

# **THE ROLE OF COMMERCIAL BANKS IN PROMOTING SMALL SCALE BUSINESS**

**(A CASE STUDY OF FIRST BANK PLC)**

***BY***

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## **CERTIFICATION**

This research work has been read and approved as meeting the requirement for the award of National Diploma (ND) in Business Administration and Management, Institute of Finance and Management Studies Kwara State Polytechnic, Ilorin Kwara State.

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## **DEDICATION**

I dedicated this project to almighty God whose grace, guidance and unending love have been my strength throughout this journey.

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I am deeply indebted to God almighty, the giver of wisdom, knowledge and understanding without whom I would have achieved nothing at all. Truly I know that what God cannot do does not exist. I am grateful to God almighty for everything right from the beginning of my programme till date, may his name forever be praised.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Small scale businesses play a pivotal role in the economic development of both developed and developing countries. These enterprises contribute significantly to employment generation, poverty alleviation, income distribution, and economic diversification. According to the International Finance Corporation (IFC, 2020), small and medium enterprises (SMEs) account for more than 90% of all businesses and over 50% of employment worldwide, making them essential to economic resilience and growth. In developing economies like Nigeria, small scale businesses are often the primary means through which innovation and entrepreneurial development occur. They provide a fertile ground for creativity, flexibility, and adaptation, which are essential for responding to market demands and economic shocks (Ariyo, 2008). Their decentralized nature allows them to operate in both urban and rural areas, thus promoting balanced regional development and reducing rural-urban migration.

Despite their significance, small scale enterprises in Nigeria face a myriad of challenges that limit their potential. These include inadequate funding, poor infrastructural facilities, limited access to modern technology, and lack of managerial skills (Aremu & Adeyemi, 2011). Among these, access to finance remains the most critical constraint. Many small businesses struggle to obtain the capital required for start-up, expansion, or operational needs, which stifles their growth and sustainability. Commercial banks, being key financial intermediaries, are positioned to play a crucial role in alleviating the financial constraints of small scale businesses. They provide various financial services including loans, overdrafts, and financial advisory that are essential for business operations (Nwanyanwu, 2012). With their nationwide network and regulatory backing, commercial banks have the potential to significantly support the development of SMEs through strategic financing and support mechanisms.

However, the relationship between commercial banks and small scale businesses is often strained due to perceived high risk and lack of creditworthiness. Banks tend to demand collateral and impose high interest rates, which many small businesses cannot meet (Oladele, 2010). Moreover, the documentation and bureaucratic processes involved in obtaining loans from banks are usually too complex for most small business operators, especially those in the informal sector. Efforts by government and financial institutions to bridge this gap have led to the introduction of various policies and programs aimed at promoting SME financing. These

include credit guarantee schemes, interest drawback programs, and SME development funds (CBN, 2021). While these initiatives have yielded some results, the accessibility and sustainability of bank credit to small businesses still remain a major issue that needs critical evaluation and improvement.

In light of these developments, understanding the role of commercial banks in promoting small scale businesses is essential for formulating effective financial strategies and policies. By examining how banks can better support SMEs, stakeholders can devise solutions that will enhance financial inclusion, boost productivity, and ultimately drive economic development (Ogujiuba, Ohuche & Adenuga, 2004).

## **1.2 Statement of the Problem**

Small scale businesses in Nigeria contribute immensely to economic growth, yet they continue to face significant challenges in accessing adequate financial resources for their operations. Despite the recognized importance of these enterprises, many are constrained by limited capital, which hinders their growth, productivity, and competitiveness in the market. One of the major avenues for sourcing funds is through commercial banks, but the level of support received from these financial institutions has been widely criticized as inadequate. Commercial banks are expected to provide accessible and affordable credit facilities to small scale businesses. However, most of these businesses are unable to meet the stringent requirements demanded by banks, such as high collateral, detailed financial records, and credit history. These barriers often exclude a large percentage of potential entrepreneurs, especially those operating in the informal sector. As a result, the gap between the financial services available and the actual needs of small businesses continues to widen.

Although commercial banks have introduced various loan packages for SMEs, the impact of these services on the performance and sustainability of small businesses remains unclear. There is also a concern that the available loans are skewed towards more established enterprises, while startups and microenterprises are left behind. This disparity raises questions about the inclusiveness and effectiveness of commercial banks in addressing the financial challenges of small scale businesses. Additionally, the high cost of borrowing and complex loan application procedures further discourage small business owners from approaching banks. Many resort to informal sources of finance such as personal savings, family support, or cooperative societies, which may not be sufficient for long-term business needs. This reliance on informal financing limits their growth potential and increases their vulnerability to external shocks.

Given these issues, it is imperative to investigate the extent to which commercial banks fulfill their role in supporting the growth and development of small scale businesses. This study seeks to identify the gaps in service delivery, assess the effectiveness of banking products targeted at SMEs, and recommend strategies to enhance access to finance for small business operators in Nigeria.

### **1.3 Research Questions**

The following research questions will guide the study:

- i. To what extent do commercial banks provide financial assistance to small scale businesses?
- ii. What are the major challenges faced by small scale businesses in accessing bank credit?

### **1.4 Objectives of the Study**

The main objective of this study is to examine the role of commercial banks in promoting small scale businesses in Nigeria.

*The specific objectives are to:*

- i. Investigate the extent to which commercial banks provide financial support to small scale businesses.
- ii. Examine the challenges faced by small scale businesses in accessing bank loans.

### **1.5 Research Hypotheses**

The study will test the following hypotheses:

**H<sub>01</sub>:** There is no significant relationship between commercial bank credit and the growth of small scale businesses.

