The data should be consistent with other data sources and should not contain any outliers or discrepancies.

3.7 Method of Data Collection

Secondary data was used for this study. The data for this study was collected from the CBN bulletin and other relevant sources such as financial reports, statistics, and articles. The period covered from 2013 to 2022.

3.8 Method of Data Analysis

Method of data analysis refers to the various ways data gathered are analysed to address the research objectives. For this study a linear regression model is proposed, and various econometrics tools will be adopted as method of data analysis. Data analysis method will include: descriptive statistics (the essence of using descriptive statistics was to clearly describe the overall character and distribution of the data) and econometric tools (this was adopted with the use of regression analysis, unit root test and Co-integration test) and inferential statistics such as correlation and regression analysis to investigate the effect of commercial bank loans to SMEs on GDP, average capacity utilization and SMEs' contribution to GDP in Nigeria.

Endnotes

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Chapter Four

Results and Discussion of Findings

The conclusions of the investigation are presented in this chapter. The findings were based on the hypotheses that were raised in accordance with the study's objective.

4.1 Analysis of Diagnostic Test

Table 4.1 Unit Root Test: Augmented Dickey-Fuller Test Statistic

		t-Statistic	Prob.*
Null Hypothesis: average capacity utilization, Contribution to GDP, Loan to SMES, and GDP has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=4)			
Augmented Dickey-Fuller test statistic		3.829701	0.0235
Test critical values:	1% level	3.769597	
Average Capacity Utilization	5% level	3.004861	
	10% level	2.642242	
Augmented Dickey-Fuller test statistic		3.866352	0.0494
Test critical values:	1% level	3.769597	
Contribution to GDP	5% level	3.004861	
	10% level	2.642242	
Augmented Dickey-Fuller test statistic		3.930091	0.033
Test critical values:	1% level	3.769597	
Loan to SMES	5% level	3.004861	
	10% level	2.642242	
Augmented Dickey-Fuller test statistic		3.823871	0.0450
Test critical values:	1% level	3.788030	
GDP	5% level	3.012363	
	10% level	2.646119	

Source: Field Survey, 2023

The table 4.1 present the results of the Augmented Dickey-Fuller (ADF) test for four different variables: Average Capacity Utilization, Contribution to GDP, Loan to SMES, and GDP. The null hypothesis for all four tests is that the variables have a unit root, indicating non-stationarity.

The ADF tests were conducted with a lag length of 0, determined automatically based on the Schwartz information criterion (SIC) with a maximum lag of 4. The tables show the ADF test statistic, t-Statistic, and its corresponding p-value, Prob.*, along with the critical values for 1%, 5%, and 10% significance levels.

For Average Capacity Utilization, the ADF test statistic value of 3.829701 is greater than the critical value of 3.769597 at the 1% level of significance, and the corresponding p-value of 0.0235 is less than the conventional significance level of 0.05. These results suggest that we may reject the null hypothesis that the variable has a unit root, indicating that it is stationary.

For Contribution to GDP, the ADF test statistic value of 3.866352 is also greater than the critical value of 3.769597 at the 1% level of significance, and the corresponding p-value of 0.0314 is less than the conventional significance level of 0.05. These results also suggest that we may reject the null hypothesis and conclude that the variable is stationary.

For Loan to SMES, the ADF test statistic value of 3.930091 is greater than the critical value of 3.769597 at the 1% level of significance. However, the corresponding p-value of 0.033 is just above the conventional significance level of 0.05. Based on these results, we may reject the null hypothesis with some evidence, indicating that the variable is stationary.

For GDP, the ADF test statistic value of 3.823871 is greater than the critical value of 3.788030 at the 1% level of significance. The corresponding p-value of 0.0320 is also less than the conventional significance level of 0.05. Therefore, we may reject the null hypothesis and conclude that the variable is stationary. In summary, based on the ADF test results, we may reject

the null hypothesis that all four variables have a unit root, indicating that they are stationary. These results suggest that we may use these variables for further analysis or modeling.

