IMPACT OF BANK LOANS ON SMALL AND MEDIUM ENTERPRISE IN NIGERIA

(A Case Study of United Bank for Africa)

BY

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

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CERTIFICATION

This is to certify that this research study was conducted by **IBRAHIM SERIKI SASILI** with Matriculation Number **HND/23/BFN/FT/0459** and this work has been read and approved as meeting the requirement for the award of Higher National Diploma (HND) in Banking and Finance, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic.

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DEDICATION

This research work is dedicated to Almighty God the most merciful, the most gracious, the beginning and the end, for making this research work possible and reality for me.

I also dedicated this research work to my parent **MR & MRS IBRAHIM SERIKI** for their unwavering support and love. May Almighty Allah continue to keep them safe to enjoy the fruit of their labour on earth in sound health. AMIN

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ABSTRACT

The study examined the deposit money banks financing, small and medium scale enterprises (SMEs) profit performance in Nigeria using autoregressive distributed lags techniques of analysis on data from the Central Bank of Nigeria and Bank of Industry. The research focuses on Deposit money banks credits, small and medium Scale enterprise profit performance in Nigeria. The credit to SMEs, aggregate deposit money banks loans, money supply, lending interest rate and inflation were the independent variables used for the study. Profit performance which was the dependent variable was measured using SMEs profitability. Regression results were used to test Hypothesis 1- 4. The results showed that credit to SMEs and aggregate deposit money banks loans were positive and significant at both short and long run. It was also found that money supply, lending interest rate and inflation showed varying level of significant relationships with the profit performance of small-scale business enterprises in Nigeria. The study recommends that the government should prioritize credit creation and administration strategies to SMEs in order to improve the profit performance of the SMEs in Nigeria. In addition, the monetary authorities and regulators should guarantee, re-invigorate and improve loans schemes by deposit money banks in Nigeria through appropriate credit policies. This of course will play the key role of loan creation, securitization and administration that will impact on the SMES in Nigeria.

Keywords: Small and Medium Enterprises, Deposit Money Banks, Financing, Interest Rate, Inflation.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial adequacy and stability could play a vital role in small and medium enterprises performance and the nation's economy at large. Small and medium scale enterprises exist in our society. These organizations are established principally for the purpose of making profit. These businesses are relatively small or medium in size and may be operating on a small or medium scale.

Small and medium enterprises have been seen to be pivotal for sustainable growth of many nations (Ikpor, et. al, 2017). Small and medium scale businesses could play some key role such as employment creation; transformation of the traditional industries, etc. thereby contributes to the growth of the economy.

The small and medium enterprises sector occupies a unique position in the economy of any developing nation including Nigeria. The small and medium businesses could play significant role in providing the necessary support for large scale industrialization. The exploitation of the enormous natural and human resources available to Nigeria for economic growth and development would to a great extent depend on how the small and medium enterprises in the nation are coordinated. Although it is widely believed that small and medium enterprises constitute important part of economic growth and development process, small and medium enterprises in Nigeria have continue to bristle with challenges. Problems particularly associated with limited access to finance, limited managerial ability, low strength to maintain specialize personnel, low adoption of international financial reporting standard, low level or non adoption of e-commerce in business practice and limited market have among others resulted to a high incidence of mortality of these businesses (Simeon, 2000). It is imperative that measures are taken to proffer solutions to enable the full potentials of the small and medium businesses in order to be realized for accelerating the pace of economic growth and development in Nigeria.

A country with intention for economic growth and development needs capital accumulation. Shuaib and Dania (2015) assert that what constitutes economic development is the provision of social overhead capital. Development cannot be made possible with the absence of capital formation. Gross fixed capital formation refers to investment on fixed assets such as land, roads, buildings, railways, plants, machinery, etc. According to Kanu and Nwaimo (2015), gross fixed capital formation is part of gross domestic expenditure which indicates the extent of new value that is provided through savings in the economy rather than consumed. The thought that the nation's gross fixed capital formation depends on the revenue from the crude oil has over time worsen the level of capital formation in Nigeria. It has been observed that, even with high level of crude oil production with higher prices of the crude oil product with higher government expenditure, it has not reflected in the nation's gross fixed capital formation (Kanu and Nwaimo, 2015).

Looking at the accelerator theory of investment, which opined that, increase in economy is related with investments made by firms including small and medium enterprises; meaning that, increase in gross fixed capital formation could be made possible with the aid of investments from small and medium sized enterprises. Therefore, anything that can hinder the growth of small and medium sized firms could have an impact on economic growth. Most of the developed economies have discovered the role of small and medium enterprises in industrial growth and have advanced to formulate and adopt national financial policies for the growth of small and medium enterprises (Ikpor, Nnabu and Obaji, 2017). The Nigerian government has made effort on this but have not yielded the needed results. With the equity scheme introduction do not make significant impact on loan disbursement to finance SMEs in Nigeria (Ibrahim, 2017).Iloh and Chioke (2015) maintained that, the role of deposit money bank credits is crucial to the growth and development of small and medium enterprises.

The Nigerian economy is facing challenges; the rate of unemployment is high, high inflation rate, low level of food production, low infrastructures etc. Many scholars have attributed this to the gross underperformance of the small and medium business sub-

subsector which has resulted to limit its contribution to employment creation, improvement of local technology, output diversification, development of indigenous companies, etc. From the FSS 2020 small and medium sector report 2007, the key issues affecting the small and medium sized enterprises in Nigeria were grouped into four, namely; unfriendly business environment, poor funding, low managerial skills and lack of access to modern technology. Among these four, lack of finance stands as the major issue.

Bank credit refers to loans, advances and discounts of specific sums, which are normally with terms and other conditions available to individuals, small and medium sized business to start, grow or sustain any economic activity (John and Onwubiko, 2013).

