ASSESSING THE EFFECTS OF BANK LOANS ON SMALL AND MEDIUM SCALE ENTERPRISES IN BANKING INDUSTRY (A CASE STUDY OF JAIZ BANK UNITY BRANCH, ILORIN)

BY

GIDADO HALIMAT OMOTOYOSI

HND/23/BAM/FT/0176

BEING THE RESEARCH PROJECT SUBMITTED TO DEPARTMENT OF BUSINESS ADMINISTRATION AND MANAGEMENT, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES, KWARA STATE POLYTECHNIC, ILORIN

IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND) IN BUSINESS ADMINISTRATION AND MANAGEMENT

JULY, 2025

CERTIFICATION

This is to certify that this project has been read and approved as meeting part of the requirement for the award of Higher National Diploma (HND) in Business Administration and Management, Kwara State Polytechnic, Ilorin.

______________________ ______________________

MR. IMAM R. A **DATE**
(PROJECT SUPERVISOR)

______________________ ______________________

MR. UMAR B. A **DATE**
(PROJECT CO-ORDINATOR)

______________________ ______________________

MR. ALAKOSO I. K. **DATE**
(HEAD OF DEPARTMENT)

______________________ ______________________

(EXTERNAL SUPERVISOR) **DATE**

DEDICATION

I dedicate this project to almighty Allah, the creator of heaven and earth who gives knowledge and wisdom and to my parent “may God have mercy upon you as you brought me upon infancy.

ACKNOWLEDGEMENT

I give all glory, honor and adoration to Almighty God for his grace, mercy, favor, protection, provision and guidance throughout my program in the department of estate management and valuation in kwara state polytechnic. Have anxiously hope for this opportunity to express adequate profound gratitude to the people who have in one way or the other assisted my academic pursuit.

I am very grateful to my dearest and lovely parent Mr. and Mrs. GIDADO for how they nurtured me from infancy, prayer, encouragement and financial assistance. May your days be long to reap the fruit of your labor.

I also use this medium to thank my Supervisor MR. IMAM R. For his patience and constant kindness which he shown to me throughout this program, I pray he eat the true work of his hands (Amen).

May God almighty bless u all

Amen

TABLE OF CONTENTS

ABSTRACT

The study focused on working capital management as a tool for business survival in a financial organization particularly United Bank for Africa, Plc. Based on the research work, bank loans has significant impact on small and medium-scale enterprises (SMEs) in Nigeria, specifically focusing on United Bank for Africa, Unity branch in Ilorin. However, this research work provide a general understanding of the impact of bank loans on SMEs in Nigeria based on existing literature. Access to Finance: SMEs in Nigeria face challenges in accessing finance, including bank loans. Limited resources by the government result in not all small firms receiving funding from the government, making bank loans a viable option. Contribution to Economic Growth: SMEs play a crucial role in the economic growth of Nigeria. They are a major source of income and employment for many Nigerians. SMEs have the potential to create employment opportunities, generate income, and contribute significantly to economic development. Positive Impact on Performance: Bank loans have been found to have a positive impact on the performance of SMEs in Nigeria. Many SMEs acknowledge the positive contributions of loans towards increasing their returns and sales, placing them in a competitive arena. Loan Utilization: SMEs utilize bank loans for various purposes, including working capital, expansion, purchasing equipment, and inventory management. Proper utilization of loans can enhance the overall performance of SMEs. Challenges and Disadvantages: SMEs face challenges such as high-interest rates, cash flow irregularities, and loan repayment issues. These challenges can negatively impact the performance of SMEs and hinder their growth.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In Nigeria, available data from the Registrar General Department indicates that 90% of companies registered are micro, small and medium enterprises (Mensah, 2012). This target group has been identified as the catalyst for economic growth of the country as they are a major source of income and employment to many Nigerians. According to Mensah (2012) Small enterprises employ between 6 and 29 employees with fixed assets of $100 Thousand with Medium enterprises employing between 30 and 99 employees with fixed assets of up to $1 Million, Hallberg (2011) put forward that SMEs account for majority of firms in an economy and a significant share of employment. Like other countries of the world, SMEs in Nigeria have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute immensely to economic growth. Small firms are the engines for economic development of several developed countries such as the US and Japan (Hallberg, 2011).

Developing countries such as Zimbabwe have also identified the potential of small firms to turn economies with negative growth into vibrant ones. For this reason, several governments in developing countries offer funding to small firms either directly or by guaranteeing the payment of such loans as lack of funding is cited as one of the major challenges faced by small businesses. Obert and Olawale (2010) argues that due to limited resources by governments, not all small firms receive funding from the government; therefore, the other option would be to go for bank loans Obert and Olawale (2010). Despite its increasing roles, access to credit by SMEs remains one major constraint to Nigerians SMEs.

According to Augusto et al (2013), most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper. Although countries' definitions of what constitutes an SME for legal or statistical purposes are typically based on the number of employees, banks generally define SMEs in terms of average annual sale; an indicator that is more easily observable, a good proxy of an SME level of business activity, and, thus, more useful to banks' business and risk management purposes (Augusto et al 2013).