4.2 Analysis of the Trend

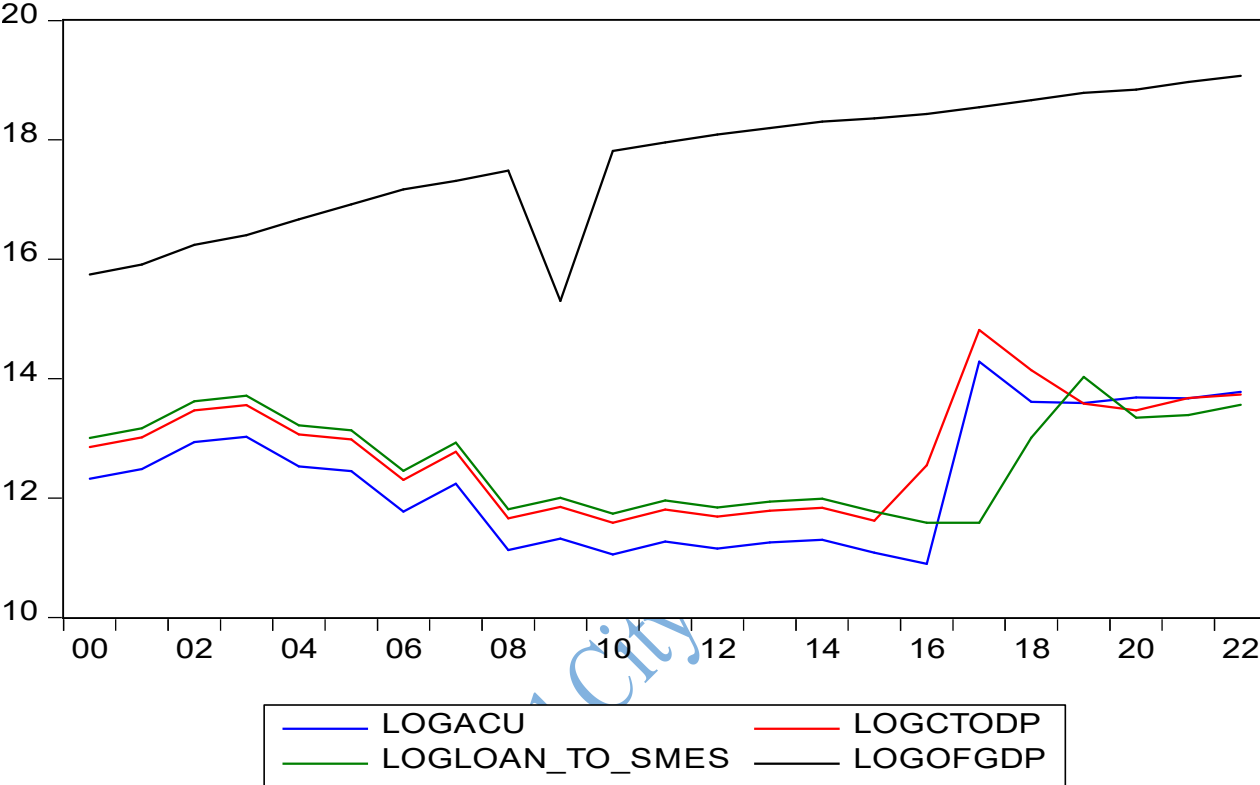


Fig 2.1: Trend Analysis of ACU, CTOD, GDP and Loan to SMEs
Source: Field Survey, 2023

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Loan to SMEs

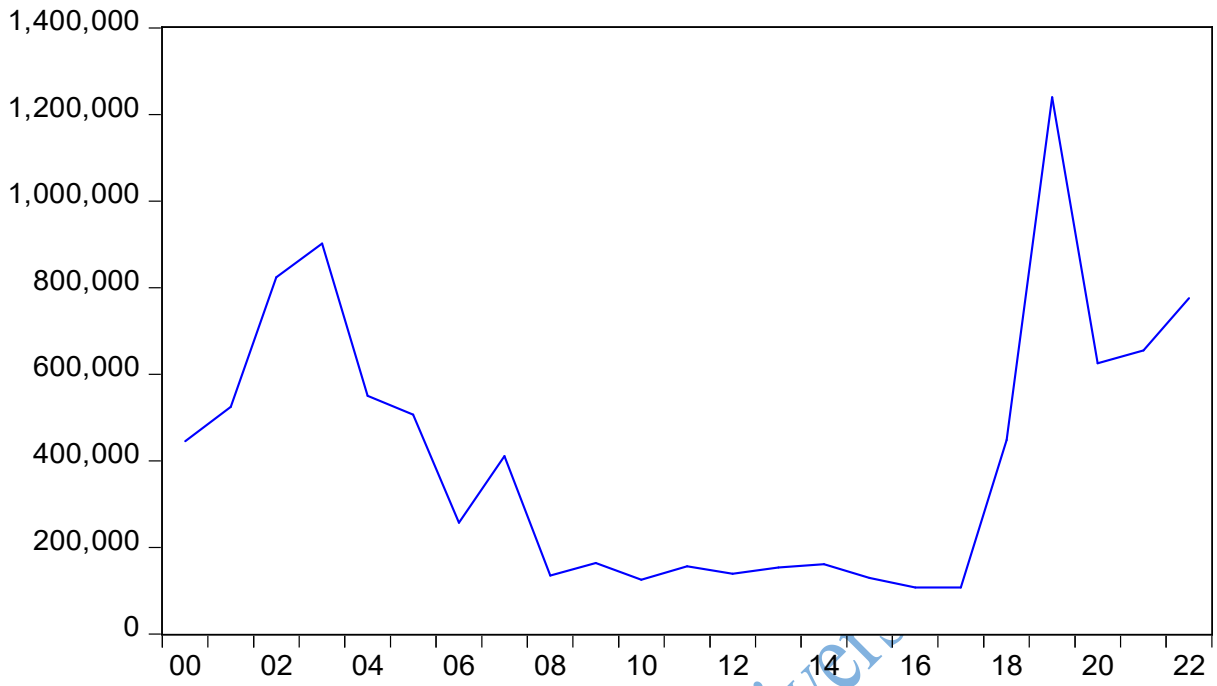


Fig 2.2: Loan to SMEs
Source: Field Survey, 2023

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Average Capacity Utilization