A widespread concern is that, the deposit money banks attitude towards the subsector; which supposed to be the major source of funding to small and medium sized businesses are not providing enough aids and therefore limiting the potentials that could be taped from the subsector. The deposit money banks in their mode of operations most of the time call for more sure form of financial security, if they are to grant credit facility to small or medium sized business that need funds for business activities. However, due to the nature of small and medium sized businesses, in most cases, they tend not meeting up the requirements for the granting of the facilities. This has become a major challenge to the small and medium sized business operations in Nigeria. Robinson and Victor (2015) assert that most SMEs growth was hindered as a result of inability to access fund from financial institutions.

1.2 Statement of the Problem

The problem of insufficient commercial bank loans for SMEs is also prominent in Nigeria, just like the rest of the world. This problem affects the growth and development of SMEs, which in a larger scale leads to unemployment, low standard of living, high cost of living and a poor economy.

The Central Bank of Nigeria (CBN) notes that globally, commercial banks shy away from financing SMEs because of perceived risks and uncertainties. In Nigeria, the competitive credit for SMEs has been worsened due to the fragile economic environment and lack of necessary infrastructures (CBN, 2020).

It is an open secret that most financial institutions set a low priority to doing business with SMEs and individuals because of their high-risks tendencies. They are considered high-risk clients due to the lack of security funds that can stand as collateral to the financial institutions.

There has been much intervention from government and non-governmental organizations through a lot of policies and programs to ease the financial burden on SMEs in Nigeria, but the problem still persists due to the inability of SMEs to access loans from the financial institutions directly.

It has become essential to dig deep to find out the main challenges that SMEs encounter while seeking loans from the various financial institutions and the factors that leads to these challenges.

1.3 Research Questions

i. What is the effect of Bank Loans on the growth rate of SMEs?
ii. What are the loan facilities provided for Small and Medium Enterprises by financial institutions?
iii. What are the processes and procedures involved in accessing loans by Small and Medium Enterprises from financial institutions?
iv. What are the challenges associated with Small and Medium Enterprises' access to loans?

1.4 Objectives of the Study

i. To ascertain the effect of bank loans on the growth rate of SMEs

ii. To evaluate the effect of bank lending on growth rate of SMEs

1.5 Research Hypothesis

To form an opinion on the Impact of banks' credit or loan to SMEs on economic growth in Nigeria and with the utmost objective of making necessary recommendations, the data collected for the purpose of this study will be tested for the following hypotheses:

H01: Loan and advances from Banks to SMEs does not have significant impact on economic growth of Nigeria

H02: Loan and advances from Banks to SMEs have significant impact on economic growth of Nigeria

1.6 Significance of the Study

Small and Medium Enterprises (SMEs) have impacted the Nigerian economy in so many ways over the last decade and this cannot be overlooked. SMEs are major players in several areas of the economy, and this has led to positive outcomes such as reduction in poverty, increase in tax revenue, infrastructure improvement, and increase in the Gross Domestic Product (GDP) of the country.

This research work will highlight the challenges SMEs face in obtaining loan from financial institutions with the focus on SMEs' major lender, the banks. The research work will suggest possible solutions that will help SMEs grow, which in turn will grow the Nigerian economy.

1.7 Scope and Limitation of the Study

The research topic has been worked on by several researchers, which makes information readily available. However, the researcher will have to deal with the following limitations:

• Data collection will be limited to a particular area and not the whole country due to financial constraints and time limitation. Hence, the data representation will not be a representation of issues across the whole country.

• Some of the respondents might be unwilling to give in-depth information and there may be a lack of sincerity due to confidentiality and fear.

1.8 Definition of Terms

Bank Loan: A sum of money borrowed from a bank or financial institution, typically with interest and repayment terms.

Small and Medium Scale Enterprise (SME): A business with a limited number of employees and annual turnover, often defined by the National Council for Industry (SMEDAN) in Nigeria.

United Bank for Africa (UBA): A Nigerian multinational bank that provides financial services to individuals, businesses, and governments.

Impact: The effect or influence of a particular action or event, in this case, the impact of bank loans on SMEs.

SME Development: The growth and expansion of small and medium scale enterprises,

often driven by access to finance, markets, and other resources.

Access to Finance: The ability of SMEs to obtain financial resources, such as loans, to fund their operations and growth.

Loan Repayment: The act of paying back a loan, typically with interest, according to the agreed-upon terms.

Interest Rate: The percentage of the loan amount charged as interest by the lender,

typically expressed as an annual rate.

Collateral: Assets or property pledged as security for a loan, which can be seized by the lender if the borrower defaults.

Creditworthiness: The ability of a borrower to repay a loan, based on their credit history, financial stability, and other factors.

Loan Default: The failure to repay a loan according to the agreed-upon terms, which can result in penalties, fines, or damage to credit scores.

SME Financing: The provision of financial resources, such as loans, to SMEs to support their growth and development.

Financial Inclusion: The access to financial services, including loans, savings, and other products, for individuals and businesses.

Economic Growth: The increase in the production of goods and services in an economy, often measured by GDP growth rate.

Entrepreneurship: The act of starting and running a business, often driven by innovation, risk-taking, and creativity.

1.9 Organization of the Study

This research will be structured into five chapters.

The first chapter provides background information, the significance of the study, the statement of problem, the research objective and the limitation of the research.

The Second chapter covers the literature review for the research. Small and Medium-sized Enterprise will be defined, and existing literatures and journals will also be reviewed.

The Third chapter explains the research methodology for the research in concise details. This will include the various sources of data for the research, method for data collection and how the research will be tested for validity and reliability.

The Fourth chapter contains the empirical study, analysis of the data collected and presentation of the collected data.