**H<sub>02</sub>:** Access to commercial bank loans does not significantly influence the performance of small scale businesses.

### **1.6 Significance of the Study**

This study is significant as it sheds light on the critical role commercial banks play in the development and sustainability of small scale businesses in Nigeria. Given the importance of SMEs in job creation, income generation, and poverty reduction, understanding the level of support they receive from banks can help bridge the existing financing gap and promote



economic growth. For small business operators, the findings of this study will offer insights into how they can better position themselves to access funding opportunities from commercial banks. It will also help them understand the expectations and requirements of banks when it comes to loan applications and creditworthiness.

For commercial banks, the study will serve as a useful feedback mechanism to evaluate their current approaches to SME financing. It can also help them design more inclusive financial products, simplify lending procedures, and adopt flexible loan terms that accommodate the unique nature of small scale businesses. For policymakers and regulatory authorities, such as the Central Bank of Nigeria and the Bank of Industry, the study will provide empirical evidence that can guide the formulation and implementation of effective SME support policies. This may include strategies for risk-sharing, interest rate subsidies, or regulatory reforms that make SME financing more attractive to commercial banks.

Researchers and academics will also benefit from this study, as it adds to the existing body of literature on small business financing and the role of financial institutions. It can serve as a foundation for further studies and discussions on how to promote inclusive and sustainable banking practices. Finally, the study is expected to contribute to the overall improvement of the Nigerian economy. By highlighting the ways commercial banks can support SMEs more effectively, the study will ultimately promote entrepreneurship, reduce unemployment, and increase the country's GDP through strengthened small business performance.

## **1.7 Scope of the Study**

This study focuses on examining the role of commercial banks in promoting small scale businesses in Nigeria. It specifically investigates the extent of financial support provided by commercial banks, the challenges faced by small business operators in accessing such support, and the overall impact of bank credit on the performance and sustainability of small enterprises.

## **1.8 Definition of Terms**

To ensure clarity and avoid ambiguity, the following key terms used in this study are defined:

**Commercial Banks:** These are financial institutions licensed by the Central Bank to accept deposits, provide loans, and offer other financial services to individuals, businesses, and organizations. In the context of this study, they are institutions expected to support small scale businesses through credit and financial advisory services.

**Small Scale Business:** A business that is independently owned and operated, with a small number of employees and low volume of sales. These businesses usually have limited access to capital and operate within local markets. The definition may vary, but it typically includes enterprises with less than 50 employees and modest annual turnover.

**Collateral:** Assets or property offered by a borrower to secure a loan or credit. In case of default, the lender may seize the collateral to recover the loan amount.

**Loan Default:** Failure by a borrower to repay a loan as per the agreed schedule. This can negatively affect a business's creditworthiness and future access to loans.

**Financing:** The act of providing funds for business activities. It can come from internal sources (e.g., owner's savings) or external sources (e.g., bank loans, investors).

**Bank Lending Policy:** Guidelines and procedures established by banks to determine the eligibility and conditions for granting loans. These include risk assessment, interest rates, repayment period, and collateral requirements.

**Entrepreneurship:** The process of identifying business opportunities, organizing resources, and taking risks to create and manage a business venture, especially one that is innovative or growth-oriented.

**Financial Inclusion:** The effort to make financial products and services accessible and affordable to all individuals and businesses, regardless of income level or location, especially through formal financial institutions like banks.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 PREAMBLE**

This chapter presents a comprehensive review of relevant literature related to the role of commercial banks in promoting small-scale businesses. The purpose of this review is to establish a theoretical and empirical foundation for the study by exploring key concepts, identifying major themes, and examining previous research findings that relate to small-scale enterprises and the support provided by commercial banks.

#### **2.1 CONCEPTUAL REVIEW**

##### **2.1.1 The Concept of Small Scale Industry**

SME has a long history like every other part of the world. Historically, "small and medium enterprises has its origin in the eastern and Mediterranean", small and medium enterprises, all over the world is divergent arrays of business concerns involve in economic activities spanning from micro and rural enterprises to contemporary industrial organizations that uses sophisticated technologies. As a result of their relevance and contribution i.e., small and medium enterprises to national economies, policy planners, academic and national government have shown interest in issues pertaining to small and medium scale enterprises (SMEs) all over the world. It was the means of survival for the people since ages, it has managed to save many poor homes that have the innovation to start a unique business but with different problems with establishment or survival. In Nigeria there is no generally acceptable definition of SMEs but it varies over time from organization to organization.

The NCI (national council of industry) in 2001 include the capital investment band of SMEs at between NGN 150 to 200 million, excluding land but including working capital and also the working force band between 11 and 300 inclusive. But on the other hand, the (NASME) national association of small and medium scale enterprises also defines a small scale enterprise as a business with less than fifty employed people by the enterprise and with an annual turnover of NGN 100 million. NASME came up with another definition, which states that small medium scale enterprises is a business with less than 100 employees and an annual turnover of NGN 500 million. The Central Bank of Nigeria (CBN) defines SME as an enterprise with a maximum asset base of NGN 200 million, without land and working capital, also the number of employees is not less than 10 and not more than 300. Due to the flexible nature, SMEs are quite

able to withstand economically diverse situations. SMEs in Nigeria can be categorized into urban and rural enterprises, but in a more formal way they can be called Organized and Unorganized enterprises. The organized enterprises have paid employees with a registered office while the unorganized enterprises are mainly made up of artisans who work in open spaces. Operating in temporary wooden workshop or structures, the unorganized enterprises rely mostly on apprentices or family members and mostly low rate or no salary paid workers. Rural enterprises are made up of family groups, women that are engaged in food production from local farm crops, and individual artisans. The major activity involved in this sector include; soap and detergents, fabrics, textile and leather, local blacksmith, tinsmith, ceramic, clothing and tailoring, timber and winning, bricks and cement, food processing, wood furniture, beverages, bakeries, electronic assembly, agro processing, chemical based products and mechanics. (Source: [www.cenbank.org](http://www.cenbank.org) accessed online 20-05-09)

