

DEPOSIT MONEY BANKS' LENDING AND THE OUTPUT OF SELECTED SMALL AND MEDIUM-SCALE ENTERPRISES IN SOUTH WEST, NIGERIA

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Abstract

Small and medium-scale enterprises (SMEs) are the engine rooms for economic growth and development, driving output and creating employment. This study, therefore, assessed the impact of deposit money banks' lending on the output of SMEs in South West, Nigeria. The study used both descriptive and inferential statistics in analyzing primary data that were gathered through the administration of copies of a structured questionnaire to SME owners in South West, Nigeria. One (1) SMEs output models was estimated in the study using the Ordinary Least Squares (OLS) technique. The study found out that majority (56 %) of SMEs in South West, Nigeria do not have access to deposit money banks' loan; the impact of deposit money banks loan on the output of SMEs in the South West was positive but statistically insignificant with p-value of 0.7381; The study concluded that deposit money banks in the South West have not been able to effectively empower SMEs to overcome their challenge of raising initial capital or to increase their working capital. It is therefore recommended that the Federal Government, through the Central Bank of Nigeria should reduce the monetary policy rate.

Keywords: Bank, Loan, Business, Output, Growth,

1.0 Introduction

The quest for rapid economic growth is one of the major challenges facing many developing countries around the globe. This challenge has forced many countries to adopt various economic models and policies to ensure speedy economic growth. Popular among the policies is the use of Small and Medium Scale Enterprises (SMEs) to enhance economic growth and create employment. This is largely because SMEs have demonstrated a proven track record and potency to enhance economic development and solve unemployment problems (Liberto, 2023).

Although the nature of economic challenges experienced by countries differs, SMEs have demonstrated the potency to play a major role in fast-tracking the development of many countries' economies including Nigeria (Ombongi & Long 2018). However, just like other businesses, SMEs have their challenges; among them is financial constraints, especially in developing countries such as Nigeria. Generally, financing has been one of the most common challenges facing businesses, and its impact is more pronounced on SMEs (Sefiani & Bown, 2013).

Sefiani and Bown (2013) further explained that financing and the high cost of capital are some of the important factors hindering the growth and development of SMEs in Nigeria and the creation of new ones. Most SMEs in developing countries rely on equity financing, which is largely inadequate, thus creating what has been described as a "financing gap" (Ryan, O'toole &

McCann, 2014). The financing gap is the scarcity of debt and equity finance i.e. the unavailability of either debt or equity finance or both. The inability of SMEs to secure capital implies that they may not enjoy the leverage that is associated with debt financing.

Over the years, Deposit Money Banks (DMBs) have been identified by many businesses as the main source of external financing. However, small-scale businesses such as the ones categorized as SMEs find it difficult to obtain loans from the banks – largely due to the lack of or inadequate collateral security. Existing literature suggest that SMEs face many difficulties in raising capital, especially from conventional Deposit Money Banks (DMBs) (Isah, 2022).

In addition, the Nigerian government considers SMEs as the main facilitator of its diversification agenda. To this end, the Federal Government's policy interventions for financing SMEs are generally geared towards improving the contributions of the sector. The poor performance of SMEs has been attributed to inadequate financing due to lack of collateral security to secure bank loans for startup capital (Saari, 2020).

Small and medium-sized enterprises (SMEs) are the backbone of the Nigerian economy, accounting for over 90% of businesses and employing over 50% of the workforce (World Bank, 2019). However, SMEs often face challenges in accessing finance from deposit money banks, which limits their

ability to grow and contribute to the economy. Several factors contribute to the challenges SMEs face in accessing deposit money banks' lending. These include; high interest rates, cumbersome lending procedures and view of SMEs as being higher risk borrowers than large corporates (Chilembo, 2021). This is because SMEs are more likely to default on loans due to factors such as limited financial resources and lack of experience. In addition to the challenges mentioned above, SMEs in South West, Nigeria may also face other obstacles to accessing finance, such as lack of collateral, lack of financial information and lack of awareness of loan products: Many SMEs are not aware of the loan products that are available to them from deposit money banks.

The main objective of this paper is to assess the SMEs' access to deposit money banks' loans, and examine the relationship between deposit money banks' lending and the output of SMEs in South West, Nigeria. This study is focused on the relationship between deposit money banks' lending and the output of SMEs in South West, Nigeria. South West, Nigeria was selected for this study because SMEs have a significant influence on the economic growth of South West, Nigeria and also aid in the state's economic diversification. The survey and data collection activity was carried out between September and December 2024.