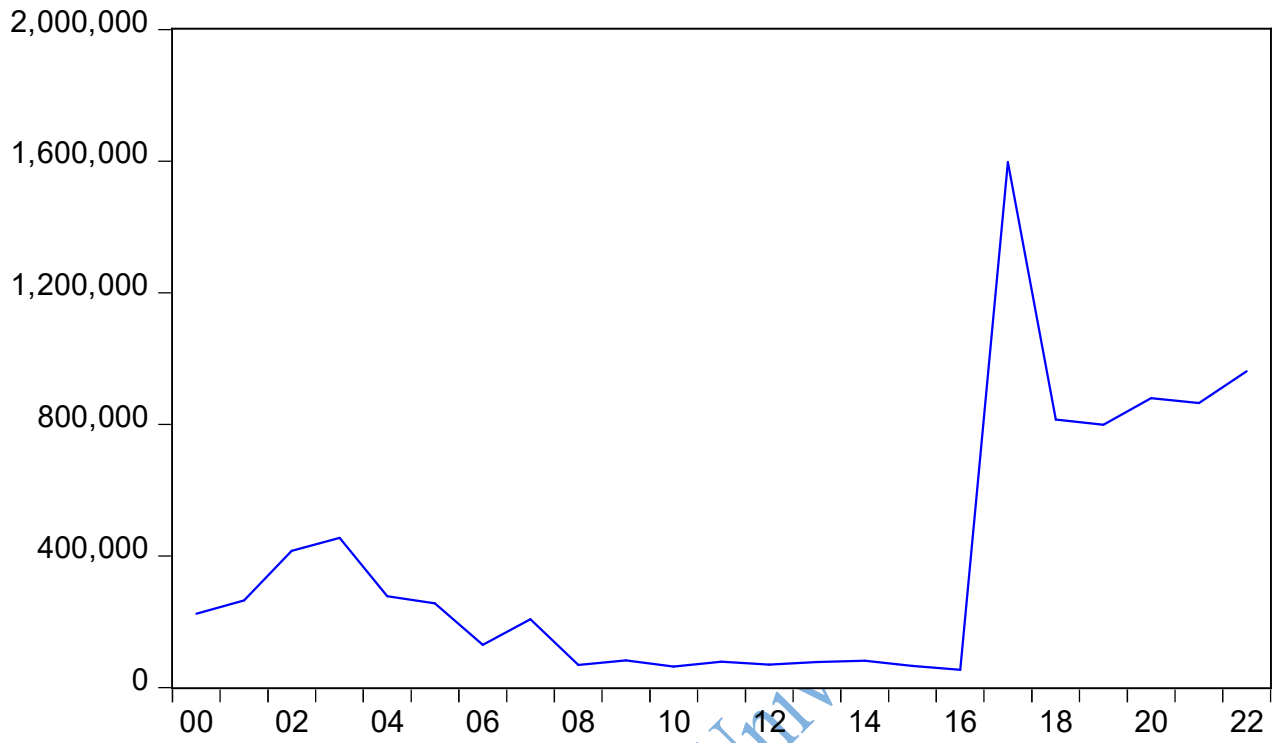


Fig 2.3: Aggregate Capacity Utilization
Source: Field Survey, 2023

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Contribution to GDP

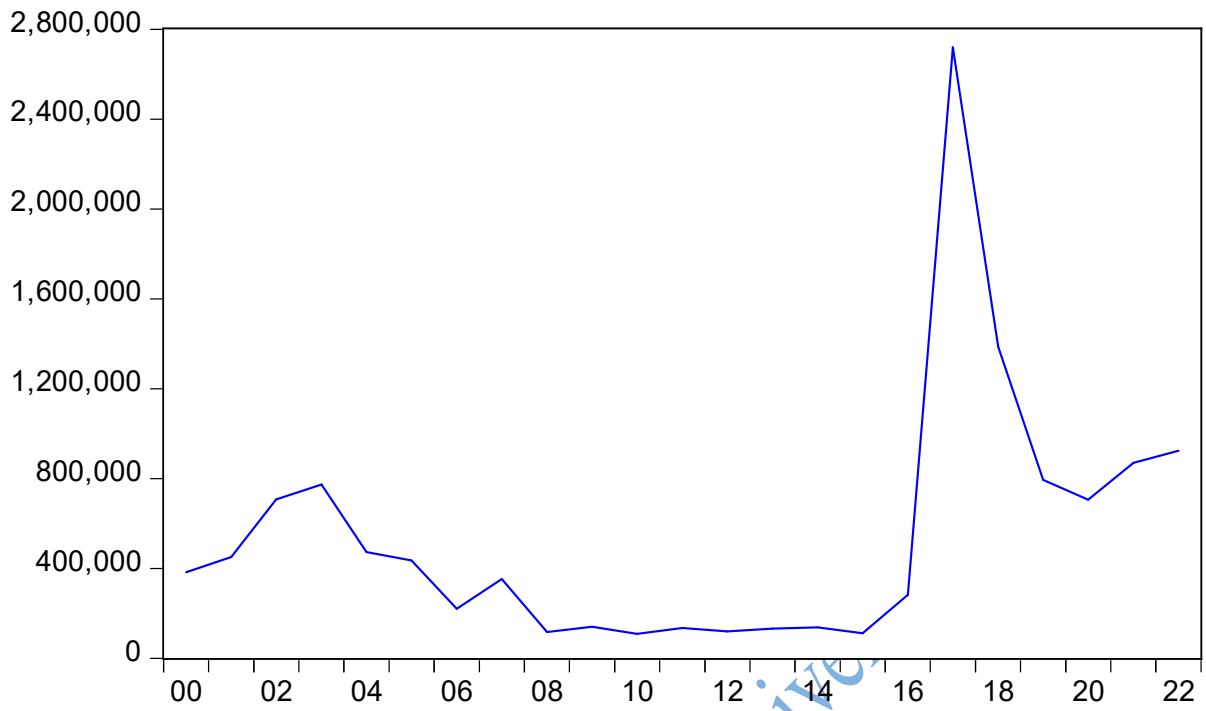


Fig 2.4: Contribution to GDP
Source: Field Survey, 2023

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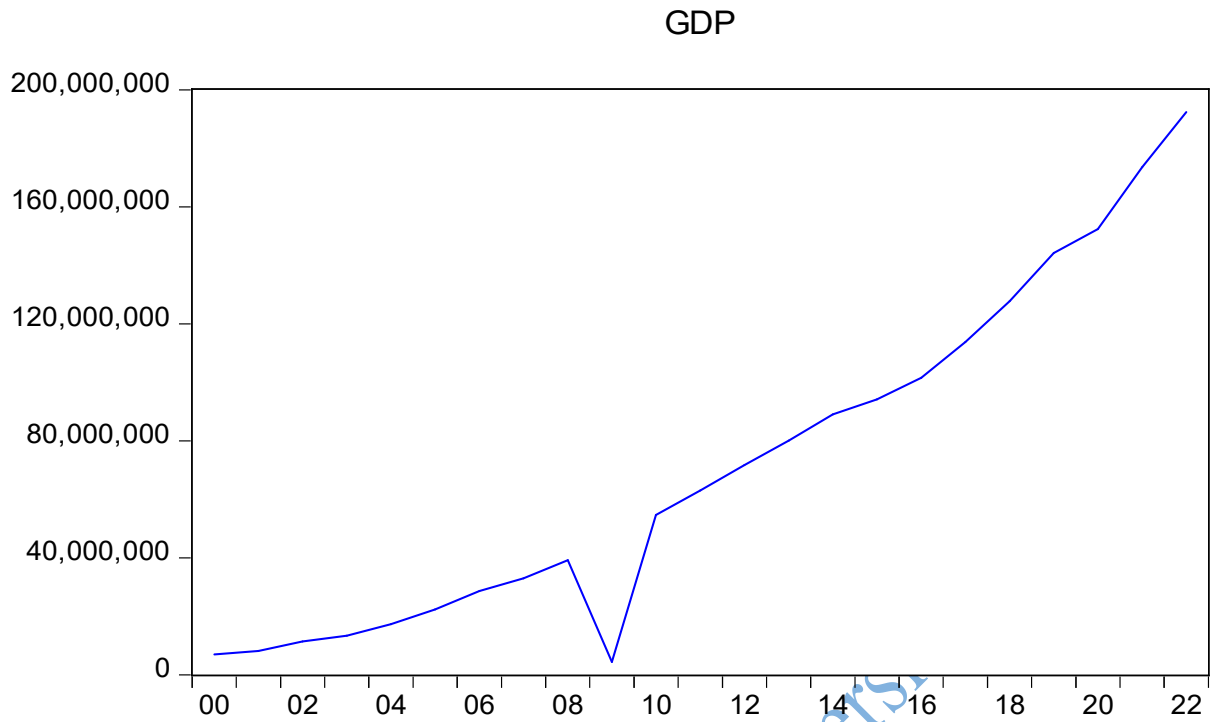