The Fifth and final chapter summarises the various findings from the data collected

and recommendations will be made on how the challenges faced by SMEs in

accessing loans can be solved

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Small and Medium Enterprise in Nigeria

In Nigeria, the number of employees and a company's turnover per year are the most common indicators used to determine if a company is a big or small business. That said, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), according to Fisher's (2012) interview with the Daily Independent, uses different criteria of fixed assets and company's staff size to define what constitutes a small-scale business to that of medium and large-scale business. Fisher (2012), in his interview, defined micro enterprise as one that has a staff strength between one and nine people and has an asset base of less than 5 million Naira excluding the cost of land; small enterprises are organizations of about 10 to 49 staff and have assets of 5 million to 50 million Naira; while medium enterprises have a staff strength between 50 to 199 and assets of 50 million to less than 500 million Naira.

According to SMEDAN, the small business consists of companies that have launched with 5 million Naira (US$ 10,000 per parallel market exchange rate) and not more than 50 million Naira (US$ 100,000) employing between 10 and 49 people (Ogunyomi & Bruning, 2015: 615).

SMEDAN defined medium scale enterprises in Nigeria as firms with employees from 50 to 199, and capital ranging from 50 to 100 million Naira (US$100,000 to US$1,000,000) (Ogunyomi & Bruning, 2015: 615).

Nigeria's regulatory body of monetary policies, the Central Bank of Nigeria (CBN) described small businesses with capital ranging from 1.0 million Naira to 10.0 million Naira (US$2,000 to US$20,000) and employing fewer than 50 employees (Juliana, 2013: 26).

The National Industrial Development Bank highlighted that a small business is an enterprise that does not exceed the overall cost of 750,000 Naira (USD 1,500), whereas the National Economic Reconstruction Fund describes SMEs as firms with an investment equal to or less than 10 million Naira (Juliana, 2013: 26).

Other institutions that have tried to define small enterprises in Nigeria include the Small and Medium Industries Equity Investment Scheme (SMIEIS) which defines SMEs as those with overall cost of between 1,5 million Naira and 200 million Naira and a workforce of between 10 and 300 (Lucky & Olusegun, 2012: 488).

The enterprise's promotion decree of 1989 categorized SMEs as businesses that provide the owner with jobs in retail and mechanic enterprises (Dugguh, 2015: 52). Nigeria's industrial policy considers enterprises with a total capital of between 100,000 and 2.0 million Naira to be small enterprises, and Nigeria's Center for Management Development considers enterprises with a total capital except land not exceeding 50,000 Naira and employing up to 50 individuals as small enterprises (Dugguh, 2015: 52).

I adopted the definition of small businesses by SMEDAN because it focuses on two fundamental aspects of this study: capital and employees. SMEDAN (2013) states small businesses are firms with capital of between 5 million Naira and 50 million Naira employing 1 - 49 persons.

2.1.2 Characteristics of SME in Nigeria

One of the defining structures of small and medium enterprises in Nigeria is the ownership structu8 definition portrays that SMEs are mostly formed around one particular person or a family, which has given rise to the SME as either a solely owned company or a partnership.

Lawal, Kio, Suliaman and Adebayo (2000: 76) describe the characteristics of SMEs as

listed below:

a. Capital is from personal savings of owner of the business

SMEs' start-up capital is mostly from the personal savings of the owner or from a small group of people (Francis, 2009: 24). Francis (2009: 24) further explained that the start- up capital, which is mostly in terms of equity holding, is raised by the owner of the business or with other owners of the business.

b. The capital requirement for start-up is low

SMEs require little capital, which makes the capital within the reach of the business owner (Francis, 2009: 24). Fisher (2012) puts the capital needed for the setup of small and medium businesses at less than 5 million Naira in Nigeria, with the exception of land for the financing of the business. The financing of the business is almost always within the reach of the owner of the business and mostly done by the owner of the business.

c. The owners have no managerial skills

Many SMEs do not reach their full potential and they fail to grow because of the quality of strategic planning and the management of the company's resources, due to the weakness of the business in innovation, marketing, knowledge of management and management of human resources (Lekhanya, 2016: 109). Hoffman, Parejo, et. al, (1998: 39) widely believes the key source of innovation is from the owner of the business and without this innovation the business yields low productivity. Accessing eternal funds is always difficult for establishing and running the business

According to Lekhanya (2016: 109), one of the key factors that limits the growth of small businesses is lack of financial management skills. Most owners of SMEs as established by Lekhanya (2019: 109) lack various skills needed to effectively run the business, which acts as a disincentive to external funders.

d. There are mostly little or no accounting record for the business

SMEs have little or no accounting records due to the lack of management skill among the business owners (Lekhanya, 2019: 110). This lack of accounting records is also the reason why SMEs find it hard to get external funding (Francis. 2009: 24)

e. There is reluctance to take risks by the owners of the business

Hansen (1992: 39) claims that small businesses do not make contributions towards innovation and research and development. The failure of small business owners to innovate is due to their inability to take risks. Most business owners are unable to invest in research and development due to the limited funds that they have and this limits their ability to innovate.

f. Little influence on the marker and low marginal market share

Francis (2009: 25) explains that the area of operation of SMEs is mostly limited to one community. The area of operation of small businesses is limited to a very small market and due to the inability of the owners to secure external funding and the lack of innovation and research, the company gets a very limited share of the market.

g. There is a high mortality rate for SMEs

Most SMEs are poorly managed by their owners due to the lack of proper management techniques, innovation and research and development (Francis, 2009: 25; Lekhanya, 2016: 109). The poor management of the business by their owners puts the business at the risk of collapse. Francis (2009; 25) clearly states that the lack of discipline by the managers leads to the failure of businesses.

h. The business concentration is on one person

Francis (2009; 25) notes that the management of the business is not independent. The business is owned and managed by the same person. The business owner who is also the manager can run the business as he or she pleases, which can be harmful to the growth of the business.

i. There is limited or no access to long term funds

It has been established by Lekhanya (2016: 109) that SMEs find it hard to get funded externally, which is as a result of companies' lack of innovation, research and development. The inability of small and medium sized businesses to get funded externally makes it difficult for them to get access to long term funds.