According to history, SMEs in Nigeria have existed since the country's independence in 1960, probably before independence but since independence Nigeria has had series of seminars, studies and workshops, each of which appraise the excellence, importance and need to facilitate the establishment and sustainability of SMEs. All the National four year development plans from 1962-63 to 1984-85 have laid strong emphasis on strategies of government-led industrialization mount on import as substitution. In addition the structural adjustment program (SAP) initiation in 1986, the state did not appreciate the structural adjustment program active involvement in industrialization by a process of commercialization and privatization. Special attention was then shifted from large scale industries to Small and Medium Scale Enterprises, which has a prominent potential for developing domestic linkages for effective growth, sustainable industrial development. Bigger and greater leaning were then placed on the organized private sector (OPS) to head previous industrialization programmes.

### **2.1.2 Characteristics and Importance of Small Scale Enterprises**

Small scale enterprises (SSEs) are widely recognized for their critical role in economic development, especially in emerging economies like Nigeria. These businesses are generally defined by their relatively small size in terms of capital investment, number of employees, turnover, and ownership structure. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), a small scale enterprise typically employs between 10 and 49 people, with assets excluding land and buildings ranging between ₦5 million and ₦50 million (SMEDAN, 2021).

A defining characteristic of small scale enterprises is their limited access to capital and credit facilities. Most SSEs rely on personal savings, family contributions, or informal lending to fund their operations. They often face challenges in meeting formal credit requirements due to lack of collateral, inadequate financial records, or poor credit history (Ariyo, 2008). In addition, SSEs usually operate within local or regional markets and are owner-managed, with decision-making highly centralized in the hands of the proprietor or a small group of partners (Olutunla, 2001). Their management style tends to be informal, and they typically exhibit flexibility and adaptability in the face of changing market conditions.

Despite their small size, SSEs play a vital role in the socio-economic development of nations. One of their key contributions is employment generation. According to the National Bureau of Statistics (NBS, 2020), small and medium-sized enterprises (SMEs) account for over 80% of jobs in Nigeria's private sector. They provide employment opportunities for both skilled and unskilled labor, helping to reduce unemployment and poverty, especially in rural and semi-urban areas.

Furthermore, SSEs contribute significantly to income distribution and wealth creation. By offering business opportunities to a broad base of the population, they help reduce income inequality and stimulate grassroots development. They also serve as incubators for innovation and entrepreneurship, enabling individuals to test new ideas and business models with relatively low risk (Onugu, 2005).

In addition to their economic contributions, small scale enterprises play an important role in fostering regional development and reducing rural-urban migration. By establishing businesses in less industrialized areas, SSEs bring economic activities closer to the people, promote local resource utilization, and encourage balanced national development (Adegbite, 2001). This is especially important in countries like Nigeria, where economic opportunities are often concentrated in a few urban centers.

Moreover, SSEs act as suppliers and distributors to larger corporations, forming essential parts of the value chain in various industries. They provide specialized goods and services, fill market niches, and respond quickly to consumer needs due to their organizational agility. This makes them indispensable to the broader economy, especially in sectors such as agriculture, manufacturing, trade, and services (Akingunola, 2011).

### **2.1.3 Challenges Facing Small Scale Businesses**

Small scale businesses in Nigeria face a myriad of challenges that hinder their growth, productivity, and sustainability. These challenges cut across financial, managerial, infrastructural, and regulatory dimensions. Addressing these obstacles is vital to enhancing the contribution of small scale enterprises to national development.

One of the most critical challenges is limited access to finance. Many small businesses struggle to secure adequate funding for start-up or expansion due to stringent collateral requirements, high interest rates, and lack of credit history. Commercial banks often consider small enterprises as high-risk borrowers due to their limited asset base and poor record-keeping practices (Aremu & Adeyemi, 2011). As a result, most SSEs rely on informal sources of finance, which are usually inadequate to meet their operational needs.

Infrastructural deficiencies also pose significant constraints. Unreliable power supply, poor road networks, inadequate water and sanitation services, and limited access to information and communication technology (ICT) severely affect business operations. These limitations increase operational costs, reduce efficiency, and limit competitiveness (Essien, 2001). For instance, constant power outages compel many small businesses to invest in alternative sources of energy, such as generators, which further deplete their already limited capital.

Another pressing issue is the lack of managerial skills and expertise. Most small business owners in Nigeria have little or no formal training in business management. This often results in poor planning, weak financial control, and inefficient decision-making (Onugu, 2005). Inadequate human resources also limit the ability of small businesses to implement strategic initiatives or scale their operations. Without proper training and mentoring, many SSEs are unable to compete effectively in dynamic markets.

Regulatory and tax burdens also pose serious obstacles. Although small businesses are expected to comply with national and local regulations, the process of registration, licensing, and taxation is often cumbersome and costly. Multiple taxations and bureaucratic red tape discourage business registration and formalization (Abiola & Asiweh, 2012). As a result, many SSEs operate informally, which restricts their access to public support and credit.

Market access and competition are further challenges. Small scale enterprises often lack the visibility, branding, and marketing strategies necessary to reach broader customer bases. They

face stiff competition from larger firms and imported products, many of which enjoy economies of scale and superior market access. Limited demand, coupled with customers' preference for established brands, affects the growth potential of small businesses (Eniola & Ektebang, 2014).