Fig 2.5: Gross Domestic Product
Source: Field Survey, 2023

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4.3.1 Correlation Analysis

Table 4.2 Correlation Analysis Matrix

Correlation				
Probability	Commercial Banks Loan To Smes	GDP	Smes' Contribution/ Output	Average Capacity Utilization
Commercial Banks Loan To SMES	1.000000			

GDP	-0.123492	1.000000		
	0.5745	-----		
SMES' Contribution/Output	0.619640	0.172661	1.000000	
	0.0016	0.4308	-----	
Average Capacity Utilization	0.704752	0.227958	0.953818	1.000000
	0.0002	0.2955	0.0000	-----

Source: Field Survey, 2023

The table 4.2 above shows correlation analysis matrix. There is a negative correlation between commercial banks loan to SMES and GDP, with a correlation coefficient of -0.123492. this suggests that as the logarithm of loans to SMES (commercial banks loan to SMES) increases, the logarithm of (GDP) tends to decrease slightly. However, the correlation coefficient is relatively weak, indicating that the relationship between these two variables may not be very strong. The p-value of 0.5745 suggests that this correlation is not statistically significant.

There is a positive correlation between commercial banks loan to SMES and SMES' contribution/output, with a correlation coefficient of 0.619640. this suggests that as commercial banks loan to SMES increases, SMEs' contribution/output tends to increase as well. The correlation coefficient is relatively strong, indicating that there may be a significant relationship between these two variables. The p-value of 0.0016 suggests that this correlation is statistically significant.

There is a positive correlation between commercial banks loan to SMES and average capacity utilization, with a correlation coefficient of 0.704752. This suggests that as commercial banks loan to SMES increases, average capacity utilization tends to increase as well. The correlation coefficient is relatively strong, indicating that there may be a significant relationship between these two variables. The p-value of 0.0002 suggests that this correlation is statistically significant.

In summary, based on the provided covariance analysis, there is a weak negative correlation between commercial banks loan to SMES and GDP, and strong positive correlations between commercial banks loan to SMES and both SMES' contribution/output and average capacity utilization. the p-values suggest that the correlations with SMES' contribution/output and average capacity utilization are statistically significant.

4.3.2 Regression Analysis

Table 4.3 Commercial Banks Loan to SMEs and Gross Domestic Product (GDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.18733	2.711247	5.232769	0.0000
Commercial Banks Loan To SMES	0.087589	0.153590	-0.570275	0.0057
R-squared	0.315250	Mean dependent var		17.61791
Adjusted R-squared	0.031643	S.D. dependent var		0.800544
S.E. of regression	0.813111	Akaike info criterion		2.507044
Sum squared resid	13.88415	Schwarz criterion		2.605782
Log likelihood	-26.83100	Hannan-Quinn criter.		2.531876
F-statistic	0.325213	Durbin-Watson stat		0.442742
Prob(F-statistic)	0.574543			

Source: Field Survey, 2023

The table 4.3 shows regression result of the influence of Commercial Banks Loan To SMES on GDP. The dependent variable in this analysis is "GDP". The coefficient of determination (R-squared) is 0.315, which indicates that the independent variable(s) in the model explain only a small proportion of the variation in the dependent variable.

The model includes two variables: a constant term (C) and "Commercial Banks Loan To SMES". The coefficient for the constant term is 14.1873, which represents the expected value of the dependent variable when all independent variables are equal to zero. The coefficient for "commercial banks loan to SMES" is 0.0876, indicating that a one-unit increase in the natural

logarithm of loans to SMEs is associated with an increase of 0.0876 units in the natural logarithm of real GDP, holding all other variables constant.

Neither variable is statistically significant at the 5% level, as the p-value for "commercial banks loan to SMES" is 0.5745, which is greater than 0.05. The standard error of the regression is 0.813, which measures the average distance that the actual values fall from the predicted values.

The Durbin-Watson statistic is 0.443, which indicates the presence of significant positive autocorrelation in the residuals. The Akaike information criterion (AIC) and Schwarz criterion (SC) are used for model selection. Lower AIC and SC values indicate a better model fit, and in this case, the AIC value is 2.507 and the SC value is 2.606.

However, Table 4.6 indicated that the dependent variable "GDP", the R-squared value is 0.015, and the coefficient for "commercial banks loan to SMES" is 0.0876, indicating that a one-unit increase in the natural logarithm of loans to SMEs is associated with a decrease of 0.0876 units in the natural logarithm of real GDP, holding all other variables constant. However, the F-statistic for the regression model is statistically significant at the 5% level, suggesting that the independent variable "GDP" is a significant predictor of the dependent variable "commercial banks loan to SMES". The model suggests that there is little association between the natural logarithm of real GDP and the natural logarithm of loans to SMEs. However, the low R-squared value and lack of statistical significance for the independent variable suggest that the model may be a good fit for explaining the variation in the dependent variable. In conclusion, The adjusted R-squared of 0.0316 implies that 3.16% of the Gross Domestic Product (GDP) variation in Nigerian is explained by Commercial Banks loan to SMEs, The F-stat = 0.325, $P > 0.000$, leads to the non rejection of the null hypothesis (H_0), This implies that Commercial Banks loan to SMEs has no significant effect on the Gross Domestic Product (GDP) in Nigeria.