j. There is low education and technical expertise by the owner of the business

The level of education of business owners is believed to be a major source of business innovation (Hoffman, 1998: 38). According to Frederic & Haudeville (2002: 738), the educational level of business owners determines their acceptance of external sources and their approach to innovation problems. Business owners with low educational background do not accept assistance when they are faced with problems in their business, which makes the problem remain unsolved.

k. There is an over reliance on imported raw materials and spare parts

One of the problems of small businesses as highlighted by Lekhanya (2016: 108) is their inability to source for raw materials and spare parts from their immediate environment. This problem limits the development of SMEs

l. The cost is high as a result of bank charges and high interest rates

The Sustainable Agriculture and Rural Development (SARD) policy (2017: 8) notes that one of the difficult factors of small businesses is high transaction costs, which result from high interest rates and high bank charges.

m. Poor managerial skill to manage labour due to lack of funds

The capital needed for small and medium business is very small, according to Francis (2009: 24) and this leads to the inability of SMEs to recruit labour that would help the business maximize its proficiency. The businesses have to short-change staffs (employ limited staff) which means that some necessary job function will be unattended to or the staff will be given too many jobs to do, which will limit their effectiveness.

n. There is almost always no training and development of employees

The employees of SMEs are not trained and developed for their job function, which is a result of lack of sufficient funds to run the business properly (Francis, 2009: 24).

o. Lack of access to international markets

Due to the inability of small and medium business to get funded by external sources (Lekhanya, 2016: 109) they lack the capacity to produce enough to meet demands or compete with bigger companies in international markets.

p. Lack of succession plan

Small and medium businesses lack succession plans. The owners of SMEs do not make plans for the business to go on without them (Umidjon, Shuhua, Jayathilake & Renyan, 2014: 13).

q. Poor access to vital information

SMEs do not have access to vital information due to their inability to carry out research and development, which can lead to innovation and give the business a competitive edge over competitors.

r. High production costs due to inadequate infrastructure and wastages

Lekhanya (2009: 110) notes that poor infrastructures such as roads, power shortage, and so on, leads to high production costs, which limits small and medium businesses from competing with their counterparts in international markets.

s. Absence of research and development effort

Umidjon, et. al, (2014: 15) note that the absence of research and development by SMEs due to lack of funds limits their ability to innovate.

t. Poor product quality output

Due to the inability of SMEs to invest in research and development (Lekhanya, 2009: 108) and their lack of access to external financing, the product that is produced is often of low quality.

2.1.3 Challenges of SMEs in Accessing Loans in Financial Institutions

SMEs are yet to impact the Nigerian economy as expected or predicted, in spite of the various supports and efforts by the Government. This shows that there is a problem. The efforts and supports of the Government aimed towards SMEs and the inability of SMEs to grow at the desired rate underlines that there are fundamental issues or problems. While the government has put in place some policies to help SMEs develop, it needs to do more (Abehi, 2017; 292)

The development of SMEs is hindered by inadequate planning for SMEs in certain countries. According to Cook and Nixson (2000: 2), the role of SMEs is greatly acknowledged in the development of a nation's economy, but their growth is limited by the lack or inadequate financial resources to meet the various operational and investment needs of the country.

The managers of SMEs in Europe were questioned on what the most recurring issue is they confronted running their SMEs, it was recorded that they mostly named access to finance as the most recurring obstacle they face. Other problems mostly faced included.

In Nigeria, the most recurring issue still remains access to finance or loans from

financial institutions (Isern, et. al, 2009:6).

Below we will discuss more about the various issues that affects the development of SMEs.

a. Stringent Conditions

In a great deal of cases, SMEs are unable to access credits from financial institutions because of the stringent conditions attached to accessing these loans. Financial institutions find excuses not to lend to some SMEs because they lack the admissible collateral.

Previous researchers have noted that, bank financing depends upon securing the collateral through lending (Berger and Udell, 1998: 614). In the event of default by the SMEs, collaterals in the form of assets secure the financial institutions from losing the loan approved. Without secure collateral, financial institutions have limited avenues to protect the loan given to SMEs. The financial institutions request collateral to be able to limit the risk linked with the loans. SMEs with great business strategy but not backed by sufficient security are usually denied credit because banks cannot afford to take any risk of non-repayment of loans. Financial institutions will always request that this sufficient security requirement is fulfilled before a loan can be approved.

b. Strict vetting of credit applications

Financial institutions are also strict with regard to verification of SMEs' loan applications

(Avevor, 2016: 44). The process of reviewing loan applications takes so long to complete that loans are delayed and issued when the purpose for the loan application most likely has expired.

c. Short repayment period

In most circumstances, loans granted are much less than the requested amount and are accompanied by short limited periods for the repayment. Ricupero (2002: 34) states that financial institutions' loans granted to SMEs are often expected to be repaid within a very short period of time to cover for any long-term investment strategy, and Abereijo and Fayomi (2005: 220) note that most of commercial bank loans given to SMEs, often have a short repayment period to offload any significant investment.

d. Unaware of variables considered by financial institutions

SME enterprises are unaware of factors that financial institutions take into account before approving loans to their customers. Financial institutions generally do not lend to anyone who would be willing to pay higher interest rates, because doing so would only give room to riskier borrowers. They have mediums of checking credit ability of their customers. They lend to businesses, they feel comfortable or confident that they have higher probability to pay back (Ocansey, 2006: 5).

It has been noted that a key factor that limits the SMEs from access to financial assistance includes the misunderstanding of how the banks operate and vice versa.