Augusto et al (2013) further points out that the threshold of annual sales used by banks varies by country, according to the size of the economies and structure of their corporate sector. Augusto et al (2013) hints that in Argentina, a company is considered to be an SME when its average annual sales are approximately between 300,000 and 30 million US dollars. In Chile, the range goes from around 90,000 to 24 million US dollars. In Colombia, banks consider SMEs those firms with annual sales between 400,000 and 13 million US dollars (although for most domestic banks the range is between 100,000 and 5 million. In Serbia, SMEs are typically defined as having annual sales between 500,000 and 10 million Euros. A vast number of data on SMEs in Nigeria also suggest SMEs are more financially constrained than large firms. For example, using data from 10,000 firms in 80 countries, Beck et al (2010) showed that the probability that a firm rates financing as a major obstacle is 39% for small firms, 38% for medium-size firms, and 29% for large firms. Mensah (2012) states that a major barrier to rapid development of the SME sector is a shortage of both debt and equity financing.

1.2 Statements of the Problem

Inferring from the above, SMEs serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth. There is also the potential of small firms to turn economies with negative growth into vibrant ones, not to mention the fact that most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper. From the argument above the only easier finance options for SMEs are loans (Debt financing) assess from financial institutions, thus it's necessary to examine the impact of these loans on the performance of SMEs. Are they having negative or positive impact on their performance .this is worth investigating because majority of the businesses fall within the SE category especially in developing countries.

1.3 Research Questions

i. What are the disadvantages and advantages of taking a Bank Facility?

ii. What is the impact of bank loans on small and medium scale enterprises in Nigeria?

iii. How do SMEs utilize loans?

1.4 Objectives of the Study

The general objective of this work therefore is to investigate the contributions of loans to SMEs performance. The specific objectives of the study are:

i. To find out what SMEs classify as disadvantages and advantages of accessing loans.

ii. To examine the impact of bank loans on small and medium scale enterprises in Nigeria.

iii. To find out how loans provided by financial institutions are utilized by the SMEs

1.5 Research Hypotheses

Hypothesis 1

H0: There is no significant impact of bank loans on small and medium scale enterprises in Nigeria.

H1: There is a significant impact of bank loans on small and medium scale enterprises in Nigeria.

Hypothesis 2

H0: There is no significant relationship between bank loans on small on medium scale enterprises in Nigeria.

H1: There is a significant relationship between bank loans on small on medium scale enterprises in Nigeria.

Hypothesis 3

Ho: There is no significant relationship between utilization of loan and SMEs in Nigeria

Hi: There is significant relationship between utilization of loan and SMEs in Nigeria

1.6 Significance of the Study

A research of this sort is necessary with respect to the fact that;

Accessing finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Worldwide, the SMEs have been accepted as the engine of economic growth and for promoting equitable development. Thus its leverage should be of great concern.

Small business especially in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (UNCTAD, 2013).

1.7 Scope of the Study

This research work is restricted to study the impact of bank loans on small and medium scale enterprises in Nigeria, Case study of United Bank for Africa, Ilorin, Kwara state.

1.8 Definition of Terms

COMMERCIAL BANKS: Commercial Banks are generally referred to as those banking institutions that create money in the form of demand deposits. Simply put, a Commercial Bank in an institution engaged in all aspect of the commerce of its own country and its business relations with other countries with a view f making profit.

SMALL AND MEDIUM SCALE INDUSTRIES (ENTERPRISES) SME: Small and medium scale enterprises are defined as those enterprises with fixed assets other than loan but including the cost of new investments not exceeding N36Million.

ENTREPRENEUR: This can be defined as a person who set and start his own new and small business enterprise.

FINANCING: This is the process of sourcing for fund or acquisition of funds for financial purpose.

LOAN: The sum of money borrowed at an agreed rate of interest. It can be of long term or short term.

IMPACT: The action of one object coming forcibly into contact with another. ‘Impact: the action of one object coming forcibly into contact with one another; a marked effect or influence.

BANKING: the business conducted or services offered by a bank.

INDUSTRY: economic activity concerned with the processing of raw materials and manufacture of goods in factories.

FIRM: Firm" can refer to various things depending on context. It could relate to a business organization, indicating its stability or strength.

DEBT: "Debt" typically refers to an obligation that requires one party, the debtor, to provide some form of compensation to another party, the creditor. This compensation is usually monetary but can also be in the form of goods or services.

CHAPTER TWO

LITTERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Bank Lending

Bank lending can be defined as the process of providing funds for business transaction, from which an interest is charged (Sunday & Ehiejele, 2017. Lending is a major function that money deposit banks perform. Commercial banks in playing their intermediation role do give their deposits mobilized out to the deficit economic unit as loan, which may be on short, medium or long-term basis. This assists them in achieving their profitability principles and other ends for which they are setup. A lot has been reviewed in terms of commercial banks' lending activities of various commercial banks. Some opinions deliberated on the factor responsible for banks willingness to extend much credits to some sector of the economy, while some discussed effect of such extension of credits on productivity and output (Sunday & Ehiejele, 2017). Most of these earlier studies agreed on the fact that it is logical for banks to have some basic lending principles or consideration to act as a check in their lending activities. Since there are many studies in respect of bank's lending behavior, it is therefore imperative to highlight and consider some factor that economist and professionals alike have proposed as virtually significant in explaining the determinant's of commercial banks' lending behaviour.

According to Sunday & Ehiejele, (2017), lending is indubitably the heart of banking business. For that reason, its administration requires considerable skill and dexterousness on the part of the bank management. While a bank is irrevocably committed to pay interest on deposits, it mobilized from different sources, the ability to articulate loanable avenues where deposit funds could be placed to generate reasonable income; maintain liquidity and ensure safety requires a high degree of pragmatic policy formulation and application. Commercial banking in Nigeria witnessed an era of impressive profitability, characterized by high competition, huge deposits and varied investment opportunities; in an effort to make quick profits the commercial banks relied essentially on self-liquidating loans and diversified their portfolio into less risky investments with safe margin. The current trend in Nigerian banking and finance sector, suggest that the days of cheap profits are now over and only banks with well-conceptualized lending and credit administration policies and procedures can survive the emerging competition (Sunday & Ehiejele, 2017).