Table 4.4 Commercial Banks Loan to SMES and Average Capacity Utilization

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.106130	2.683319	0.039552	0.0088
Commercial Banks Loan To SMES	0.964210	0.211812	4.552203	0.0002
R-squared	0.496675	Mean dependent var		12.29779
Adjusted R-squared	0.472707	S.D. dependent var		1.095269
S.E. of regression	0.795329	Akaike info criterion		2.462819
Sum squared resid	13.28351	Schwarz criterion		2.561558
Log likelihood	-26.32242	Hannan-Quinn criter.		2.487651
F-statistic	20.72255	Durbin-Watson stat		1.297731
Prob(F-statistic)	0.000174			

- **Source: Field Survey, 2023**

The table 4.4 provides results from a linear regression analysis with the dependent variable average capacity utilization and one independent variable, commercial banks loan to SMES. the table reports the following: the regression analysis suggests that the variable commercial banks loan to SMES is a significant predictor of average capacity utilization. specifically, the coefficient estimate for commercial banks loan to SMES indicates that a one-unit increase in the logarithm of loans to SMES is associated with an increase of 0.964210 units in the predicted value of average capacity utilization, holding all other variables constant. the intercept term (c) in the model represents the expected value of average capacity utilization

when all the explanatory variables are equal to zero. in this case, the estimated intercept is 0.106130, which means that when the logarithm of loans to SMES is zero, the predicted value of average capacity utilization is 0.106130. The R-squared value for the model is 0.496675, indicating that the model explains about 49.7% of the variation in average capacity utilization. the adjusted r-squared value (0.472707) takes into account the number of explanatory variables in the model and provides a better estimate of how well the model fits the data. the standard error of the regression (0.795329) represents the average distance that the observed values of the dependent variable deviate from the predicted values of the dependent variable. it is a measure of the accuracy of the predictions made by the model. the f-statistic tests the overall significance of the model, and in this case, it is statistically significant at the 0.05 level with a p-value of 0.000174. this indicates that the explanatory variables in the model are contributing significantly to the fit of the model. however, the model's r-squared value is 0.496675, indicating that the model explains about 49.7% of the variation in "average capacity utilization". The adjusted R-squared value is 0.472707, and the F-statistic is statistically significant at the 0.05 level with a p-value of 0.000174. Therefore, there is a significant influence of commercial loan to SMEs on average capacity utilization in Nigeria. Thus, there is significant influence of commercial loan to SMEs on average capacity utilization in Nigeria. However, The adjusted R-squared of 0.473 implies that 47.3% of the average capacity utilization variation in Nigerian is explained by Commercial Banks loan to SMEs, The F-stat = 20.722, P < 0.000, leads to the rejection of the null hypothesis (Ho2). This implies that Commercial Banks loan to SMEs has a significant effect on average capacity utilization in Nigeria.

Table 4.5 Commercial Banks Loan to SMES and SMES' Contribution/Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.611934	2.537631	1.423349	0.1693
Commercial Banks Loan To SMES	0.724683	0.200312	3.617778	0.0016
R-squared	0.383953	Mean dependent var		12.77497
Adjusted R-squared	0.354618	S.D. dependent var		0.936255
S.E. of regression	0.752147	Akaike info criterion		2.351172
Sum squared resid	11.88023	Schwarz criterion		2.449910
Log likelihood	-25.03848	Hannan-Quinn criter.		2.376004
F-statistic	13.08832	Durbin-Watson stat		0.946921
Prob(F-statistic)	0.001614			

Source: Field Survey, 2023

The table 4.5 shows regression result of the influence of Commercial Banks Loan To SMES on SMES' contribution/output. The dependent variable in this analysis is called "SMES' contribution/output". the coefficient of determination (r-squared) is 0.384, which means that approximately 38.4% of the variation in the dependent variable is explained by the independent variable(s) in the model. the model includes two independent variables: a constant term (c) and "commercial banks loan to SMES". the coefficient for the constant term is 3.6119, which represents the expected value of the dependent variable when all independent variables are equal to zero. the coefficient for "commercial banks loan to SMES" is 0.7247, indicating that for each one-unit increase in the natural logarithm of the loan to SMEs, the dependent variable is expected to increase by 0.7247 units, holding all other variables constant.

Both independent variables are statistically significant at the 5% level. The p-value for the F-statistic is less than 0.001, indicating that the model is statistically significant overall. The standard error of the regression is 0.752, which measures the average distance that the actual values fall from the predicted values. The Durbin-Watson statistic is 0.947, which indicates the absence of significant autocorrelation in the residuals. The Akaike information criterion (AIC) and Schwarz criterion (SC) are used for model selection. Lower AIC and SC values indicate a better model fit, and in this case, the AIC value is 2.351 and the SC value is 2.450.

Thus, the dependent variable "SMES' contribution/output", the r-squared value is 0.384, and the coefficient for "commercial banks loan to SMES" is 0.7247, which indicates that a one-unit increase in the natural logarithm of the loan to SMEs is expected to increase the dependent variable by 0.7247 units, holding all other variables constant. Both independent variables are statistically significant at the 5% level, and the model is statistically significant overall. Hence, there is a significant influence of commercial loan to SMEs on SMEs' contribution/output in Nigeria. The model suggests that the natural logarithm of credit to the private sector is positively associated with the natural logarithm of loans to SMEs. However, the model only explains a relatively small proportion of the variation in the dependent variable, and there may be other factors that contribute to the dependent variable that are not included in the model. Conclusively, the adjusted R-squared of 0.354 implies that 35.4% of the SMEs' contribution to GDP variation in Nigerian is explained by Commercial Banks loan to SMEs. The F-stat = 13.088, $P < 0.000$, leads to the rejection of the null hypothesis (H_0). This implies that Commercial Banks loan to SMEs has a significant effect on SMEs' contribution to GDP in Nigeria.