Following the introduction, section two is the conceptual review on small and medium-scale enterprises and bank loans; section three is the

methodology; discussion of results is presented in section four, while section five contains the conclusion and recommendations.

2.1 Conceptual Review

2.1.1 Concept of Small and Medium Scale Enterprises (SMEs)

The term Small and Medium Scale Enterprises (SME's) has no generally established definition. Ibrahim and Ndidi (2020) noted that the criteria for classifying an enterprise as small, medium, or large vary from country to country, depending on whether it is a developed or developing country. A small business, for example, to one country may be a large-scale business to another. Thus, SME's in Nigeria, as defined by Small and Medium Industries Equity Investment Scheme (SMIEIS) are enterprises with a total capital employed not less than ₦1.5 million, but not exceeding ₦200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300 (Ibrahim & Ndidi, 2020).

Esuh and Adebayo (2012) noted that SMEs are firms or businesses arising as a result of entrepreneurial activities of individuals. The SME sector is categorized into micro, small and medium enterprises or businesses. The micro SME's are the smallest among the three categories. Therefore, micro businesses should be seen as the small form of SME that may employ fewer than 9 employees or on the other hand may not have employees at all. Small businesses are bigger than micro-businesses in terms of size, number of

employees, structure, capital investment and economic contributions (Bello & Mohammed, 2015).

The Nigerian Industrial Policy defined small scale businesses as industries with total investment of between ₦100,000 and ₦2 million, exclusive of land but including working capital. Lastly, the medium business as the name suggests are bigger than both micro and small businesses in terms of operations, manpower capacity or number of employees, structure, capital investment and size (Ibrahim & Ndidi, 2020).

2.1.2 Concept of Bank Credit

Bank credit refers to the amount of funds that a bank lends to individuals, businesses, or other entities. It is a form of borrowing and involves the bank providing financial assistance to borrowers in the form of loans or lines of credit. Bank credit can be used for various purposes, such as personal expenses, business investments, or purchasing assets. The terms and conditions of bank credit, including interest rates and repayment terms, are typically agreed upon by the bank and the borrower through a loan agreement (James & Akpokerere, 2022). Also, credit implies a promise by one party to pay another for money borrowed or goods and services received. Generally, bank credits could also be said to be any form of contractual arrangement whereby an economic agent in need of surplus fund (borrower) acquires an

asset, funds or some form of financial accommodation from a financier (deposit money bank) with a promise to repay at a predetermined future date.

According to Ubesie et al. (2017), bank credit is the borrowing capacity provided to an individual, government, firm or organization by the banking system in the form of loans. In the same wise, CBN defines bank credit as the amount of loans (short-term, long-term, bridge, revolving, and syndicated loan) and advances (salary advance) given by the banking sector to the various economic agents. CBN Monetary Policy Circular (2020) identifies such bank credit facilities to include loans, advances, commercial papers, banker's acceptance, bill discounted, as well as other loss contingencies connected with a bank's credit risk (James & Akpokerere, 2022).

This definition conveys a more holistic definition of the concept in that it considers the various components of bank credit and the risk involvement that bank may face in the course of giving these credit to economic agents in need of surplus funds to meet their investment needs. Usually, bank credit is accompanied with some collateral that helps ensure the loan's repayment in the event of default. These credit facilities are offered to individuals, business firms and government agencies to enable them to use such credit assistance to meet their investments needs.

2.1.3 Effect of Bank Lending on SME Performance

Small and Medium Scale Enterprises (SMEs) are important engines of economic growth, jobs and social cohesion. However, SMEs' creation,

survival and growth are often hampered by access to finance. Thus, access to SMEs finance has become a key priority in developing countries like Nigeria (World Bank, 2013). Commercial banks through their financial intermediation role, are expected to provide financial leverage for small and medium-scale enterprises. But in most developing countries in Sub-Saharan Africa including Nigeria, small and medium-scale enterprises are plagued with paucity of capital, thus affecting their ability to grow (World Bank, 2013). Given the fact that SMEs have been generally acknowledged as the bedrock of industrial development of nations across the globe and financial institutions, especially Commercial Banks, are theoretically expected to provide financial support for the growth of SMEs (Okey, 2016).