Further, bank-lending decisions generally are fraught with a great deal of risks, which calls for a great deal of prudence and tact in this aspect of banking operations. The success of every lending activity largely hinges on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting.

John (1993) commented that, “the ability of commercial banks to promote growth and development depends on the extent to which financial transactions are carried out with trust and confidence and least risk”. They require safe and sound banking practices. Where commercial banks indulge in unsafe and unsound banking practices, the confidence and trust, which the public situates on them, may be threatened.

2.1.2Principles of Bank Lending

According to Ifeanyi & Francis (2017), the principles of bank lending rely mainly on the following three (3) concepts, which are: Safety, Liquidity, and Profitability. The banks all over the world examine following details with care before acceding to a loan request.

2.1.3 Lending Risk Management Strategies

The credit risk management strategies are procedures banks adopted in the mitigation or reducing the negative effect of lending risk. A comprehensive lending risk management structure is vital because it helps increase the revenue and survival. The main ideologies in lending risk management strategies take the following form. They include formation of a clear structure, delegation of powers, discipline, and communication at all level and holding people accountable. (Kolapo, 2012)

The credit risk management strategies are measures employed by banks to avoid or minimize the adverse effect of lending risk. A sound lending risk management framework as stated above is crucial for banks so as to enhance profitability guarantee survival. The key principles in lending risk management process are sequenced as follows:

i. Limitation

Gestel (2009) stated that this method aids the bank by reducing the amount of loss suffered from a borrower. It prevents the event where the failure of counterparty to meet his or her obligation will heavily affect the financial performance of the bank. The number of riskier transactions is brought to the bearer minimal.

ii. Diversification

Here, banks should deal with different counterparties ranging from individuals, industries. This helps to spread the risk across various borrowers so that banks can reduce the impact of loss; it is much workable for large and international banks. That is, managing credit risk through risk diversification or spread. (Gestle 2009).

iii. Credit Enhancement

According to (Gestel 2009) when a bank realizes it is exposed to too much risk when dealing with a particular kind of borrower; it solves this by acquiring an insurance policy to cover for the any future losses. Through this, the quality of the loan facility is improved. It is called credit risk mitigation.

iv. Compliance to Basel Accord

Basel committee on Banking Supervision enlarges the procedures through which a bank can manage its exposure to lending risk. One of the principles is constantly changing and reviewing their credit risk policies to suit the prevailing economic trend in the country. This can be done by the introduction of new products and services. Secondly, banks should investigate their borrowers properly. This will lead to a better understanding of the customer they are dealing with (Basel Committee on Banking Supervision, 1999). These strategies do not prevent credit risk totally; however they can reduce the level of credit risk the banks are exposure to. And this will increase the profitability performance of the banks. The Basel II is built on three pillars:

1. Minimum Capital requirement

2. Supervisory Review

3. Market Discipline

Pillar 1 addresses the minimum capital requirement, that is, the rule which a bank calculates its regulatory capital. The minimum required capital ratio (8%) remained unchanged under Basel II while the way to calculate the risk-weighted-assets has been changed. As to the Pillar 2 of Basel II, it concerns with the supervisory review process and has been a supplement to the minimum capital requirement. Therefore, it requires a regular interaction between banks and supervisors in the assessment and planning of capital adequacy (Lind, 2005). The last pillar seeks to complement these activities through a stronger market discipline by disclosure of bank's key information of risk assessment procedures and capital adequacy (Ferguson, 2003). This to some extent, could enable market participants to assess the bank's risk profile and level of capitalization.

2.1.4 Concept of Small and Medium Scale Enterprises (SME's)

The term Small and Medium Scale Enterprises (SME's) has no generally established definition. Kadiri (2012) noted that the criteria for classification of an enterprise as small, medium or large varies from one country to another, depending on whether it is developed or developing country. A small business for example to one country may be a large-scale business to another.

Thus, SME's in Nigeria, as defined by Small and Medium Industries Equity Investment

Scheme (SMIEIS), are enterprises with a total capital employed not less than ₦1.5 million, but not exceeding ₦200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300. Esuh and Adebayo (2012) noted that they are firms or businesses arising as a result of entrepreneurial activities of individual. SME sector is categorized into three namely; micro, small and medium enterprises or businesses. The micro SME's are the smallest among the three categories. In the word of Afolabi (2013) "they are businesses that employ up to 9 employees in UK, while in Australia they employ fewer than 5 employees including non-employing businesses". According to US Census Bureau, micro businesses are categorized as SOHO meaning Small Office-Home Office. Therefore, micro businesses should be seen as the small form of SME that may employ fewer than 9 employees or on the other hand may not have employees at all. As regard the small business, they are businesses bigger than the micro-businesses in terms of size, number of employees, structure, capital investment and economic contributions (Bello & Mohammed, 2015).

The Nigerian Industrial Policy defined small scale business as industries with total investment of between ₦100, 000 and ₦2 million, exclusive of land but including working capital. Lastly, the medium business as the name suggests are bigger than both micro and small businesses in terms of operations, manpower capacity or number of employees, structure, capital investment and size. According to Afolabi (2013), they are the businesses that employ not fewer than 15 employees under the Australian Fair Work Act (2009) to fewer than 500 employees under the US, while the European Commission defined medium businesses as enterprises which employ fewer than 250 persons and/or have an annual balance sheet total not exceeding EUR 43 million.