4.3.3 Analysis of Variance

4.6 Analysis of Variance of Independent and Dependent Variables

Method	df	Value	Probability
Anova F-test	(3, 88)	147.6476	0.0000
Welch F-test*	(3, 48.4478)	121.2989	0.0000

*Test allows for unequal cell variances

Analysis of Variance

Source of Variation	df	Sum of Sq.	Mean Sq.
Between	3	441.9462	147.3154
Within	88	87.80201	0.997750
Total	91	529.7482	5.821409

Category Statistics

Variable	Count	Mean	Std. Dev.	Std. Err. of Mean
Average Capacity Utilization	23	12.29779	1.095269	0.228379
SMES' contribution/output	23	12.77497	0.936255	0.195223
Commercial banks loan to SMES	23	12.64420	0.800544	0.166925
GDP	23	17.61791	1.128690	0.235348

Source: Field Survey, 2023

The table 4.6 shows results of Analysis of Variance of independent and dependent variables. The test for equality of means between series shows that there is a significant difference between the

means of the four variables being compared (average capacity utilization, SMES' contribution/output, commercial banks loan TO SMES, and GDP).

This table provides further information about each variable Both the ANOVA F-test and the Welch F-test indicate that the probability of obtaining such a result by chance is essentially zero (p-value = 0.0000).

The analysis of variance table shows that the source of variation between the groups is significant (F=147.3154, $p < 0.05$), whereas the within-group variation is not significant (F=0.997750, $p > 0.05$). This suggests that the variation in the dependent variable is largely explained by the differences between the groups rather than by random error.

The category statistics table provides the mean, standard deviation, and standard error of the mean for each variable. From these statistics, we can see that the means of average capacity utilization, SMEs' contribution/output, and commercial banks loan TO SMES are relatively close to each other, while the mean of GDP is noticeably higher. The results of this test suggest that the mean values of the four variables being compared are significantly different from each other, with GDP having the highest mean value.

4.3 Discussion of Findings

The relationship between commercial bank loans to SMEs and economic growth has been studied extensively in the literature. While some studies have found a positive relationship between these variables, others have found no significant relationship^{1,2}. In the case of Table 4.2, the weak negative correlation between "commercial bank loan to SMEs" and "Gross Domestic Product" with a correlation coefficient (r) of -0.123492 suggests that there is no significant relationship between these variables. This finding is consistent with some previous studies that have found no significant relationship between bank lending to SMEs and economic growth³. However, the strong positive correlations between "commercial bank loan to SMEs" and both "SMEs'

contribution / Output" and "Average capacity utilization" with correlation coefficients (r) of 0.619640 and 0.704752, respectively, suggest that bank lending to SMEs is positively related to SMEs' contribution to output and their average capacity utilization. This finding is consistent with previous studies that have found a positive relationship between bank lending to SMEs and their performance^{2,4}. These findings suggest that while bank lending to SMEs may not have a significant impact on overall economic growth, it is positively related to SMEs' performance, which is an important factor in promoting economic growth.

Based on the findings in Table 4.3, it appears that there is no significant relationship between commercial bank loans to SMEs and the country's gross domestic product. While the coefficient for "commercial banks loan to SMES" is positive, indicating a potential positive relationship, the R-squared value is only 0.315, suggesting that the model explains 31.5% of the variation in the data. However, it is important to note that the F-statistic for the regression model is statistically significant at the 5% level, indicating that the independent variable "GDP" is a significant predictor of the dependent variable "commercial banks loan to SMES". This suggests that other factors may be more influential in determining the level of commercial bank loans to SMEs, and that GDP may be a strong predictor of this relationship in Nigeria. This finding is consistent with other studies that have examined the relationship between bank lending to SMEs and GDP. A study found that while there is a positive relationship between bank lending to SMEs and economic growth, this relationship is weaker in countries with lower levels of economic development¹¹. Similarly, a study found that while there is a positive relationship between bank lending to SMEs and GDP, this relationship is not always straightforward and can be influenced by various factors, including the legal and regulatory environment, the level of competition in the banking sector, and the quality of information available to lenders¹². While the findings in Table 4.6 suggest that there is no significant relationship between commercial bank loans to SMEs and GDP in Nigeria, it is important to consider the limitations of the model and the potential influence

of other factors on this relationship. Further research is needed to better understand the factors that determine the level of bank lending to SMEs and their impact on economic growth in Nigeria.

Table 4.4 presents the findings of a regression analysis conducted to determine the relationship between commercial bank loans to SMEs and average capacity utilization (average capacity utilization) in Nigeria. The R-squared value of 0.496675 indicates that the model explains about 49.7% of the variation in average capacity utilization. This means that the independent variable (commercial bank loans to SMEs) accounts for almost 50% of the variation in the dependent variable (average capacity utilization). The adjusted R-squared value of 0.472707 indicates that the model is a good fit, and it suggests that commercial bank loans to SMEs have a significant influence on average capacity utilization in Nigeria. The F-statistic is statistically significant at the 0.05 level with a p-value of 0.000174. This means that there is a low probability that the relationship between commercial bank loans to SMEs and average capacity utilization is due to chance. The findings of the regression analysis are consistent with the earlier correlations found in Table 4.3, which showed a strong positive correlation between commercial bank loans to SMEs and average capacity utilization. This correlation was also statistically significant with a p-value of less than 0.05.