There is evidence that most SMEs in Nigeria with low capital formation raise capital through loans from family and friends because at the initial stage, majority of young budding entrepreneurs lack acceptable forms of collateral, business plans and feasibility studies to actually meet the requirement and convince banks to grant them loans (Ibrahim, 2017). This implies that a vast majority of SMEs depend on internal finance i.e. contribution from the owners, family and friends. Internal financing is often inadequate for SMEs in Nigeria to survive and grow, as it is increasingly difficult to source for credit to sustain the growth of the SMEs (Okey, 2016).

SMEs therefore need capital from external sources (or debt financing). This has led the federal government of Nigeria to introduce the Small and

Medium Enterprises Equity Investment Scheme (SMEEIs) as an initiative through Commercial banks by the CBN to solve financing problem of SMEs and the creation of (Small and Medium Enterprises Development Agency of Nigeria) SMEDAN as an agency to enhance the development of SMEs. The Banking System is very important for any nation because it is the pivot of socio-economic development of any economy (Ibrahim, 2017).

This implies that commercial banks have active developmental roles in the economy, such as mobilizing funds from the surplus to the deficit spending units; commercial banks are considered as the main source of finance for SMEs in Nigeria. Ibrahim (2017) asserts that finance has been seen as a critical element in the growth and development of SMEs. For instance the commencement and efficient performance of any industrial enterprises be it small or large will require the provision of funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments.

The provision of funds to the industrial sector, particularly for the SMEs, has been of prime interest to policy-makers in both the public and private sectors. It is a known fact that firms depend on a variety of sources for their finances. These include external and internal, formal and informal sources. Also, external finance helps many SMEs develop; they depend on bank loans and overdrafts and suppliers' credit for early-stage financing. Bank lending is expected to affect and influence the growth of small and medium-scale business positively. Thus, the monetary authorities seek to influence the

volume and costs of lending and thus moderate inflationary trends in the economy. This is premised on the fact that excessive credit expansion and bank lending affect the money supply, which ultimately affects the level of inflation, growth of SMEs, and aggregate economic performance in Nigeria (Umar & Ndidi, 2020).

Despite the dependence of SMEs on debt finance, paradoxically, access to debt finance is very limited for SMEs in Nigeria. Small and medium-scale enterprises dominate the private sector of the Nigerian economy, but almost all of them lack access to credit finance. This implies that Commercial banks and trade creditors hesitate to lend to SMEs. However, only few SMEs in Nigeria are able to access bank loans (Ibrahim, 2017).

2.1.4 Sources of Credit for SMEs in Nigeria

It has been recognized that among the constraints to effective development of SMEs in Nigeria is the limited access of the investors to long term credit. The general non-availability of comprehensive information which can guide potential investors and hence reduce the cost of pre-investment information gathering which may be very high and prohibitive is another impediment to access to credit (Evbuomwan, Ikpi, Okoruwa & Akinyosoye, 2013). According to Central Bank of Nigeria (2013), the key issues affecting SMEs in Nigeria can be grouped into four: unfriendly business environment, poor funding, low managerial skills and lack of access to modern technology. Among these, shortage of finance occupies a very central position.

While financing is obviously not the only problem militating against the SME sector, it is certainly the most formidable. Like any other investment in the real sector of the economy (where the SMEs are dominant), investment in SMEs is relatively bulky because of the need for fixed assets such as land, civil works, buildings, machinery and equipment and movable assets. Moreover, the incidence of the extra outlays required to compensate for deficiencies in the supply of basic utilities in Nigeria, is relatively heavier on SMEs than large enterprises (Evbuomwan et al, 2013).

While such extra investments have been shown to account for about 10% of the cost of machinery and equipment of large enterprises, they represent about 20 to 30% of that of SMEs because of the absence of economies of scale. Various funding initiatives have been instituted in the past to improve SMEs' access to long-term funds to improve their performance and contribution to the economy. Funding consists of the financial resources required to transform an entrepreneur's ideas into a viable project. It can take the form of loans, equity capital, venture capital, working capital or any other form (Evbuomwan et al, 2013).