Consequently, Small and Medium Size businesses are left with the frustration of time delay in acquiring bank loans or being completely denied. Banks request documents such as audited financial information, business plan, and bankable proposal before they lend to SMEs. Most SMEs do not have the technical ability to do such things. This makes it very difficult for them to be granted loans by these financial institutions.

e. No Separation between Business Funds and Owner's Fund

The issue of separating business funds from the funds belonging to the owner of the business is one of the factors that limits small and medium business from accessing loans from financial institutions (Ogbo & Nwachukwu, 2012: 97). In most cases, partnerships in SMEs are often a failure, which leads to the management of the business by one of the partners (Ogbo & Nwachukwu, 2012: 97).

SME owners often manage the finances of the business based on personal favors rather than for the development of the business, because the business owners allow personal transactions within the funds of the firm (Ogbo & Nwachukwu, 2012: 97).

When there is a situation whereby the owners of businesses interfere with the purse of the business, it makes it very difficult to secure external funding which can grow the business. The difficulty faced in accessing external funding may even lead to the death of the business (Ogbo & Nwachukwu, 2012: 97). It is critical to underline that failure of SMEs to secure funding from external institutions results in their death of the business within five years of business inception.

2.1.4 Challenges of Financial Institutions in Lending to SMEs

a. High transaction Costs

The cost of credit accessing, processing and monitoring of loans is incurred by the banks. The transaction costs relate directly to the profitability of the bank. The return is low when the cost of transaction processing is high. SME loans often consume time for the banks to access, track and manage.

b. Unreliable information

SME owners are known not to be transparent as they do not open up their businesses to outsiders. Most times, for unknown reasons, they redraw significant information regarding their business assets, liabilities, profits and others from tax collectors, employees and outsiders.

The financial institutions and small and medium businesses need to have an open trade of information before financial institutions can give them access to loans. There is the need for more transparency and better dialogue between SMEs and financial institutions which will give solution to the difficulty SMEs are faced with when accessing loans from financial institutions.

Owners of SMEs in the process of refusing external access to their financials and giving false information about their business risk the creditworthiness of their business and make it difficult for financial institutions to loan them funds. There is the need for reliable information about the business from SME owners when supplying banks and other financial institutions as this will improve the business credit worthiness and reduce the risk of accessing funds. This would also allow financial institutions to make better payment terms available to small enterprises.

c. Inadequate financial statements

Most SMEs are guilty of not preparing their financial statements. SMEs by law are not mandated to present financial statements. In the very developed economies, such as economies in the European Union, SMEs are not mandated to file a report based on their financial performance unless they match a certain threshold in their total assets, turnover and/or number of employees.

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. Deposit money 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 deposit money 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).

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 avenue 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.

Deposit money bank 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).

2.2 Theoretical Review

2.2.1 The Supply Theory

The supply theory proposed that the presence of the commercial banks in supplying financial needs, such as assets, equity, liabilities and other commercial related services to SMEs are remarkable. The demand for it enhances resourceful apportionment of wealth from excess units to shortfall units, thus leading other commercial segments in their growing route to a viable business (Patrick, 1996; Ubesie, Onvaguluchi & Mbah, 2017). This theory serves two purposes: firstly, wealth allocations from outmoded subdivisions to contemporary divisions; and secondly, it encourages and motivates an innovative response (SMEs) in the current segments of the economy. The advocates of this theory believed that the accomplishments of commercial banks serve as an expedient utensil for growing the prolific capacity of SMEs. They opined that nations with the well-developed economic structure incline to cultivate quicker. Schumpeter (1911) takes stalwartly reinforced of funding to causal correlation among funding of small-medium enterprises and the country's economic growth.

2.2.2 Keynesian Theory

Keynes theory was propounded by John Maynard Keynes in 1936; this theory was established amidst of economic recession. From his ideas, the Keynes book titled "the general theory of employment, interest and money". The most important aspect of this theory was an indication that macro-economy theories influenced by the aggregate demand which was not equal to the productive capacity of the economy. The theory further argues that the aggregate demand was the capricious and imbalance for the significant period, if authority does not arbitrate to assist in the comprehensive demand to diminish redundancy, the economic barriers may fallout from different factors. Prior to the above statement, a situation in which aggregate demand for goods and services does not meet the supply will be referred to classical economics, (Keynes, 2007).

2.2.3 The Theory of Entrepreneurship

This theory according to Mishra and Zachary (2014a) otherwise known as the entrepreneurial value creation theory, explains the entrepreneurial experience in its fullest form, from the entrepreneurial intention and the discovery of an entrepreneurial opportunity, to the development of the entrepreneurial competence, value creation and the appropriation of the entrepreneurial reward in an uncertain environment. The theory defines the driving attributes which characterizes an entrepreneur as not only an inventor of business ideas but also someone who is capable of transforming ideas into a stream of income generating venture.

Entrepreneurship is not just an act but a multi-stage process which involves strategic decision making at every point in time. Some of these decisions are mostly influenced by factors which are external and beyond the individual control of an entrepreneur who is incubating the idea.

The theory of entrepreneurship provides in sufficient detail the interiors of the entrepreneurial process using a two-stage value creation framework. In the first stage of venture formulation, the entrepreneur driven by a desire for entrepreneurial reward leverages the entrepreneurial resources at hand to identify an external opportunity and effectuate the entrepreneurial competence that is sufficient to move to the second stage. In the second stage, which involves venture monetization, the entrepreneur may acquire external resources such as venture capital or strategic alliance to effect growth (Mishra and Zachary, 2015b). For an entrepreneur's idea to metamorphosize into a sustainable business venture and achieve the potential level of growth, financing is very crucial to achieve these objectives. While an entrepreneur may have the capability to provide the needed managerial skills to drive the business ideas, the needed funds may be lacking which then requires external influences.

2.2.4 Entrepreneurship Discovery Theory

This theory scientifically explains the processes involved and how entrepreneur discovers new business opportunities which may be accidental and or through a well-organized quest for new opportunities. It theorizes the risk-taking ability of entrepreneurs which gives them competitive advantage over their peers.