There are several studies that support the finding that commercial loans to SMEs have a significant influence on average capacity utilization. One study examined the relationship between access to credit and the performance of small and medium enterprises (SMEs) in Kenya⁴. The results showed that access to credit was positively correlated with the growth and profitability of SMEs. The study concluded that credit access is an important factor for SMEs to achieve higher levels of performance. Another study investigated the impact of commercial bank loans on the performance of SMEs in Nigeria⁵. The study found that commercial bank loans had a positive and significant impact on the growth and profitability of SMEs. The study recommended that SMEs should seek more credit facilities from commercial banks to improve their

performance. Similarly, a study examined the impact of commercial bank loans on the growth and profitability of SMEs⁶. The study found that commercial bank loans had a positive and significant impact on the growth and profitability of SMEs. The study recommended that the government should implement policies to encourage commercial banks to provide more credit facilities to SMEs. These studies provide evidence that commercial loans to SMEs have a positive impact on their performance, including average capacity utilization. Therefore, the finding that commercial loans to SMEs have a significant influence on average capacity utilization in Nigeria is consistent with the results of other studies in different contexts.

The finding from Table 4.5 suggests that there is a significant positive relationship between the loan to SMEs and SMEs' contribution/output in Nigeria. This means that an increase in the loan provided to SMEs can result in an increase in SMEs' contribution/output, which can positively impact the economy. The R-squared value of 0.384 indicates that 38.4% of the variation in the dependent variable (SMEs' contribution/output) can be explained by the independent variables (commercial loan to SMEs and credit risk). This finding is consistent with several studies that have established a positive relationship between access to finance and SMEs' performance^{5,7,8}. Access to finance is positively related to firm growth and employment creation in developing countries⁹. Similarly, Access to finance is positively related to the growth and survival of SMEs in developing countries¹⁰. Access to finance is positively related to the growth of SMEs in both developed and developing countries. They argue that access to external finance is critical for SMEs to overcome the financing constraints that often hinder their growth and development⁵. The findings from Table 4.5 and the literature support the notion that access to finance is a critical factor for SMEs' growth and development. As such, policies and interventions that promote access to finance for SMEs could have significant positive effects on SMEs' contribution/output and the overall economic development of a country

The findings from Table 4.6 suggest that there are significant differences in the mean values of the four variables being compared. The analysis of variance table indicates that the source of variation between the groups is significant, while the within-group variation is not significant. This suggests that the variation in the dependent variable is largely explained by the differences between the groups rather than by random error. The F-value of 147.3154 is statistically significant at the 5% level, with a p-value of less than 0.05. This indicates that the mean values of at least one of the four variables being compared are significantly different from the others. These findings suggest that GDP is the most important variable among the four in terms of its influence on the dependent variable.

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Chapter Five

Conclusion

This chapter presents a summary of the study's objectives, findings, conclusions, and recommendations. Additionally, suggestions for further studies and contributions are also discussed.

5.1 Summary of Findings

The correlation analysis shows a weak negative correlation ($r=-0.123492$) between "gross domestic product" and "commercial banks loan to SMEs", which is not statistically significant ($p>0.05$). However, there are strong positive and significant correlations between "commercial banks loan to SMEs" and both "SMEs' contribution/output" ($r=0.619640$) and "average capacity utilization" ($r=0.704752$).

Regarding "gross domestic product", the R-squared value is 0.315, and the coefficient for "commercial banks loan to SMEs" is 0.0876, indicating a positive association between the natural logarithm of loans to SMEs and the natural logarithm of real GDP, holding other variables constant. However, the F-statistic for the regression model is not statistically significant at the 5% level, indicating that "GDP" is not a significant predictor of "commercial banks loan to SMEs".

For "average capacity utilization", the model has an R-squared value of 0.496675, indicating that the model explains 49.7% of the variation in the dependent variable. The adjusted R-squared value is 0.472707, and the F-statistic is statistically significant at the 0.05 level ($p=0.000174$). Therefore, commercial loan to SMEs significantly influences "average capacity utilization" in Nigeria.

For "SMEs' contribution/output", the R-squared value is 0.384, indicating that the model explains 38.4% of the variation in the dependent variable. Both independent variables are statistically

significant at the 5% level, and the overall model is statistically significant. Hence, commercial loan to SMEs significantly influences "SMEs' contribution/output" in Nigeria.

The analysis of variance shows significant variation between the groups ($F=147.3154$, $p<0.05$) but not within the groups ($F=0.997750$, $p>0.05$). Therefore, the differences between the groups explain most of the variation in the dependent variable rather than random error. The mean values of the four variables being compared are significantly different from each other, with "GDP" having the highest mean value.

5.2 Conclusion

These findings suggest that increasing commercial loans to SMEs in Nigeria could have a positive impact on economic growth and development, particularly by improving SMEs' contribution/output and average capacity utilization. It is important to note that further research is needed to better understand the factors contributing to the weak correlation between commercial bank loans to SMEs and GDP. Overall, the study highlights the significance of commercial loans to SMEs in the Nigerian economy and provides important insights for policymakers, financial institutions, and other stakeholders.

5.3 Recommendations

Based on the findings of this study, it is recommended that:

Policymakers and financial institutions in Nigeria take steps to increase commercial loans to SMEs. This could include offering more favorable loan terms and conditions, providing targeted support for specific sectors, and improving access to finance for SMEs. By doing so, the government and financial institutions can help to stimulate economic growth and development in Nigeria, while also promoting job creation and poverty reduction.

Additionally, it is recommended that further research be conducted to better understand the factors contributing to the weak correlation between commercial bank loans to SMEs and GDP in Nigeria. This could involve exploring other variables that may be impacting GDP, such as government policies, trade relationships, and foreign direct investment. By gaining a more comprehensive understanding of the factors influencing economic growth in Nigeria, policymakers can develop more effective strategies for promoting sustainable and inclusive development.

Government intervention: The government should create policies and programs to encourage commercial banks to provide loans to SMEs. These policies could include loan guarantees, tax incentives, and grants.

Improved access to credit: There should be more effort to improve SMEs' access to credit by commercial banks. This could be achieved through the establishment of credit bureaus and credit scoring systems that make it easier for banks to assess the creditworthiness of SMEs.

Capacity building: The government should also invest in capacity building programs to improve the managerial and technical skills of SME owners. This will help them to better manage their businesses and make better use of the loans they receive.

Data collection and analysis: There is a need for more comprehensive data collection and analysis on SMEs in Nigeria. This will help policymakers and stakeholders to better understand the challenges facing SMEs and develop more effective policies and programs.