2.1.5 Roles of Small and Medium Enterprises in Nigeria Economy

Small and Medium Scale enterprises play vital and critical roles in the industrial development of any country (Ahmed, 2006). SMEs have prospect in emerging domestic economy through the production of goods and services that drive Nigeria's economy. SMEs occupy an important place in the economic

growth and development of Nigeria. SMEs have enormous potential for generating jobs and developing indigenous knowledge. They constitute sources of primary and secondary employment in Nigeria. The foundation for economic growth in developed countries of the world is usually ascribed to SMEs in those climes.

2.2 Theoretical Nexus between Bank Credit and SMEs' Output

The theoretical nexus between bank credit and SMEs' output suggests that bank credit significantly impacts SMEs' performance, particularly their output. Specifically, bank credit can be a key factor in boosting SMEs' capacity to create jobs and increase their expansion. Lack of access to finance, including bank credit, has been identified as a major constraint to small business growth. Bank credit generally has a positive impact on SME output, meaning increased credit availability can lead to higher production and economic activity for SMEs. However, the specific relationship and its strength can vary depending on various factors like the lending environment, interest rates, and the specific characteristics of the SMEs. While some studies show a statistically significant positive relationship, others suggest a less pronounced or even inverse relationship.

According to Nnanna, (2004), bank credit is an important aspect of financial intermediation that provides funds to those economic entities that can put them to the most productive use. Theoretical studies have established the relationship that exists between financial intermediation and output. Greenwood and Smith (1996) explained that the development of banks and efficient financial intermediation contributes to output growth by channeling savings to highly productive activities and reduction of liquidity risks.

The financial intermediation theory explains the role of commercial banks in intermediating funds through business credit availability to owners of SMEs as a social and profitable venture and hence stability. SMEs are categorized as risky borrowers by financial institutions and therefore meeting the lenders requirements has become a challenge for the SMEs to access fund from financial institutions and if they do it is at a very high transaction rate. Due to the constraints of fund the SMEs are not able to invest in new improved asset for the development and innovation of new products, the SMEs would not fully utilize their assets when they break down leading to a limitation of their maintenance, this would lead to a low revenue, stunted SMEs growth, reduced market share and also a low profitability. When there is a healthy financial intermediation SMEs would grow and also makes profits which would lead to economic growth (Andries, 2009; Muriithi, 2017).

The theory of credit rationing can be traced back to the pioneering work of Stiglitz and Weiss (1981). They used a model that was based on imperfect credit markets characterized by information asymmetry, which makes it too costly for banks to obtain accurate information on the borrowers and monitor them. They established that when agency problems such as information asymmetry and moral hazards impact on the availability of credit and the capital structure of new SMEs, the phenomenon is known as credit rationing. The model assumes the existence of too many banks that seek to maximize profits through their choice of interest and collateral and many

potential borrowers that seek to maximize their profits through the choice of projects. Bank's credit rationing may be influenced by borrowers' observable features, firms' characteristics, and loan characteristics. The value of collateral offered by a firm also has an influence on the credit rationing behaviour of the bank.

2.3 Empirical Review

Bassey et al. (2014) employed time series data obtained from the Central Bank of Nigeria for the period (1992 – 2011) to examine the impact of bank lending and macroeconomic policy on the growth of Small Scale Enterprises in Nigeria. Data were analyzed using the Ordinary Least Square (OLS) regression technique. Empirical findings further revealed that Commercial bank credit finance and industrial capacity utilization has a significant positive impact on the growth of SMEs.

Bello and Mohammed (2015) examined the impact of banking sector credit on the growth of SMEs in Nigeria. The investigated whether banking sector credit significantly impacted the growth of small and medium scale enterprises in Nigeria. Annual data between 1985 and 2010 were collected and used in the study while descriptive statistics, correlation matrix, and error correction model was used to test the formulated hypotheses which reveal that banking sector credit has significant impact on the growth of small and medium scale enterprises in Nigeria. The impact was found to be positive on

some major macroeconomic variables of growth such as inflation, exchange rate and trade debts.

Imoisi and Jumbo (2015) examined Small and Medium Scale Enterprises and Nigeria's economic growth from 1970 – 2012. The study polled 84 SMEs for primary data collection as well as statistical records for years 1975-2012 as secondary data. The ordinary least square, co-integration, and error correction model were used to analyze the data collected. The variables used include Gross Domestic Product as the dependent variable and finance available to Small and Medium Enterprises, Interest rate and Inflation rate as the independent variables. The result showed that finance available to SMEs had a positive relationship with economic growth while interest rate and inflation rate showed a negative and positive influence on economic growth respectively.