Technology constraints are another critical barrier. Many small businesses lack access to modern equipment, digital platforms, or e-commerce capabilities that could improve productivity and expand market reach. The digital divide and low adoption of technological tools hinder innovation and efficiency in small scale enterprises (Nwachukwu, 2012).

#### **2.1.4 Concept and Functions of Commercial Banks**

Commercial banks are financial institutions licensed to accept deposits from the public, provide loans, and offer a wide range of financial services to individuals, businesses, and governments. They serve as intermediaries between savers and borrowers, playing a pivotal role in the financial system and economic development. The core objective of commercial banks is to mobilize funds from surplus units and allocate them to deficit units to facilitate productive investment and consumption (Onaolapo & Olufemi, 2010).

The primary function of commercial banks is deposit mobilization. Banks accept various types of deposits, including savings, current, and fixed deposits, providing customers with safe and accessible means to store their money. These deposits form the basis for the banks' lending activities and serve as a major source of working capital for many businesses, especially small scale enterprises (Olaitan, 2006).

Another critical function is credit creation and loan advancement. Commercial banks provide short- and medium-term loans to businesses and individuals to support investment, production, and consumption activities. Through loans, overdrafts, and credit facilities, commercial banks help bridge the financing gap in the economy. These loans are crucial for small businesses that require capital for start-up, expansion, or operational needs (Nwanyanwu, 2011).

Commercial banks also perform payment and settlement functions. They facilitate smooth financial transactions by providing instruments such as cheques, debit cards, electronic transfers, and mobile banking services. These services support business operations by enabling quick and secure payments across geographic locations, thereby enhancing efficiency and trust in financial dealings (Sanusi, 2012).

In addition, commercial banks offer foreign exchange services. They buy and sell foreign currencies, assist in international trade, and process letters of credit and foreign remittances.

These services are essential for businesses engaged in import and export activities, including small enterprises aiming to access international markets (CBN, 2020).

Investment and advisory services are also among the key functions of commercial banks. They provide financial advice, investment guidance, and portfolio management services to clients. For small businesses, these services can be crucial in making informed financial decisions, managing risks, and planning growth strategies (Afolabi, 2013).

Furthermore, commercial banks contribute to economic development and financial inclusion. By offering accessible and affordable financial services, they promote savings culture, encourage entrepreneurship, and support job creation. Their presence in urban and rural areas helps reduce the financial exclusion gap, giving individuals and businesses the opportunity to participate in formal economic activities (Ogujiuba et al., 2011).

#### **2.1.5 The Role of Commercial Banks in Supporting Small Scale Businesses**

Commercial banks play a pivotal role in the growth and development of small scale businesses by providing essential financial services and support systems that enhance their operations. As financial intermediaries, commercial banks help channel funds from savers to entrepreneurs, enabling small enterprises to access much-needed capital for start-up and expansion activities (Aremu & Adeyemi, 2011).

One of the most significant contributions of commercial banks is credit provision. Small businesses often face difficulties securing funds due to lack of collateral and limited credit histories. Commercial banks bridge this gap by offering various loan products tailored to meet the unique needs of small enterprises. These include term loans, overdrafts, working capital finance, and microcredit facilities. Access to such funds enables small businesses to acquire equipment, maintain inventory, and invest in business expansion (Olaitan, 2006).

In addition to direct lending, commercial banks provide advisory and consultancy services. They help entrepreneurs make informed financial decisions through business planning support, risk assessment, and financial management training. These services are crucial for small business owners who may lack formal education or experience in business management (Onugu, 2005). Banks also guide entrepreneurs on how to maintain financial records and improve their creditworthiness, which further enhances access to future funding.

Furthermore, commercial banks play a key role in promoting financial inclusion. By establishing branches and digital platforms in both urban and rural areas, banks enable small



business owners to open accounts, make deposits, and access credit facilities. This inclusion not only facilitates day-to-day business operations but also integrates small businesses into the formal economy, thereby improving their chances of long-term survival (Ogujiuba et al., 2011).

Commercial banks also support small enterprises through trade financing and payment solutions. Services such as letters of credit, bank guarantees, and mobile banking platforms simplify financial transactions and support the expansion of small businesses into new markets. With the rise of e-commerce, banks' digital platforms allow small businesses to collect payments and conduct transactions securely and efficiently (Nwanyanwu, 2011).

### **2.1.6 Challenges Faced by Commercial Banks in Financing Small Scale Businesses**

Despite the acknowledged importance of small scale businesses to economic development, commercial banks face several challenges in financing these enterprises. These constraints limit the extent to which banks can effectively support small businesses, especially in developing countries like Nigeria.

One major challenge is the high credit risk associated with small businesses. Many small enterprises lack sufficient collateral, operate informally, and do not maintain proper financial records, making it difficult for banks to assess their creditworthiness. Consequently, banks perceive lending to such businesses as highly risky, leading to either denial of credit or the imposition of high interest rates to hedge against possible defaults (Akingunola, 2011). The high default rate among small borrowers further discourages commercial banks from extending credit to this sector.

Another significant challenge is the lack of reliable financial documentation. Most small scale businesses do not prepare audited financial statements or maintain detailed business plans, which are prerequisites for loan approval in commercial banks. This lack of transparency impedes proper risk evaluation and loan structuring by banks, often resulting in loan rejections (Olaitan, 2006).

The cost of administering small loans is also a major concern for commercial banks. Processing and monitoring small loans involves fixed costs that are nearly equal to those for large loans, making small business lending less attractive. For banks that operate on a profit-maximization basis, the returns from financing small businesses may not justify the risks and administrative burden involved (Nwanyanwu, 2011).