European Union defines SMEs as an enterprise that has not more than two hundred and fifty employees and total turnover of not more than €50 million. It also maintained that the share of the enterprise in another enterprise(s) should not be more than 25 percent. According to World Bank (2006), medium enterprise is an enterprise which employs a maximum of 300 employees with a maximum of 15 million dollars annual turnover. World Bank went further to say that small enterprise consists of less than fifty employees with annual turnover of not more than $3 million. Therefore, it referred to small-enterprises as firms who employed a maximum of 10 persons with annual turnover of $100,000 dollars. The Companies Act 2006 of United Kingdom refers to small scale company as a firm employing less than or equal to fifty workers with a maximum turnover of 5.6 million pounds and a statement of account at maximum of 2.8 million pounds. The Act also defined a medium scale company as a firm employing maximum of two hundred and fifty workers, maximum of 22.8 million pounds turnover and maximum of 11.4 million pounds balance sheet.

2.1.5 Sources of Financing SMEs in Nigeria

The importance of finance to business organizations cannot be over-emphasized. Business finance is however, not easy to source especially in respect of SMEs. Yet they require funds from every source available to meet their asset needs, working capital needs, and for expansion.

Accordig to Ekpenyong and Nyong (1992), there is wide consensus in Nigeria that government policies are skewed in favour of the formal sector to the detriment of the informal sector. This skewness is to the great disadvantage of SMEs in Nigeria since they are more disposed to the funds of the informal sector (Ohanga, 2005). Commercial banks, merchant banks, micro-finance banks and development banks constitute the formal sources of finance to SMEs. The financial system in Nigeria is not in short supply of liquidity, but banks have been very reluctant to grant loans to SMEs, which they regard as a high-risk sector. Most of these banks would rather pay the penalty imposed for not meeting the minimum credit requirement to this preferred sector of the economy than actually run the risk of exposure to the risk. According to Ojo (1984), the sources of investment fund for SMEs include owner's savings and assistance from banks, government institutions, local authorities, co-operative societies, relatives and friends, and money lenders. Findings of the study showed that almost all the funds came from personal savings (96.4%) with about 3% from the informal sector and 0.21% from the formal financial institutions. This trend was further established by 1983/84 study by the Nigerian Institute for Social and Economic Research (NISER). NISER findings showed that about 73% respondents raised their funds from personal savings, while only about 2% obtained their funds from the formal financial institutions. The inability of banks to provide the required credit to SMEs, led to the reliance of entrepreneurs on personal savings and assets for their working capital needs thus making it difficult to operate at full capacity and increase output and sales. The shortage of finance also limits investment in research to improve technology and to expand operations. As a result of the foregoing, banks resort to heavy asset-based lending rules (Bello & Mohammed, 2015).

2.1.6 Roles of Small and Medium Enterprises in Ni geria Economy

Small-scale enterprise assumes vital and critical roles in the industrial development of any country (Ahmed, 2006). Small-scale enterprises have prospect emerging domestic economy through the production of tangible things and services that drives the economy of Nigeria. Roles of SMEs.

2.1.7 Characteristics of SMEs in Nigeria

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business.

Other common features of Nigeria's SMEs include the following among others.

2.1.8 Prospects of SMEs in Nigeria

The identified problems of SMEs notwithstanding their enormous depth, breadth and intensity, it is only fair and proper to acknowledge the fact that the government did not fold its arms to watch the SMEs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SMEs create for employment, their contributions to economic growth and development as well as the constraints and difficulties in their operating environment (Anthony, 2005). These explain why in the past forty-five years or so, the government has established various support institutions and relief measures specially structured to render assistance and succour to minimize the constraints, which SMEs typically face if not to eliminate them. The support institutions established by the government range from specialized banks designed to focus on the funding of SMEs to agencies and departments all meant to give a flip to the fortunes of SMEs. It is also pertinent to note that government policies behind the establishment and operations of the SME support institutions had not been effective and productive. From all indications, as well as observed lapses inherent in them, the policies were either defective in their formulation and conceptualization, or were not truly and religiously implemented. Our investigations also revealed that part of the reason why the policies were not effective could be explained by the fact that the operators, managers or proprietors of the SMEs were neither consulted nor involved in the formulations of the policies, which were expected to solve their problems; hence, there were apparent misplacements of priorities and emphases.

2.2 Theoretical Framework

2.2.1 The Lending Theory

This theory is of the view that lending markets can reduce lending to credit ratio where small and medium enterprises accepted loans with high interest rate. This implies that increasing cost of borrowing will make it impossible for firms to engage in any type of business project. Information asymmetry is appropriate to SMEs especially due to its relative size that made it unattractive for lending institutions as a result of their inability to effectively determine the risk inherent to small enterprises (Ohanga, 2005). Eriki & Inegbenebor (2009) identified inadequate finance as the commonly reason behind the inability of SMEs to increase economic growth, create expected jobs, enhance transfer of technology, and enhance local contents required to work in foreign-owned enterprises in Nigeria. A similar study by Abereijo & Fayomi (2005) identified insufficient fund to SMEs arising from their inability to raise capital from formal financial institutions is associated to the fact that insufficient assets, high mortality rate, low capitalization and volatility of SMEs business. However, Okpara & Pamela (2007) disagree with the above assertion. They identified improper record keeping, unavailability of capital, corruption, lack of manpower and infrastructural facilities, mismanagement as responsible for the poor performance of SMEs across the country. Also identified impediments to SMEs include unavailability of fund to embark on research, inability to separate the business account from the personal account and poor demand for goods and services. Herrington et al . (2009) highlighted that poor funding is a major problem facing entrepreneurs particularly in Nigeria and Africa in general. They study went further to state that lack of financial support is the second most inhibiting factor followed by poor education and training as responsible for the failure of businesses in Nigeria.