Ubesie et al. (2017) examined the effect of deposit money banks' credit on small and medium scale enterprises growth in Nigeria. An ex-post facto research design that employed secondary data from the Central Bank of Nigeria (CBN) Statistical Bulletin 2015 and the National Bureau of statistics (NBS) for the period 1986 – 2015 was adopted. The ordinary least squares regression method was used in the analysis of the data after conducting a stationarity test on the variables. The study found out that deposit money banks' credit to small and medium scale enterprises has no significant effect on small and medium scale enterprises growth in Nigeria. Also, the result

indicated that deposit money banks' credit to the private sector significantly affects small and medium scale enterprises growth in Nigeria. The result also showed that bank interest rate seriously affects small and medium scale enterprises in Nigeria.

Mohammed (2017) conducted a comparative analysis of Nigeria's more viable SMEs financing. The study incorporates the NPV technique to determine whether conventional banks usury is more viable than Islamic bank *mudharabah* financing for SMEs growth and innovation. Results based on the difference between the present value of entire loans receivable and the discounted loans payable from 2000 – 2017 sampled period showed that Islamic Bank *Mudharabah* has a positive and higher Net Present Value (NPV). Thus, the Islamic Bank *Mudharabah* is far better and more cost-effective for enterprises to grow and innovate than the usury source of finance.

Akingunola, Olowofela and Yunusa (2018) examined the effect of micro financing in growing micro and small enterprise in Ogun State of Nigeria using a simple regression for 408 samples selected for the study. They concluded that there was a negative linkage between the selected SMEs and intermediary financial services, but the reverse was the case of microcredit and expansion of the selected business. Ombongi and Long (2018) investigated factors affecting the financial performance of SMEs in Kenya using descriptive research and data analyzed through regression analysis. In the study, they found a direct relationship between SMEs performance and bank

credit. Iloh and Chioke (2015) conducted a study on commercial bank credit availability to SMEs in Nigeria using the generalized least squares estimation technique to test the hypothesis. They concluded that bank loans positively affect GDP and facilitate economic growth. Bassey et al., (2014) employed time series data obtained from the Central Bank of Nigeria for the period 1992-2011 to examine the impact of bank lending and macroeconomic policy on the growth of SMEs in Nigeria. Data were analyzed using the Ordinary Least Square (OLS) regression technique. The findings revealed that deposit money banks' credit and industrial capacity utilization exerted a significant positive impact on the growth of SMEs.

Ibrahim. and Ifeyinwa (2020) investigated the effect of bank lending on the growth of selected SMEs in Nigeria. The study used descriptive statistics and the Likert Scale to analyze primary data on bank lending and the growth of selected SMEs in Nigeria. The study found out that bank lending has positive impact on the level of economic activities in Nigeria. Chilundo (2020) examined the impact of bank lending on the performance of small and medium scale enterprises, a case study of Mozambique. The study estimated a multiple regression model that sought to unravel the relationship between bank lending and the performance of SMEs in Mozambique. The study found out that bank loans has positive impact on the performance of SMEs in Mozambique.

3.0 Methodology

This study utilized the descriptive survey design, which was conducted through the administration of copies of a structured questionnaire to SME owners in South West, Nigeria. The descriptive survey design was adopted because it made it easy for people to participate and remain anonymous. The study used quantitative and qualitative data, which were obtained through copies of a structured questionnaire.

The cross-sectional data gathered through copies of a structured questionnaire was used to estimate one (1) model in the study using the Ordinary Least Squares (OLS) technique. The dependent variable is the output of SMEs, while the independent variables include: demographic characteristics of SME owners, business status, business years of operation, capital, labour, number of SME branches, work status of SMEs' owners, and government support. Descriptive statistics such as percentages and tables were also used to analyze the data in the study.

3.3 The Study Area

The South-Western part of Nigeria is one of the six geopolitical zones of Nigeria, representing both a geographic and political region of the country's southwest. It comprises six states — Ekiti, Lagos, Ogun, Ondo, Osun, and Oyo. It makes up part of the Yoruba land in Nigeria, with Kwara and parts of Kogi completing it. The zone stretches along the Atlantic seaboard from the international border with the Benin Republic in the west to the South in

the east, with the North Central to the north. The South West is split with the Central African mangroves in the coastal far south, while the major inland eco-regions are the Nigerian lowland forests eco-region in the south and east, along with the Guinean forest–savanna mosaic eco-region in the drier northwest.