Additionally, commercial banks often face regulatory and policy constraints that affect their ability to lend to small businesses. Central banks may impose stringent prudential guidelines on loan classification, capital adequacy, and provisioning, which can discourage banks from engaging in small business lending. The fear of regulatory sanctions for non-performing loans often makes banks more conservative in their lending practices (CBN, 2020).

Information asymmetry is another critical issue. Banks frequently lack access to accurate and timely information about small business operations, which hinders proper assessment and decision-making. The absence of comprehensive credit bureaus or credit scoring systems for micro and small businesses in some regions compounds this problem, making risk profiling difficult (Onugu, 2005).

Moreover, commercial banks are challenged by macroeconomic instability, including inflation, exchange rate volatility, and political uncertainty. These conditions increase the risk of doing business and reduce the repayment capacity of small enterprises, especially those that rely on imported raw materials or operate on thin profit margins (Essien, 2001).

Lastly, limited training and experience among bank staff in handling small business clients can also be a barrier. Some loan officers may not have adequate understanding of the peculiar needs and characteristics of small businesses, which can lead to poor loan design, improper evaluation, and weak relationship management (Aremu & Adeyemi, 2011).

## **2.2 THEORETICAL FRAMEWORK**

The theoretical framework provides the foundation upon which this study is built. It outlines the theories that explain the relationship between commercial banks and the promotion of small scale businesses. Several financial and economic theories help to understand how banks influence small business development. The key theories relevant to this study are discussed below:

### **2.2.1 Financial Intermediation Theory**

The financial intermediation theory posits that financial institutions, particularly commercial banks, serve as intermediaries between savers and borrowers. They mobilize savings from surplus economic units and channel them to deficit units, such as small businesses in need of capital (Gurley & Shaw, 1960). Commercial banks help reduce transaction costs, overcome information asymmetry, and manage risks associated with lending.

This theory is essential to the study as it highlights the fundamental role of banks in bridging the financing gap experienced by small scale enterprises. By collecting deposits and extending loans, banks support productive investment and business growth. When banks efficiently perform this intermediary role, small businesses are more likely to thrive due to access to affordable credit and financial services.

### **2.2.2 Pecking Order Theory**

The Pecking Order Theory, proposed by Myers and Majluf (1984), suggests that businesses prefer to finance operations using internal funds first, followed by debt, and lastly equity. Small businesses, in particular, often lack retained earnings and may avoid external financing due to fear of debt or lack of collateral. This makes the role of commercial banks critical in offering loans tailored to the needs and risk profiles of small businesses.

The theory implies that when commercial banks offer flexible loan products and simplified procedures, small businesses are more inclined to seek bank financing. However, where access to bank loans is limited or unattractive due to high interest rates or rigid requirements, small businesses may remain underfunded.

### **2.2.3 Credit Rationing Theory**

Stiglitz and Weiss (1981) developed the Credit Rationing Theory, which explains why banks may refuse to lend to certain borrowers even when they are willing to pay higher interest rates. The theory argues that due to asymmetric information, banks may perceive small businesses as risky and therefore limit their credit access or impose stringent conditions.

This theory is relevant because it sheds light on why many small scale businesses face difficulties obtaining bank loans, even in the presence of credit supply. It suggests that improving information flow, reducing risk, and designing risk-sharing mechanisms (e.g., credit guarantees) are crucial for commercial banks to confidently lend to small enterprises.

## **2.3 EMPIRICAL REVIEW**

Several empirical studies have examined the relationship between commercial banks and the development of small scale businesses, both in Nigeria and globally. These studies provide varying evidence on how commercial banks influence small business growth, particularly through access to credit, financial services, and advisory support.

Akingunola (2011) conducted an empirical investigation into the specific impact of bank credit on small and medium enterprises (SMEs) in Nigeria. The study revealed a significant positive relationship between access to credit and the performance of small businesses. It concluded that the availability of bank loans improves business capacity, profitability, and sustainability. However, the research also highlighted that many SMEs still face difficulties accessing such credit due to collateral requirements and high interest rates.

Similarly, Olaitan (2006) examined the role of commercial banks in financing small scale industries in Nigeria. The study used time series data and found that although banks allocate a portion of their loan portfolio to SMEs, the amount is insufficient compared to the demand. The study further noted that regulatory interventions, such as the CBN's credit guidelines, are necessary to encourage banks to improve lending to this sector.

Adebisi and Olayemi (2012) assessed the effect of commercial banks' financial support on the growth of SMEs in Nigeria. Using survey data from 100 SMEs in Lagos State, they found that access to bank finance was a major determinant of business expansion. They also identified poor documentation and lack of credit history as reasons why many small businesses were unable to obtain loans.

In contrast, a study by Owualah (2001) suggested that commercial banks are often reluctant to lend to small businesses due to high default risks and limited knowledge of the sector. The study concluded that until banks develop specialized SME banking models and strengthen risk management frameworks, their impact on the SME sector will remain limited.

A more recent study by Obokoh and Ebot Etta (2014) investigated the constraints faced by SMEs in accessing finance from Nigerian banks. The study found that while commercial banks do have structured SME loan products, the effectiveness of these products is undermined by bureaucratic loan procedures, lengthy approval processes, and high collateral demands. They recommended that banks adopt simplified credit appraisal techniques and increase collaboration with government SME intervention programs.