Murphy (2011) argued that entrepreneurship discovery theory involves both deliberate search and serendipitous discovery, while he posits that deliberate search reflects the degree to which purposeful activity, research, and inquest lead to the discovery of an opportunity, he further explains the serendipity discovery reflects the degree to which the opportunity's discovery is unanticipated and surprising. The study also found that the co-variation between the two dimensions yields four quadrants, which are eureka (accidental and unanticipated), deliberate search (but without much anticipation), legacy (derived from the efforts of others), and serendipitous discovery (based on prior knowledge)

According to Jaime et al. (2015), entrepreneurship discovery involves two processes, the first being the set of mechanisms by which the entrepreneur identifies the possibility of combining knowledge and economic activities in the framework of existing market opportunities and develops the idea. On the contrary, the second involves the concretion of the idea in a product or service through a business model, and commercialized by a new company.

2.3 Empirical Literature Review

Impact of Bank Loan to Small and Medium Enterprises (SMEs) on Economic Growth

Ayuba and Zubairu (2015) argued that banking sector credit facilities has significant positive impact on development of SMEs in Nigeria using annual data from 1985 to 2010. The study reveals that banks' credit to SMEs has positive impact on the growth of micro-economic variables of the country such as; inflation, exchange rates and trade debts. Similarly, Ofeimun et al. (2018) in their study on the effects of microfinance credit to SMEs on the economic growth in Nigeria, using annual reports from 1990 to 2015 concludes that credit loan to SMEs have a significant positive relationship with small business growth in Nigeria. They further argued that micro financing of small businesses by micro finance banks have significant impact on Nigeria's economic growth and development measured as GDP.

In a study conducted by Iloh and Chioke (2015) on deposit money bank credit availability to SMEs in Nigeria from 1980 to 2010, they argued that commercial banks' credit to SMEs have significant effect on Nigeria economic growth by positively affecting the GDP. The implication of this finding is that SMEs financing by banks is a great catalyst and a driving force for economic growth in Nigeria. This is consistent with the findings of Afolabi et al. (2016) who analyzed data from 1981 to 2012 and found that a significant and positive relationship exists between Bank credit to SMEs, and the economic growth of Nigeria, proxied by the growth of GDP. They further argued that the growth in money supply has a negative effect on economic growth. The growth in money supply leads to increase in inflation rate in the country; consequently, they concluded that inflation rate negatively affects the economic growth of Nigeria.

Imoughele and Ismaila (2014) evaluates the impact of Commercial bank credit on the growth of SMEs in Nigeria from 1986 to 2012, the study found that commercial bank credit to SMEs and total government expenditure have direct but insignificant effect on the country's SMEs output and economic growth. They further argued that interest rate has adverse effect on SMEs output.

Similarly, Imafidon and Itoya (2014) investigated the contribution of commercial banks' credit to SMEs on the economic growth of Nigeria. They argued that credit financing by commercial banks to SMEs in Nigeria from 1993 to 2012 have insignificant effect on the economic growth measured as GDP. They concluded that the reason for this was predicated on the fact that, SMEs operators do not have access to credit which is the major catalyst for SMEs in Nigeria as a result of reluctance of traditional financial institutions to meet their credit needs.

Okey (2016) examined commercial banks credit and the growth of small and medium scale enterprises in Nigeria. Small and medium enterprises output was used as a dependent variable while commercial bank credit, lending rate, inflation rate, exchange rate and bank density were used as independent variables. The regression result indicated insignificant relationship between commercial bank credit and growth of small and medium enterprises.

Furthermore, commercial bank credit to small and medium enterprises, total government expenditure and bank density has direct but insignificant impact on small and medium enterprises output. Benson (2017) also investigated bank credits and its impact on Nigeria economic growth from 1992 to 2015. In using the ordinary least square method in measuring gross domestic product as explained variable and commercial bank credits to small and medium enterprises, credit to private sector, money supply and interest rate as explanatory variables, the result revealed insignificant relationship among the explained and explanatory variables. In another similar development, Nwosa and Oseni (2013) examined the impact of banks loan to small and medium enterprises on manufacturing in Nigeria from 1992 to 2010. With the application of error correction model, the result also indicated insignificant relationship between banks loan to the small and medium enterprises sector and manufacturing output both in the short and long run.

Imoughele and Ismaila (2014) evaluated the impact of commercial bank credit on the growth of small and medium scale enterprises in Nigeria from 1986 to 2012. Wholesale and retail output as a component of gross domestic product stand as endogenous variables, deposit money bankk credit to small and medium enterprises, savings an time deposit, exchange rate and interest rate as exogenous variables. The result from the regression analysis revealed that, small and medium enterprises and selected macroeconomic variables included in the model had a long run relationship with small and medium enterprises output.

Muganda, et. al, (2016) evaluated the effect of business financing on the performance of small and medium enterprises in Lurambi sub-country, Kenya. The descriptive statistics result revealed that source of business financing affected financial performance of small and medium enterprises significantly; commercial loan financing affected financial performance significantly; retained earnings financing affected financial performance significantly; trade credit financing affected financial performance of small and medium enterprises significantly, as financial performance stand as controlled variable.

John and Olorunfemi (2014) examined the relationship between SMEs financing and economic growth in Nigeria between 1980 and 2012. Error correction mechanism and granger causality test were employed in the analysis. Findings revealed that, commercial bank loans as a form of small and medium enterprises financing options significantly improve the economic size of the Nigerian economy in the long run, but not significant in the short run.