The region has a population of over 50 million people, more than 22% of the total population of the country. Lagos is the most populous city in the South West as well as the most populous city in Nigeria and also the most populous city in Africa.

3.4 Population and Sample

Population

The total number of SMEs in South West, Nigeria constituted the population of the study. According to the National Bureau of Statistics (NBS) 2017, there were about twenty-three thousand, two hundred and eighty nine (23,289) SMEs in South West, Nigeria. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defined an SME as a business entity with less than 250 employees and a maximum annual turnover of N200 million.

Sampling Technique

The herculean task of studying the entire population makes the drawing of a representative sample inevitable. The sample of the study consisted of SMEs in selected Local Government Areas in the six (6) states in

the South West, Nigeria. The stratified random technique was used in the study.

Sample Size Determination

The sample size for this study was determined with the use of Yamane's (1967) formula. This sample size formula is a statistical formula used to calculate the minimum sample size required to achieve a desired level of precision at a given confidence level. The sample size shall be determined with the use of the sample size formula below:

$$\text{Sample size (n)} = \frac{[Z^2 \times P(1 - P)]}{e^2} \div 1 + \left(\frac{Z^2 \times P(1 - P)}{e^2 \times N} \right)$$

Where:

N = Population

Z = Z- value of the level of confidence

e = Margin of error

P = Standard Deviation

In this study, N = 23,289; Z = 1.96 (95% level of confidence); e = 0.05; P = 0.5.

Therefore,

$$\begin{aligned} \text{Sample size (n)} &= \frac{(1.96)^2 \times 0.5(1 - 0.5)}{(0.05)^2} \div 1 + \left(\frac{(1.96)^2 \times 0.5(1 - 0.5)}{(0.05)^2 \times 23,289} \right) \\ &= \frac{3.8416 \times 0.25}{(0.05)^2} \div 1 + \left(\frac{3.8416 \times 0.25}{(0.05)^2 \times 23,289} \right) \end{aligned}$$

$$\begin{aligned}
& \frac{0.0025}{0.0025} \div 1 + \left(\frac{0.0025 \times 23,289}{58.2225} \right) \\
& = \frac{0.9604}{0.0025} \div 1 + \left(\frac{0.9604}{58.2225} \right) \\
& = 384.16 \div 1 + 0.0165 \\
& = 384.16 \div 1.0165 \\
& = 377.92
\end{aligned}$$

Therefore, sample size (n) = 378.

Three hundred and seventy-eight (378) SMEs were randomly selected across the six (6) states in South West, Nigeria.

The table below shows the distribution of the population and sample.

Table 3.1: Distribution of the Population and Sample

| SMEs in South West, Nigeria | | | | |
|-----------------------------|-------|----------------|------------|--------|
| S/No. | State | Number of SMEs | Percentage | Sample |
| 1 | Ekiti | 928.0 | 4.0 | 15.0 |
| 2 | Lagos | 8,395.0 | 36.0 | 136.0 |
| 3 | Ogun | 2,465.0 | 10.6 | 40.0 |
| 4 | Ondo | 2,363.0 | 10.2 | 39.0 |
| 5 | Osun | 3,007.0 | 12.9 | 49.0 |
| 6 | Oyo | 6,131.0 | 26.3 | 99.0 |
| | | | | |
| | Total | 23,289.0 | 100.0 | 378.0 |

Source: National Bureau of Statistics (2017)

Table 3.2: Number of Local Governments in South West, Nigeria and Number of Selected SMEs

| Number of Local Governments in South West, Nigeria | | | | |
|----------------------------------------------------|-------|----------------------------------|--------------------|-------------------------|
| S/No. | State | Number of Local Government Areas | Number of Selected | Number of SMEs Selected |
| 1 | Ekiti | 16 | 3 | 15 |
| 2 | Lagos | 20 | 6 | 136 |
| 3 | Ogun | 20 | 6 | 40 |
| 4 | Ondo | 18 | 6 | 39 |
| 5 | Osun | 30 | 6 | 49 |
| 6 | Oyo | 33 | 6 | 99 |
| | | | | |
| | Total | 137 | 33 | 378 |

Source: National Population Commission (NPC) (2025)

3.5 Instrument for Data Collection

Copies of a structured questionnaire were used for data collection in this study. The questionnaire sought information about SME owners' demographic characteristics, SME characteristics, capital, labour, and SMEs' access to Deposit Money Bank Loan. Copies of the questionnaire contained 26 items.