In the international context, Beck, Demirgüç-Kunt, and Maksimovic (2005) analyzed SME financing in developing countries and found that in economies with strong banking sectors, SMEs perform better and grow faster. They emphasized the need for banks to use technology

Development strategists have advocated the progressive use of small and medium enterprises (SMEs) to accelerate the pace of economic growth especially in the developing countries of

the world (Daodu, 1997). Most African countries are basically agrarian societies with the majority of the populace engaging in agro-related activities such as farming, livestock rearing, agro forestry and fishing (Osinowo, 1997). With little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SMEs to link agricultural production with manufacturing activities. This requires specific incentives to assist in the development of the SMEs sub-sector, which include among others easy accessibility to credit, provision of infrastructural facilities, industrial extension services and development of production capacity based on locally developed or adapted technology and locally designed equipment and spares (Ekpenyong, 1992; 1997).

The need to promote a vibrant industrial sector has continued to be a major concern of most governments worldwide especially the developing countries like Nigeria. The reasons for this are centered on the prospects that a developed industrial sector will boost manufacturing production, increase employment generation and efficiency in the sector. Similarly, modern manufacturing processes are characterized by high technological innovations, the development of managerial and entrepreneurial talents and improvement in technical skills which normally promote productivity and better living conditions of the people. The effect of this is that productivity level will be enhanced, a sustainable level of economic growth will be achieved with the prospect of economic diversification and increased exports. The economy will have the potential of being competitive in the global market (Olorunshola, 2002; Egbon, 2004).

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Preamble

This chapter describes the research methodology adopted in carrying out the study titled "The Role of Commercial Banks in Promoting Small Scale Businesses." It outlines the research design, population, sampling technique, data collection methods, instrument of data collection, and method of data analysis. These methodological tools are critical in ensuring the validity and reliability of the findings and conclusions drawn from the study.

#### 3.2 Research Design

The study adopts a **descriptive survey research design**. This design is appropriate because it allows the researcher to gather data from a sample population using structured questionnaires. The purpose is to describe and analyze the perception of small business owners and banking officials on the contribution of commercial banks to the development and sustainability of small scale enterprises.

#### 3.3 Population of the Study

The population of this study comprises **100 respondents**, which includes small scale business owners and selected bank officials from First Bank PLC branches and nearby small businesses within the study area. These respondents were chosen because they have direct experience and involvement in the subject matter of the study.

#### 3.4 Sample Size and Sampling Techniques

The sample size will be obtained using the Taro Yemeni Formular stated below.

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

Where:

n = Sample size

N = Population size

e = Level of error

I = Mathematical constraint

The level of error of 0.05 was chosen by the researcher

Therefore;

$$n = \frac{100}{1+100(0.05)^2}$$

$$n = \frac{100}{1.25}$$

$$n = 80$$

Thus, the sample size is **80 respondents**. The **simple random sampling technique** was adopted to ensure that every member of the population had an equal chance of being selected.

### **3.5 Method of Data Collection**

Data for the study were collected through the **primary method** using a well-structured questionnaire. The questionnaire was designed to gather relevant and accurate information from respondents on their perceptions and experiences regarding the role of commercial banks in supporting small businesses.

### **3.6 Instrument of Data Collection**

The main instrument used for data collection was a **structured questionnaire**. The questionnaire was divided into two sections. Section A contained demographic information about the respondents, while Section B consisted of questions related to the objectives of the study. The questionnaire employed the **Likert five-point scale** format ranging from "Strongly Agree" to "Strongly Disagree."

### **3.7 Method of Data Analysis**

The data collected were analyzed using **descriptive statistical tools**, which include **tables, frequency distributions, and percentage analysis**. These methods help to summarize and present the data in a clear and concise manner. The results were interpreted to understand the views and opinions of respondents on the contribution of commercial banks to the growth of small scale businesses.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

#### 4.1 Introduction

This chapter presents, analyzes, and interprets the data collected from respondents through structured questionnaires. The analysis is categorized into two sections: **Section A**, which covers demographic information of the respondents, and **Section B**, which addresses the core issues of the study using responses to 20 Likert-scale questions.

#### 4.2 Data Presentation, Analysis and Interpretation

##### Section A: Demographic Information

**Table 4.1: Gender Distribution of Respondents**

Gender	Frequency	Percentage (%)
Male	46	57.5%
Female	34	42.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

From the table above, 57.5% of the respondents are male, while 42.5% are female. This suggests a moderate gender balance among small business owners.

**Table 4.2: Age Distribution of Respondents**

Age Group	Frequency	Percentage (%)
18–25	20	25.0%
26–35	30	37.5%
36–45	18	22.5%
46 and above	12	15.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

The highest percentage (37.5%) of respondents fall within the 26–35 age range, indicating that most small business owners are in their economically active years.



**Table 4.3: Educational Qualification of Respondents**

<b>Qualification</b>	<b>Frequency</b>	<b>Percentage (%)</b>
SSCE	12	15.0%
OND/NCE	18	22.5%
HND/B.Sc.	40	50.0%
Others	10	12.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

Half of the respondents (50%) hold an HND or B.Sc., suggesting a relatively educated sample of small business owners.

**Table 4.4: Nature of Business**

<b>Type of Business</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Trade	30	37.5%
Services	20	25.0%
Production/Manufacturing	18	22.5%
Others	12	15.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

A significant portion of respondents (37.5%) are engaged in trade-related businesses, followed by services (25%) and production.

**Table 4.5: Years of Business Operation**

<b>Years of Operation</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Less than 1 year	10	12.5%
1–3 years	24	30.0%
4–6 years	28	35.0%
Above 6 years	18	22.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

Most respondents (35%) have been in business for 4–6 years, showing a fair level of experience in managing small businesses.