2.2.2 Signalling Theory

This theory predicates on provision and analysis of information with regards to business enterprises to the capital market. The information provided on the business enterprises gives an insight on the terms and amount of loan to be made available to those firms. In other words, the flow of information between the business firms and capital market is determined by the flows of funds between enterprises (Emery, 1991). There is no general consensus on how signalling theory enhance credit availability to SMEs. Emery, et al (1991) in support of this assertion opined that there has not been unanimous view on how signalling theory provides insight or connection with SME financial management. In his study of SMEs and signal theory, Keasey (1992) argued that SMEs disclosure of their earnings forecast is positively significant to equity detainment by the owners, net proceeds from equity issues, choice of financial adviser, and the pricing leve l. It is seen to give clear understanding of how SMEs finance is managed (Emery et al, 1991). The classical school is of the view that interest determines savings and investment. They asserted that aggregate investment has a negative relationship with interest rate. But this assertion tends to be weak since investment is said to be fairly interest-inelastic due to the fact that it is influenced by investor's expectation and its yield is estimated within a particular range. Therefore, a unit rise in the cost of borrowing will have little or no long term effect on the firm's performances. To the neo-classical theory, interest rate is the function of marginal efficiency of capital and savings.

That is, demand and supply.

2.3 Empirical Review

Clement, Ayodeji and Rafiat (2018), examined the commercial bank lending to Small and Medium Scale Enterprises and Nigeria economy over a period of twenty years, spanning from 1998 to 2017. Specifically the study analyzed the effect of Average commercial bank lending rate, commercial bank loans and inflation rate to SMEs growth on Nigeria economy, and also the causal relationship between explanatory variables and Nigeria economy measured in terms of GDP. The study made used of secondary data sourced from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of Statistics for the period under study. Data collated were analyzed with descriptive analysis, correlation analysis, ordinary least squares regression analysis, and Granger causality analysis. The findings revealed that commercial bank loans to SMEs (CBLSMES) had a negative and insignificant impact on a gross domestic product with a coefficient estimate of -1.015926 ($p=0.0167 < 0.05$). Average commercial bank lending rate to SMEs (ACBLRSMES) had a negative and insignificant impact on a gross domestic product with a coefficient estimate of -1911.581 ($p=0.6178 > 0.05$). Meanwhile, the study revealed that inflation rate (IFTRATE) exert an insignificant positive impact on a gross domestic product with a coefficient estimate of 1833.262 ($p=0.2400 > 0.05$). The result also revealed that there is no causal relationship between exploratory variables (commercial bank loans to SMEs, Average commercial bank lending rate to SMEs, inflation rate) and Nigeria economy measured in terms of GDP and while ACBLRSMES and CBLSMES has a causal relationship to SMEs. The study recommend that in order to address Nigeria government should recognize the impact of SMEs in Nigeria economy and attach importance to the growth of SMEs by encouraging banks to assist with loans because it constitutes a major tool in boosting employment in the country.

CHAPTER THREE

METHODOLOG Y

3.1 Research Design

A research design refers to plan that guide a researcher on how to organize the research activities (Bryman & Bell 2003). A research design presents a framework or arrangement of action for a study. This study tends to adopt the Ex-Post Factor research design. Ex-post Facto research design can be seen as a type of research which involves the study of the influences of past events or records on the present events (Agburu,2001). It is a type of research design that is adopted when working on secondary data. It is also concerned with the existence of independent variable and the dependent variable. The researcher tends to adopt this research design because the data to be used in this study, will be obtained from secondary sources of data collection, extracted from the Audited Annual Reports of the selected firms under study.

3.2 Population of the Study

The study is carried out in Nigeria, as spelt out in the broad objective of the study which is aimed at carrying out an evaluation on the effect of bank lending on the development of small and medium scale enterprises in Nigeria. One hundred and Ninety four (194) Staff of the people operating SMEs will be used as the population.

3.3 Sample Size and sampling Technique

This research adopted simple random sampling techniques to determine the sample size. Based on this, the population of One hundred and Ninety four (194) was targeted. Thus, from the target population, the sample size was determined, using the formulae below:

$$n = \frac{N}{1+n\,(e)^2}$$

Where n = sample size

N = the target population (194)

e = margin of error (5%)

$$\therefore n = \frac{194}{1+194(0.05)^2}$$

$$= \quad 130.6 = 131$$

Therefore, the sample size for this study is 131

3.4 Methods of data Collection

The study used secondary source of data collection which was obtained from the Central Bank of Nigeria Statistical Bulletin, annual report of National Bureau of Statistics, Journals, and Audited Annual Reports of each of the SMEs under study.

3.5 Instruments of data collection

This work will employ the secondary sources of data collection in obtaining all the data, for each of the period under evaluation in this study. The data for this study will be extracted from the Central Bank of Nigeria, Statistical Bulletin, Annual Report of National Bureau of Statistics, Journals.

3.6 Methods of data Analyse

The Analytical tool used in this study for the test of Hypotheses is multiple regressions. Multiple regression is a statistical tool for understanding the relationship between two or more variables, it allows for much more flexibility. This tool allows us to examine how independent variables are related to a dependent variable. Once you have identified how this multiple variables relate to your dependent variable, you can take information about all of the independent variables and use it to make much more powerful and accurate predictions about the depend variable. This process is known as multiple regressions.