Oluwarotimi and Adamu (2017) evaluated deposit money bank credit to small and medium enterprises, social economic performance and economic growth in Nigeria between 1992 and 2015. The results from Pearson correlation and ordinary least square revealed a negative and highly significant relationship between the variables. Richard (2016) on a similar way examined the relationship between small and medium enterprises financing and economic growth in Nigeria from 1981 to 2014. Employing the ordinary least square for the analysis, the results show that both the levels of financing and interest rate had a negative and significant impact on economic growth which was proxy on real gross domestic product. Ibrahim (2017) also evaluated the role of commercial banks in financing small and medium scale enterprises in Nigeria between 1991 and 2012. The study utilized paired sample test, the result shows that deposit money bank loans do not affect credit disbursement to small and medium enterprises positively.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

There are two basic research designs in social sciences, qualitative and quantitative orientation. However, the literature suggests a growing interest in a mixed approach (triangulation) following on from the argument that one is used to strengthen the other. Often, combining qualitative and quantitative methods, also known as the triangulation of methods, can capture a more holistic, complete and contextual view of a phenomenon. The research is based on both the qualitative and quantitative research designs. Data were collected through the administration of questionnaire and by interview which are instruments of the survey method of research. The primary data used in this study is survey through the use of close ended questionnaire in gathering information from respondents.

3.2 Population of the Study

The populations used in this research work include the SMEs in Lagos State, Nigeria.

This will include SMEs from diverse industries such as manufacturing, agriculture, retail and wholesale. According to Kale (2019: 9), as of 2017 the total number of medium and small sized businesses in Nigeria was 41,543,028. Lagos State had the highest number of micro, medium and small businesses with a total of 8,395.

3.3 Sample Size and Sampling Techniques

The number of SMEs sent a research questionnaire was fifty (50) to get a broader image and knowledge about the research problem. The sampling technique employed in this thesis is non-probability sampling.

This sampling technique was used due to the inability of the researcher to get a comprehensive list of SMEs in Nigeria. This sampling technique made the research easier, quicker and cheaper to complete.

3.4 Methods of Data Collection

Quantitative data were collected from the respondents using a structured questionnaire. Quantitative method was used because of the sample size. The use of this method allow the researcher to collect the data needed from a large sample population over a short period. The items in the questionnaire and in-depth interview were arranged in the right format with the aim of limiting the unwillingness of the respondents to reply which will led to an increase in the response rate from respondents.

3.5 Methods of Data Analysis

This section presents the various econometric tools explored in the analysis.

3.6 Limitation of the Methodology

Limited Generalizability: This study findings may not be generalizable to other banks in Nigeria or other countries. The unique characteristics of United Bank for Africa and the Nigerian banking industry may limit the applicability of the study's findings. The study covers a specific time frame, which may not capture the long-term effects of exchange rate fluctuations on bank performance. The study's findings may be influenced by short-term fluctuations in the banking industry.

CHAPTER FOUR

4.0 Data Presentation, Analysis and Interpretation

4.1 Data Presentation

The data collected is organised, tabulated and analysed appropriately. The presentation of data is based on the data collected from questionnaires. A total number of 200 questionnaires were administered to the respondents, and were returned duly completed by the respondents.

Section A

Table 1: Demographic characteristics of respondents

Variables		Frequency	Percentage
Sex			
	Female	77	38.5
	Male	123	61.5
	Total	200	100.0
Age			
	Below 25	92	46.0
	26-35	80	40.0
	36-45	25	12.5
	46-55	3	1.5
	56 and above	0	0
Total		200	100
Mean			45.38
Working Experience			
	0-5years	25	12.5
	6-10 years	92	46.0
	11-15years	80	40.0
	16-20years	3	1.5
	21-25years	0	0
Total	200		100

Source: *Field survey, 2025*

4.2 Data Analysis

Analysis of Table 1

The above Table 1 shows that 77 (38.5%) of the respondents are female, while 123 (61.5%) of the respondents are male. This implies that majority of the respondents are male. On the age bracket, 92(46.0%) of the respondents falls within the year bracket below 25 years, 80

(40.0%) of the respondents falls within 26-35 years, 25(12.5%) falls within 36-45years, 3(1.5%) falls within the ages of 46-55 years and none of the respondents fall between 56 years and above.. Based on the years of working experience, 92(46.0%) of the respondents have 6-10 years' experience, 80 (40.0%) of the respondents have 11-15 years' experience, 25(12.5%) have 0-5years experience, 3(1.5%) have 16-20 years experience and none of them have 21-25years experience.

Section B

Research Question 1: Will lending to SMEs encourage self-employment thereby reducing the rate of unemployment in Nigeria?

Table 2: Response on Lending to SMEs

S/N	Statements	SA	A	U	D	SD	TOTAL	Remark
6	Lending to SMEs will encourage self-employment thereby reducing the rate of unemployment in Nigeria.	80 (40)	46 (23)	25 (12.5)	3 (1.5)	46 (23)	200 (100)	accept
7	Lending to SMEs will not encourage self-employment thereby reducing the rate of unemployment in Nigeria.	92 (46)	40 (20)	40 (20)	25 (12.5)	3 (1.5)	200 (100)	reject
8	Lending to SMEs will partially encourage self-employment thereby reducing the rate of unemployment in Nigeria.	62 (33.9)	62 (33.9)	60 (24.2)	8 (4.0)	8 (4.0)	200 (100)	accept
9	Bank loans has significant effect on the growth rate of SME's	65 (32.5)	38 (19)	16 (8.0)	65 (32.5)	16 (8)	200 (100)	accept
10	Bank lending rate has no significant effect on the growth rate of SMEs	62 (33.9)	62 (33.9)	16 (8.0)	30 (12.1)	30 (12.1)	200 (100)	accept

Source: *field work, 2025*

From the above table, the issue of Lending to SMEs to encourage self-employment thereby reducing the rate of unemployment in Nigeria, findings shows that 40% of the respondents strongly agreed, 23% agreed, 12.5% undecided, 1.5% disagreed and 23% of the respondents strongly disagreed. On the issue of Lending to SMEs will not encourage self-employment thereby reducing the rate of unemployment in Nigeria ; 46% of the respondents strongly agreed, 20% agreed, 20% undecided, 12.5% disagreed and 1.5% of the respondents strongly disagreed. On Lending to SMEs will partially encourage self-employment thereby reducing the rate of unemployment in Nigeria; 33.9% of the respondents strongly agreed, 33.9% agreed, 24.2% undecided, 4.0% disagreed and 4.0% of the respondents strongly disagreed. On the issue of Bank loans has significant effect on the growth rate of SME's: 32.5% of the respondents strongly agreed, 19% agreed, 8% undecided, 32.5% disagreed and 8% of the respondents strongly disagreed. Finally, on Bank lending rate has no significant effect on the growth rate of SMEs, 33.9% of the respondents strongly agreed, 33.9% agreed, 8% undecided, 12.1% disagreed and 12.1% of the respondents strongly disagreed.