## **Section B: Research**

Each item is rated using:

**SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree**

**Table 4.6: Q1 - Commercial banks play a significant role in supporting small scale businesses.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	28	35.0%
Agree	30	37.5%
Neutral	10	12.5%
Disagree	8	10.0%
Strongly Disagree	4	5.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

A combined 72.5% of respondents agree that commercial banks play a significant role in supporting small businesses, indicating general approval of banks' involvement.

**Table 4.7: Q2 - Access to bank loans has helped in expanding my business.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	20	25.0%
Agree	25	31.25%
Neutral	15	18.75%
Disagree	12	15.0%
Strongly Disagree	8	10.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

A total of 56.25% believe that bank loans have contributed to business expansion. However,

**Table 4.8: Q3 - Commercial banks provide advisory services that benefit small scale businesses.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	22	27.5%
Agree	28	35.0%
Neutral	12	15.0%
Disagree	10	12.5%
Strongly Disagree	8	10.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

A total of 62.5% agreed that banks offer useful advisory services to small businesses, reflecting a moderately strong perception of support services.

**Table 4.9: Q4 - It is difficult to meet the requirements for accessing bank loans.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	30	37.5%
Agree	25	31.25%
Neutral	10	12.5%
Disagree	8	10.0%
Strongly Disagree	7	8.75%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

68.75% of respondents believe loan requirements are too stringent, highlighting a major challenge in bank-SME relationships.

**Table 4.10: Q5 - Interest rates on loans from commercial banks are too high.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	32	40.0%
Agree	30	37.5%
Neutral	10	12.5%
Disagree	5	6.25%
Strongly Disagree	3	3.75%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

A large majority (77.5%) of respondents believe commercial bank interest rates are too high, which may deter borrowing.

**Table 4.11: Q6 - Commercial banks support training programs for small businesses.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	18	22.5%
Agree	25	31.25%
Neutral	15	18.75%
Disagree	12	15.0%
Strongly Disagree	10	12.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

Though 53.75% agree that banks support training, the notable 27.5% disagreement suggests that awareness or access to such programs may be limited.\

**Table 4.12: Q7 - The loan application process is simple and user-friendly.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	10	12.5%
Agree	20	25.0%
Neutral	15	18.75%
Disagree	20	25.0%
Strongly Disagree	15	18.75%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

Only 37.5% find the process user-friendly, while 43.75% do not. This indicates dissatisfaction with the procedural complexity of loan applications.

**Table 4.13: Q8 - Commercial banks monitor how small businesses use their loans.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	12	15.0%
Agree	25	31.25%
Neutral	18	22.5%
Disagree	15	18.75%
Strongly Disagree	10	12.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

Monitoring is recognized by 46.25% of respondents, suggesting moderate oversight by commercial banks on loan usage.

**Table 4.14: Q9 - Collateral requirements discourage small businesses from seeking bank loans.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	36	45.0%
Agree	25	31.25%
Neutral	8	10.0%
Disagree	7	8.75%
Strongly Disagree	4	5.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

A high 76.25% feel collateral demands are a serious barrier, emphasizing the need for flexible financing mechanisms.

**Table 4.15: Q10 - I have been able to repay my loan conveniently.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	15	18.75%
Agree	28	35.0%
Neutral	12	15.0%
Disagree	15	18.75%
Strongly Disagree	10	12.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

53.75% of respondents report convenient repayment, while 31.25% disagree, pointing to financial strain among some borrowers.

**Table 4.16: Q11 - Commercial banks offer flexible repayment terms for small scale business loans.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	14	17.5%
Agree	26	32.5%
Neutral	12	15.0%
Disagree	16	20.0%
Strongly Disagree	12	15.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

49.5% agree that banks provide flexible repayment terms, but 35% disagree, indicating inconsistency in how flexible terms are applied or perceived.

**Table 4.17: Q12 - The bank staff are knowledgeable and helpful when dealing with small business clients.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	22	27.5%
Agree	30	37.5%
Neutral	10	12.5%
Disagree	10	12.5%
Strongly Disagree	8	10.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

65% perceive bank staff positively in terms of knowledge and assistance, which is a good indicator of customer service quality.

**Table 4.18: Q13 - Banks help small businesses gain access to other financial resources.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	16	20.0%
Agree	24	30.0%
Neutral	20	25.0%
Disagree	12	15.0%
Strongly Disagree	8	10.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

50% agree banks assist in linking to other financial resources, but the 25% neutral and 25% disagreement suggest room for improvement.

**Table 4.19: Q14 - I have experienced delays in loan processing with commercial banks.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	28	35.0%
Agree	26	32.5%
Neutral	10	12.5%
Disagree	8	10.0%
Strongly Disagree	8	10.0%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

67.5% of respondents report experiencing delays, pointing to inefficiencies in loan processing systems.

**Table 4.20: Q15 - Commercial banks contribute to the growth of small scale businesses in the community.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	20	25.0%
Agree	28	35.0%
Neutral	18	22.5%
Disagree	8	10.0%
Strongly Disagree	6	7.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

60% believe banks contribute positively to small business growth, indicating a favorable view of bank impact in the community.

**Table 4.21: Q16 - Bank loan conditions favor large businesses more than small scale businesses.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	30	37.5%
Agree	25	31.25%
Neutral	10	12.5%
Disagree	8	10.0%
Strongly Disagree	7	8.75%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

68.75% feel loan conditions are biased towards larger enterprises, suggesting inequality in bank lending policies.

**Table 4.22: Q17 - I would recommend commercial banks to other small business owners.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	18	22.5%
Agree	30	37.5%
Neutral	12	15.0%
Disagree	10	12.5%
Strongly Disagree	10	12.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

60% are willing to recommend banks, reflecting general satisfaction despite some reservations.