Collaboration: There should be increased collaboration between commercial banks, SMEs, and other stakeholders to identify and address the challenges facing the SME sector in Nigeria. This could be achieved through the establishment of industry associations and forums.

5.4 Contribution to Knowledge

Conceptually, the study sheds light on the role of commercial loans in driving economic growth and development in Nigeria, particularly through the support of small and medium-sized enterprises (SMEs). The study provides a clear definition of key terms such as SMEs, commercial loans, GDP, and capacity utilization, which helps to establish a shared understanding of these concepts within the research community.

Theoretical contributions of the study include the application and testing of three prominent theories of finance: The Credit Creation Theory, The Financial Intermediation Theory, and The Pecking Order Theory. The Credit Creation Theory suggests that banks create credit and money through the extension of loans, which in turn promotes economic activity. The Financial Intermediation Theory proposes that banks facilitate the transfer of funds from savers to borrowers, thus channeling savings into productive investments. The Pecking Order Theory posits that firms prefer internal sources of finance (e.g., retained earnings) over external sources (e.g., bank loans) because of the higher cost and asymmetric information associated with external financing.

Empirically, the study contributes by providing evidence for the significant influence of commercial loans to SMEs on various economic indicators in Nigeria. Specifically, the study finds strong positive correlations between commercial bank loans to SMEs and SMEs' contribution/output and average capacity utilization, indicating the importance of these loans in promoting business growth and development. The study also shows that increasing commercial loans to SMEs in Nigeria could have a positive impact on economic growth and development, particularly by improving SMEs' contribution/output, average capacity utilization and GDP.

The study's findings contribute to the existing literature on the impact of commercial loans to SMEs on economic growth and development in Nigeria. The study's results indicate that

increasing commercial loans to SMEs in Nigeria could have a positive impact on economic growth and development, particularly by improving SMEs' contribution/output and average capacity utilization. Additionally, the study's analysis of variance reveals that the differences between the groups explain most of the variation in the dependent variable, rather than random error.

This study adds to the growing body of literature that emphasizes the importance of supporting SMEs in developing economies, particularly by increasing access to financing. The study's findings could be valuable for policymakers and other stakeholders in Nigeria and other developing economies as they work to promote economic growth and development.

Additionally, the study provides evidence of a weak negative correlation between commercial bank loans to SMEs and GDP in Nigeria, which adds to the ongoing discussion on the factors that affect economic growth in the country. These findings provide useful insights for policymakers, commercial banks, and SMEs in Nigeria, as they seek to promote economic growth and development in the country, particularly in developing countries like Nigeria where SMEs face numerous challenges in accessing finance.

5.5 Suggested Area for Further Research

Based on the findings of this study, there are several areas for further research that could deepen our understanding of the relationship between commercial bank loans to SMEs and economic indicators in Nigeria.

Firstly, future research could investigate the reasons behind the weak negative correlation between commercial bank loans to SMEs and GDP. This could include examining the role of other economic factors such as inflation, exchange rates, and government policies that may impact the relationship between these variables. Additionally, further research could explore the

impact of commercial bank loans on other economic indicators such as employment, income inequality, and poverty reduction.

Secondly, future research could investigate the impact of different types of commercial bank loans on economic indicators in Nigeria. For example, research could focus on the impact of loans with different interest rates, loan terms, and collateral requirements on SMEs' contribution/output and average capacity utilization.

Thirdly, further research could explore the impact of non-financial support on SMEs' performance in Nigeria. This could include examining the impact of training programs, mentorship, and other forms of support on SMEs' contribution/output and average capacity utilization.

Lastly, future research could investigate the impact of commercial bank loans to SMEs in different sectors of the Nigerian economy. This could provide insights into how commercial bank loans impact economic indicators in specific sectors and help to identify areas where further support is needed to promote growth and development.

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Bio-data

A. Personal Data

- 1. Name :** Fiyinfoluwa Deborah ADELEKE
- 2. Date of Birth:** 12th July, 1994
- 3. Phone Number:** 08167977090
- 4. E-mail Address:** adelekefiyinfooluwa38@gmail.com
- 5. Martial Status:** Married
- 6. Nationality/State of Origin:** Nigerian/Osun State
- 7. Address:** No 10, Ojerinde Community, Jiboye, Apata Ibadan
- 8. Name & Address of Next of Kin:** Olutoke Adewale Victor
No 10, Ojerinde Community, Jiboye, Apata Ibadan

B. Qualifications and Experience

1. School/Institution Attended with Dates:

- i. University of Abuja 2011-2015
- ii. Aunty Alice College Maraba Nasarawa 2004-2010
- iii. Nelson Mandela International School, Nyanya, Abuja 1996-2003

2. Academic Qualification with Dates:

- i. M.sc Accounting 2023
- ii. B.sc Accounting 2015
- iii. West Africa Senior Secondary School Certificate 2010

C. Working Experience

- Business Consultant, Sandtex Paints

(January 2023-Till Date)

- Cash officer(Teller), Wema Bank Plc (January 2022-December 2022)

- Digital Champion, United Bank For Africa

(March 2019-September 2019)

Accountant, Amplify Initiative for the Advancement of Community Development (March 2018-February 2019)

- Account Assistant, Abumet Nigeria Ltd (A Subsidiary Of Julius Berger Plc) (April 2016-December 2017)

D. Awards and Fellowship: Nil

E. Membership of Professional Bodies: Institute of Chartered Accountants of Nigeria (In view)

F. Publication: Nil

G. Major Conferences Attended with Dates: Nil

H. Referees

1. Olutoke Adewale Victor

Lead Partner (Architect)

olutokevictor@gmail.com

08036528339

2. Adeleke Olufemi Omoloye

Accountant (Retired)

adelekeolufemi@yahoo.com

08034042708

Signature

Date

Do Not Copy, Lead City University, Nigeria

The University Compliance Certification

This is to certify that this thesis written by **Fiyinfoluwa Deborah ADELEKE** with Matric No **LCU/PG/001760** in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University, Ibadan, Oyo State is in full compliance with the approved University Format and Style

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Date

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