Model Specification

In this study, the independent and dependent variables are used into an equation called simple regressions. To express the model of simple regressions in equation modified to suit the respective hypotheses.

This study is a time series study that covers 2009 – 2018.

The mathematical model will be thus

Y = f(X1,X2,X3)

Where Y is the dependent variable and X1 – X3 are the independent variables. Estimating the models, it will be thus:

GR = f(BL,BLR)

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND INTERPRETATION

4.1 DATA PRESENTATION ANALYSES AND INTERPRETATION

This chapter presents and analysis the result of the study. The chapter is divided into two section. The first section will include discussion on the bio-data/demographic characteristics of respondents. While the second section deals with presentation of data and data analysis.

Analysis of the data was based on both qualitative and quantitative analysis statistics mainly, through simple frequency and percentage were used in describing the respondents information provided in the questionnaire.

Socio-Demographic characteristics of the respondents

Variable		**Frequency**	**Percentages**
Gender	Male	45	64.29
	Female	25	35.70
Marital status	Single	35	50
	Married	20	28.57
	Widow	5	7.14
	Divorce	10	14.29
Age	20-30years	25	35.71
	31-40years	30	42.86
	41-50years	5	7.14
	51 – above	10	14.29
Ethnic tribe	Indigene	45	64.26
	Other state	25	35.74
	Foreigner	0	0
Occupation status	Manager	2	2.86
	Supervisor	5	7.14
	Clerk	33	47.14
	Cashier	10	14.29
	Other	20	28.57

Source: Researcher’s Survey, 2025

DATA ANALYSIS

TABLE 1: Have you ever applied for a bank loan for your SME?

Variable	Frequency	Percentage
Yes	64	91.43
No	6	8.57
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

From the above table it show that 64 or about 91% the respondents have applied for a bank loan for operation SME while 6 or about 9% of the respondents do not applied for a bank loan in Ilorin.

TABLE 2: How easy was the loan application process at UBA Bank Unity, Ilorin Branch?

Variable	Frequency	Percentage
Very easy	25	34.71
Easy	20	28.57
Hard	20	28.57
Very Hard	5	7.14
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

The above table shows that 25 or about 36% of the respondents said loan application process is very easy in UBA, 20 or about 29% of the respondents agreed that it is easy for applicant to process loan in UBA, 20(28.57) said it is Hard while 5 or about 7% of the respondents said it is very hard.

TABLE 3: Did You Face Any Challenges During the Loan Application Process?

Variable	Frequency	Percentage
Yes	64	91.43
No	6	8.57
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

From the above table it show that 64 or about 91% the respondents face challenges during the loan application process. While 6 or about 9% of the respondents say no.

TABLE 4: How Would You Rate The Interest Rates Offered by UBA Bank Unity for SME

Loans?

Variable	**Frequency**	**Percentage**
High	63	90
Low	7	10
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

From the table above 63 or about 90% of the respondent's rate UBA interest rate high, 7 or about 10% rate the interest rate offered by UBA Bank Unity low.

TABLE 5: How do you utilize the Loan funds in your SMEs operation?

Variable	**Frequency**	**Percentage**
Effectively	60	95.23
Not effective	3	4.77
TOTAL	**63**	**100**

Source: Researcher's Survey, 2025

From the above, it show that 63 or about 90% of the respondents used their loan effectively for the purpose collected it for, while 7 or about 10% do not aware.

TABLE 6: Does the Bank Loan has impact on the growth of your SME?

Variable	**Frequency**	**Percentage**
Yes	64	91.43
No	6	8.57
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

From the above table it show that 64 or about 91% of the respondents agreed that bank loan has impact on the growth of SME, while 6 or about 9% of the respondents disagree with it.

TABLE 7: Have you faced any difficulties in loan repayment?

Variable	**Frequency**	**Percentage**
Yes	60	85.8%
No	10	14.2%
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

From the above table it show that 60 or about 85.8% the respondents said they have faced difficulties in loan repayment, while 10 or about 14.2% of respondents said no.

TABLE 8: Do you thing the loan terms and conditions offered by UBA Bank Unity are favorable for SMEs?

Variable	Frequency	Percentage
Yes	64	91.43%
No	6	8.57%
TOTAL	**70**	**100**

Source: Researcher's Survey, 2025

From the above table it show that 64 or about 91% the respondents agreed that loan terms and conditions offered by UBA Bank Unity are favorable for SMEs, while 6 or about 9% of the respondents agreed on contrary opinion.

4.2 TEST OF HYPOTHESIS

Hypothesis 1

H_{o1}: There is no significant impact of bank loans on small and medium scale enterprises in Nigeria

H_1: There is a significant impact of bank loans on small and medium scale enterprises in Nigeria

Test Statistic: Chi-square(X^2)

Formula: $X^2 = \sum \frac{(O-E)^2}{E}$

Assumptions:

Level of significance0.05 Decision rule:

Accept Ho if calculated value of is X^2 less than the critical value otherwise reject Ho.

Response	O	E	O-E	$(O-E)^2$	$(O-E)^2$ E
Very significant role	23	10.67	12.33	152.03	14.25
Significant role	8	10.67	-2.67	7.13	0.67
No significant role	1	10.67	-9.67	93.51	8.76
	32	32			23.68

Source: Research survey 2024 Table 5:Chi-square Table

Degree of freedom(DF):

DF=(R-1)(C-1)

DF=(3-1)(2-1) DF=2

Determination of critical value X^2 critical value-5.991 Compare the two values.