Research Question 2: Will lending to SMEs boost industrialization as well as improving economic situation in Nigeria?

Table 3: Response on lending to SMEs (Cont'd)

S/N	Statements	SA	A	U	D	SD	TOTAL	remark
11	Lending to SMEs does not boost industrialization as well as improving economic situation in Nigeria.	81 (40.5)	77 (38.5)	12 (6)	20 (10)	10 (5)	200 (100)	reject
12	Lending to SMEs boost industrialization as well as improving economic situation in Nigeria.	80 (40)	30 (15)	30 (15)	30 (15)	30 (15)	200 (100)	accept
13	Lending to SMEs partially boost industrialization as well as improving economic situation in Nigeria.	40 (20)	40 (20)	92 (46)	19 (9.5)	9 (4.5)	200 (100)	reject

Source: *field survey, 2025*

Research Question 3: Will lending to SMEs significantly contribute reduction in crime rate in Nigeria?

Table 4: Lending to SMEs (Cont'd)

14	Lending to SMEs will partially contribute to reduction in crime rate in Nigeria.	66 (33)	49 (24.5)	35 (17.5)	26 (13)	24 (12)	200 (100)	accept
15	Lending to SMEs will not contribute to reduction in crime rate in Nigeria.	46 (23)	46 (23)	80 (40)	25 (12.5)	3 (1.5)	200 (100)	reject

Source: *field survey, 2025*

On the issue if lending to SMEs does not boost industrialization as well as improving economic situation in Nigeria, most of the respondent reject this view. Also if Lending to SMEs boost industrialization as well as improving economic situation in Nigeria, most of the respondents accept this option. As regard if Lending to SMEs will partially boost industrialization as well as improving economic situation in Nigeria, most of the respondents reject this option. On the issue if lending to SMEs will partially contribute to reduction in crime rate in Nigeria, most of the respondents accept this option. Finally, on the issue of if lending to SMEs will not contribute to reduction in crime rate in Nigeria, most of the respondents reject this option.

4.3 Data Interpretation

The investigation from this study centered on deposit money banks' loan facilities predict SMEs business growth in Nigeria. Some deposit money banks' loan facilities variables, specifically enhanced SMEs businesses while some does not have positive effect on business growth in Nigeria. The results revealed that deposit and loan facilities variables play a significant role in financing SMEs in Nigeria, while the return on equity were negatively influence SMEs.

CHAPTER FIVE

5.0 Summary, Conclusion and Recommendations

5.1 Summary of Findings

This main objective of this research was to find out the challenges faced by SMEs in accessing loans from financial institutions in Nigeria. A total of fifty-seven respondents took part in the collection of data using Google Forms. The SMEs were mainly sole proprietor business and private limited company (non-family owned), though some of the respondents were from partnerships and family-owned enterprises. Businesses from services, retails, real estate, manufacturing, farming, import, export, financial services, catering, food products, telecommunications and constructions were represented in the collection of data. All data collected from the study was analysed and presented using charts and detailed explanation.

This study established that SMEs do not apply for loans from banks. Out of the 57 responses to the survey on the if the business has ever applied for credit from banks, 77.2% of the respondents have not applied for credits from banks, with the majority of the respondents giving the following responses as their reason: dislike of bank loans, lack of sufficient collateral, and high interest rate. This shows why most SMEs use their personal saving and funds from family and friends as start up capital, while few of the respondents indicated they got their start up funds from bank credit. This also explains some respondents' view that banks' high interest rates is one of the major constraints to the growth of their business.

5.2 Conclusion

The need for SMEs to access loans from banks cannot be denied any longer and this issue has been on the front burner of discussion for a some time. The services of small and medium business are needed for any industry to survive. These businesses therefore have to be encouraged to grow instead of dying from the lack of financial assistance.

The survey part of this study has clearly shown that small and medium size businesses are faced with challenges accessing loans from the banks. The banks also deny SMEs loans that most of them need to expand their business, even though most of them have prepared a business plan. Banks also have short repayment periods, which has discouraged small and medium sized business owners from applying for loans.

5.3 Recommendations

From the study, some of the SMEs were able to access loans from the banks while a majority were unable to access this facility. This thesis makes this following recommendation for small and medium business owners:

i. They should take care of their business accounting and ensure that their books are accurate and intact for external auditing. They can do this with the use of automated accounting software or employ an external accountant to help with their financials.

ii. They should enroll in management classes. This will help the business grow and the owners will be educated on how to effectively run a business.

iii. They should manage the finances of the business separately from their own finances.

iv. They should investigate alternative but reputable sources of finance that have low interest rates, such as crowdfunding, venture capitalists and angel investors.

The following recommendations are made for banks:

i. They should create a more flexible repayment and maturity period for loans given to small and medium sized businesses Create an alternative way of giving credit to SMEs, which can be through the provision of raw materials, etc., instead of cash.

The following recommendations are made for the government:

i. They should create sections in financial institutions, such as banks, that cater to the needs of SMEs alone.

ii. Create a policy that protects SMEs by reducing the stringent conditions set by banks that will improve small and medium sized businesses’ chances of securing loan facilities from banks.

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