**Table 4.23: Q18 - Commercial banks provide timely financial assistance during business crises.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Strongly Agree	14	17.5%
Agree	22	27.5%
Neutral	20	25.0%
Disagree	14	17.5%
Strongly Disagree	10	12.5%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

45% agree banks provide timely help during crises; however, 30% disagree, indicating inconsistent support.

**Table 4.24: Q19 - Small businesses face difficulty in maintaining proper records for bank requirements.**

Response	Frequency	Percentage (%)
Strongly Agree	32	40.0%
Agree	25	31.25%
Neutral	8	10.0%
Disagree	10	12.5%
Strongly Disagree	5	6.25%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

71.25% agree that record-keeping is a major challenge, which impacts loan accessibility.

**Table 4.25: Q20 - I am satisfied with the overall services provided by commercial banks to small scale businesses.**

Response	Frequency	Percentage (%)
Strongly Agree	18	22.5%
Agree	30	37.5%
Neutral	15	18.75%
Disagree	10	12.5%
Strongly Disagree	7	8.75%
<b>Total</b>	<b>80</b>	<b>100%</b>

*Source: Field work Analysis, 2025*

60% satisfaction rate indicates moderate contentment with bank services, with room for improvement.

### **4.3 Discussion of Findings**

The analysis of the data collected from 80 respondents reveals significant insights into the role of commercial banks in promoting small scale businesses, particularly with reference to First Bank PLC.

Firstly, a majority of respondents (75%) acknowledged that commercial banks provide some form of financial assistance to small scale businesses, highlighting the banks' role in facilitating access to much-needed capital. However, this support is not without challenges. A notable portion of respondents (67.5%) reported experiencing delays in loan processing, which points to inefficiencies within the loan disbursement system. These delays can hinder the timely execution of business plans and adversely affect business growth.



Regarding the flexibility of loan repayment terms, the responses were somewhat divided. About 49.5% agreed that banks offer flexible repayment schedules, yet 35% disagreed, indicating inconsistency in policies or their implementation. This split suggests that while some small businesses benefit from accommodating repayment options, others may face rigid terms that could strain their cash flow.

Customer service emerged as a strong point for commercial banks, with 65% of respondents rating bank staff as knowledgeable and helpful. This positive interaction between banks and clients is crucial for building trust and encouraging more small businesses to seek banking services. Nevertheless, when it comes to loan conditions, 68.75% of respondents felt that the terms favor large businesses over smaller enterprises. This perception of inequality could discourage small entrepreneurs from engaging fully with banking institutions, limiting their growth potential.

Another challenge highlighted is the difficulty small businesses face in maintaining proper financial records, with over 71% of respondents agreeing that poor record-keeping poses a significant barrier to accessing bank loans. This finding underscores the need for banks to provide advisory services or training to improve the financial literacy and record management capabilities of small business owners.

While 60% of respondents believe that commercial banks contribute positively to small business growth in the community, only 45% feel that banks provide timely financial assistance during business crises. This discrepancy suggests that while banks play a supportive role, their responsiveness during urgent financial needs can be improved.

Moreover, the willingness of 60% of respondents to recommend commercial banks to other small business owners reflects a general satisfaction with banking services. However, the presence of dissatisfaction among a sizable minority indicates room for improvement, particularly in terms of loan processing efficiency, fairness of loan conditions, and crisis support.

In conclusion, the findings indicate that commercial banks like First Bank PLC play a vital role in promoting small scale businesses by providing financial support and knowledgeable customer service. Nonetheless, there remain critical areas needing enhancement, such as speeding up loan approvals, ensuring equitable loan terms, and offering greater support in financial management. Addressing these challenges could significantly boost the effectiveness of commercial banks in fostering the growth and sustainability of small scale enterprises.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION, AND RECOMMENDATIONS**

#### **5.1 Summary**

This study examined the role of commercial banks, specifically First Bank PLC, in promoting small scale businesses. Data collected from 80 respondents revealed that commercial banks provide crucial financial assistance to small businesses, including loans and other financial services. The study found that while many small business owners view bank staff as knowledgeable and helpful, several challenges persist. These challenges include delays in loan processing, difficulties in meeting bank loan conditions, and the perception that banks favor larger businesses over smaller enterprises. Additionally, poor record-keeping among small businesses was identified as a significant barrier to accessing bank credit. Despite these issues, the majority of respondents agreed that commercial banks contribute positively to the growth of small scale businesses and expressed willingness to recommend banking services to others.

#### **5.2 Conclusion**

Based on the findings, it can be concluded that commercial banks play an essential role in supporting small scale businesses through financial assistance and customer service. However, the effectiveness of this support is limited by operational inefficiencies such as slow loan processing and unequal loan terms that favor larger businesses. Furthermore, small scale business owners' limited financial management skills, particularly in record-keeping, restrict their ability to fully benefit from bank services. To maximize the developmental impact of commercial banks on small scale enterprises, these challenges must be addressed. Ultimately, strengthening the partnership between banks and small businesses is vital for fostering economic growth and entrepreneurship at the grassroots level.

#### **5.3 Recommendations**

In light of the study findings, the following recommendations are made:

- i. Commercial banks should streamline their loan approval and disbursement processes to reduce delays and enable small businesses to access funds promptly.
- ii. Banks should design more flexible and equitable loan conditions that cater specifically to the unique needs and cash flow patterns of small scale businesses.

- iii. Banks should offer training and advisory services focused on financial literacy, record-keeping, and business management to improve small businesses' creditworthiness.
- iv. Commercial banks need to establish responsive financial support mechanisms to assist small businesses facing unexpected challenges or economic downturns.
- v. Banks should adopt policies that ensure fair access to credit for small scale enterprises, eliminating bias towards larger firms.

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