X^2 calculated> X^2 critical 23.68>5.99

Decision: reject Ho

Inference: Since the calculated value of X^2 is greater than the critical value, it means that bank loan has significant impact on the performance of Small and Medium Scale Enterprises in Nigeria.

Hypothesis 2

H_{o1}: There is no significant relationship between bank loans and small medium scale enterprises in Nigeria.

H_1: There is a significant relationship between bank loans and small medium scale enterprises in Nigeria

Test Statistic: Chi-square(X^2)

$$\text{Formula: } X^2 = \sum \frac{(O-E)^2}{E}$$

Assumptions:

Level of significance 0.05 Decision rule:

Accept Ho if calculated value of is X^2 less than the critical value otherwise reject Ho.

Response	O	E	O-E	$(O-E)^2$	$(O-E)^2$ E
Very significant role	25	34.71	-9.71	94.28	2.72
No significant role	20	28.57	-8.57	73.44	2.57
	65	92			7.86

Source: Research survey 2024

Table 5:Chi-square Table

Degree of freedom(DF):

DF=(R-1)(C-1)

DF=(3-1)(2-1) DF=2

Determination of critical value X^2 critical value-5.991 Compare the two values.

X^2 calculated> X^2 critical 7.86>5.99

Decision: reject Ho

Inference: Since the calculated value of X^2 is greater than the critical value, it means that bank loan has significant impact on the performance of Small and Medium Scale Enterprises in Nigeria.

Hypothesis 3

H_{o1}: There is no significant relationship between bank loans on Small and Medium Scale Enterprises in Nigeria.

H_1: There is a significant relationship between Bank Loans on Small and Medium Scale Enterprises in Nigeria

Test Statistic: Chi-square(X^2)

$$\text{Formula: } X^2=\sum \frac{(O-E)^2}{E}$$

Assumptions:

Level of significance0.05 Decision rule:

Accept Ho if calculated value of is X^2 less than the critical value otherwise reject Ho.

Response	O	E	O-E	$(O-E)^2$	$(O-E)^2$ E
Very significant role	60	95.23	-35.23	-124.1	-1.30
No significant role	10	4.77	5.23	27.35	5.73
	70	100			4.43

Source: Research survey 2024

Table 5:Chi-square Table

Degree of freedom(DF):

DF=(R-1)(C-1)

DF=(3-1)(2-1) DF=2

Determination of critical value X^2 critical value-5.991 Compare the two values.

X^2 calculated> X^2 critical 4.43 >5.99

Decision: reject Ho

Inference: Since the calculated value of X^2 is lesser than the critical value, it means that there is negative relationship between Bank Loan on Small and Medium Scale Enterprises.

4.3 DISCUSSION OF FINDINGS

The impact of bank loans on small and medium scale enterprises (SMEs) in Nigeria, specifically in the case study of UBA Bank Unity, Ilorin, has been investigated in a research study.

The study aimed to assess the role of bank loans in financing SMEs and their overall impact on the growth and development of these enterprises.

It was discovered from the findings that loan application process is very easy in UBA for Small and Medium Scale Enterprise operation within Ilorin, metropolitan. And the existence of Loan has contributed significantly to the development of Industries in Kwara State.

Based on the findings, the study recommended that banks should review their interest rates downwards and share best practices with SME customers, particularly regarding the efficient use of loans. This would help boost SME productivity and support their growth in Nigeria.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

Based on the research work, bank loans has significant impact on small and medium-scale enterprises (SMEs) in Nigeria, specifically focusing on United Bank for Africa, Unity branch in Ilorin. However, this research work provide a general understanding of the impact of bank loans on SMEs in Nigeria based on existing literature.

Access to Finance: SMEs in Nigeria face challenges in accessing finance, including bank loans. Limited resources by the government result in not all small firms receiving funding from the government, making bank loans a viable option.

Contribution to Economic Growth: SMEs play a crucial role in the economic growth of Nigeria. They are a major source of income and employment for many Nigerians. SMEs have the potential to create employment opportunities, generate income, and contribute significantly to economic development.

Positive Impact on Performance: Bank loans have been found to have a positive impact on the performance of SMEs in Nigeria. Many SMEs acknowledge the positive contributions of loans towards increasing their returns and sales, placing them in a competitive arena.

Loan Utilization: SMEs utilize bank loans for various purposes, including working capital, expansion, purchasing equipment, and inventory management. Proper utilization of loans can enhance the overall performance of SMEs.

Challenges and Disadvantages: SMEs face challenges such as high-interest rates, cash flow irregularities, and loan repayment issues. These challenges can negatively impact the performance of SMEs and hinder their growth.

The study focused on working capital management as a tool for business survival in a financial organization particularly United Bank for Africa, Plc.

The working capital management analysis in the study was based mainly on the component of working capital management such as management stock/inventory management, each component of the working capital elaborated including the necessary details related to them in addition the relevant data collected was also analyzed and interpreted regarding the working capital management.

5.2 CONCLUSION

The United Bank for Africa, Plc has used various component or working capital management and techniques in the various activities and this has resulted to effective and perfect decision making in working capital management as tool for business survival.

5.3 RECOMMENDATIONS

Based on the findings, here are some recommendations for SMEs in Nigeria to access bank loans:

Understand the requirements: Familiarize yourself with the eligibility criteria and documentation required by banks for loan applications. This will help you prepare the necessary documents and meet the bank's requirements.

Improve your creditworthiness: Banks assess the creditworthiness of SMEs before approving loans. To enhance your creditworthiness, maintain a good credit history, pay bills and loans on time, and manage your finances effectively. This will increase your chances of obtaining a bank loan.

Develop a comprehensive business plan: A well-structured business plan demonstrates your understanding of your business and its potential for growth. It should include financial projections, market analysis, and a clear repayment strategy. A strong business plan can convince banks of your ability to repay the loan.

Seek assistance from development finance institutions: Development finance institutions, such as the Development Bank of Nigeria (DBN), provide long-term financing and partial credit guarantees to eligible financial intermediaries for on-lending to MSMEs. Explore the opportunities offered by these institutions to access financing.

Explore alternative financing options: Apart from traditional bank loans, consider alternative financing options such as venture capital, angel investors, crowdfunding, or peer-to-peer lending platforms. These options can provide additional sources of funding for your SME.

Build relationships with banks: Establishing a good relationship with banks can be beneficial when seeking loans. Regularly engage with bank representatives, attend financial literacy programs, and participate in networking events to build trust and credibility.

Leverage technology: Embrace digital platforms and financial technology solutions that can streamline your financial operations and improve your creditworthiness. Digital lending platforms and e-invoicing systems can provide alternative sources of financing and simplify loan application processes.

REFERENCES

Afolabi, M. O. (2013). Growth effect of small and medium enterprises (SMEs) financing in Nigeria. *Journal of African Macroeconomic Review*. 3(1), 193 - 205.

Akingunola, R. O. (2011). Small and medium scale enterprises and economic growth in Nigeria: An assessment of financing options. *Pakistan Journal of Business and Economic Review*, 2(1).

Aremu, M. A., & Adeyemi, S. L. (2011). Small and medium scale enterprises as a survival strategy for employment generation in Nigeria. *Journal of Sustainable Development, 4(1), 200-206.*

Bello, A & Mohammed Z (2015). Banking sector credit on the growth of small and medium enterprises (SME's) in Nigeria. *Journal of Resources Development and Management*

Boom, E. K. (2016). Women in SMEs: An African examples. *Courier*, no 115, May-June, 74-76

Butter, A., & Linter, O. (1945). *Small firm management: Ownership, finance and performance*, Oxford, England, Blackwell Business.

Carl's, J.W. (2001). Differentiating entrepreneurs from small business owners: a conceptualization. *Academy of Management Review, 9(2), 354-359.*

Cetorelli, N. , & Strahan, .P E. (2006). Finance as a barrier to entry: Bank competition and industry Structure in local U.S. markets. *Federal Reserve Bank of Chicago Working Paper.*

Dauda, Y. A. (2006). Entrepreneurship and small scale business enterprises development in Nigeria", *Journal of Social Science*, 3, *1-11.*

Deakins & Fred (2009) in Ofoegbu, E. O., Akambi, P. A. and Joseph, A. I. (2013). Effects of contextual factors on the performance of small and medium scale enterprises in Nigeria: A case study of Ilorin metropolis. *Advances in Management and Applied Economics, 3(1), 95-114.*

Dionco-Adetayo, E. A., Awoniyi, M. O., Adetayo, J. O. & Elumilade, D. O. (2006). Enterprise promotion policy on the development of small scale industries in Nigeria: An assessment. *Refereed paper; SME-entrepreneurship global conference* 2006.

Ebiringa, O. T. (2011). Synthesis of literature on small and medium enterprises start-up financing, *International Journal of Economic Research , 2(1), 85-95.*

APPENDIX I

QUESTIONNAIRE

Kwara state polytechnic,
PMB 1375,
Ilorin,
Kwara State.

Department of Business Administration and Management,
Kwara State Polytechnic,
Ilorin.

Dear Respondent,

I am ND 2 student of the above-named institution and department carrying out a research on: ***"Impact of Bank loans on small and medium scale enterprises in banking industry"***. This research project would be relevant for academic purpose.

This research work required two questions to attempt; I hope you all will respond to those questions giving to you.

Thanks.

AHMED BARAKAT

ND/22/BAM/PT/872

Instruction: Please tick (   ) as applicable to you

SECTION A

1: Gender: male ( ) female ( )

2: Age Group: 20-25 yes( ) 30-35 ( ) 40 and above ( )

3: Marital Status: single ( ) married ( ) divorce( )

4: Education Qualification: ND/NCE ( ) HND/BSC ( ) others ( )

5: Length Of Services: 5-10 yrs ( ) *15-20* ( ) 25 and above ( )

6: Position In The Organization: junior staff I 1 senior staff ( ) other ( )

SECTION B

7. Have you ever applied for a bank loan for your SME?

(a) Yes ( ), (b) No ( )

8. If yes, what was the purpose of the loan?

(a) Business purpose ( ), (b) Personal Use ( )

9. How easy was the loan application process at UBA Bank Unity, Ilorin branch?

(a) Very easy ( ), (b) Easy ( ), (c) Hard ( ),

1. Did you face any challenges during the loan application process?

(a) Yes ( ), (b) No ( )

2. How would you rate the interest rates offered by UBA Bank Unity for SME loans?

(a) High ( ), (b) Low ( )

3. How do you utilize the loan funds in your SME operations?

(a) Effectively ( ), (b) Not effective ( ),

4. Does the bank loan has impact on the growth of your SME?

(a) Yes ( ), (b) No ( )

5. Have you faced any difficulties in loan repayment?

(a) Yes ( ), (b) No ( )

6. Do you think the loan terms and conditions offered by UBA Bank Unity are favorable for SMEs?

(a) Yes ( ), (b) No ( )