3.6 Method of Data Analysis

The analysis of data in this study was done based on the research objectives of the study. To achieve objectives 1 and 3; descriptive statistics such as tables and percentages were used. Objective 2 was achieved through the estimation of six (6) models of SMEs output in South West, Nigeria.

Model Specification

In order to examine the relationship between deposit money banks' lending and the output of SMEs in South West, Nigeria, a linear regression model was built.

Regression Model:

$$Q = f(X, K, L, BL, GR, GS) \dots\dots\dots$$

(1)

This implies,

$$Q = a_i X_i + bK + cL + dBL + eGS + e_i \dots\dots\dots$$

(2)

Where:

Q = Output of SMEs in South West, Nigeria

X = Vector of SMEs owners' and Business characteristics such as gender, age, level of education, family size, business status, years of business operation, work status of SME owner, number of SME branches.

K = Capital

L = Labour (Number of staff engaged by SME)

BL = Bank Loan

GS = Government Support

a, b, c, d, e = Coefficients of independent variables

e_i = error term

The a-priori expectations are that $a_i, b, c, d, e > 0$.

4.0 Results and Discussion

4.1 Descriptive Analysis

4.11 SMEs' Owners' Characteristics

Table 4.1: SMEs' Owners' Characteristics

| SMEs Owners' and Business Characteristics | Percentage (%) |
|-------------------------------------------|----------------|
| Gender of the Respondents | |
| Male | 74.0 |
| Female | 26.0 |
| Age Group of the Respondents | |
| (21 - 30 years) | 12.0 |
| (31 - 40 years) | 15.0 |
| (41 - 50 years) | 52.0 |
| (51 years and above) | 21.0 |
| Educational Level of Respondents | |
| O' Level | 5.0 |
| NCE/OND | 13.0 |
| HND/B.SC/B.ED | 53.0 |
| Masters | 20.0 |
| PhD | 9.0 |
| Family Size | |
| 0 - 4 | 65.0 |
| 5 - 10 | 23.0 |
| 11 and above | 12.0 |

Source: Authors' Computation (2025)

Table 4.1 above shows that 74 percent of the SME owners (respondents) were males while 26 percent were females. This implies that majority of the SME

owners in South West, Nigeria are males. Also, 52 percent of the SME owners were aged between 41 to 50 years while, 12 percent, 15 percent and 21 percent were aged between 21 to 30 years, 31 to 40 years and 51 years and above respectively. Furthermore, 53 percent of the SME owners had first degrees while, 5 percent, 13 percent, 20 percent and 9 percent had O' level, NCE/OND, Masters and PhD respectively. Finally, 65 percent of the SME owners had family size of between 0 to 4 persons, 23 percent had between 5 to 10 persons and 12 percent had 11 and above persons.

Table 4.2: SMEs’ Business Characteristics

4.21 SMEs’ Business Characteristics

| SMEs' Business Characteristics | Percentage (%) |
|---------------------------------------------------------|----------------|
| SMEs' State of Operation | |
| Ekiti | 4.0 |
| Lagos | 36.0 |
| Ogun | 10.6 |
| Ondo | 10.3 |
| Osun | 13.0 |
| Oyo | 26.2 |
| Registration with the CAC | |
| Yes | 73.0 |
| No | 27.0 |
| Years of Business Operation | |
| 0 - 4 | 32.0 |
| 5 - 10 | 56.0 |
| 11 and above | 12.0 |
| Government Support (in terms of Grants or Loans) | |
| Yes | 24.0 |
| No | 76.0 |

Source: Authors’ Computation (2025)

Table 4.2 above shows that 36 percent of the SMEs sampled were operating in Lagos State while 4 percent, 10.6 percent, 10.3 percent, 13 percent, 26.2 percent were operating in Ekiti, Ogun, Ondo, Osun, and Oyo States respectively. This implies that majority of the SMEs sampled were operating in Lagos State. Also, 73 percent of the SMEs had registered with the CAC

while 27 percent of the SMEs were yet to register with the CAC. Furthermore, 56 percent of the SMEs had operated for between 5 to 10 years while, 32 percent, 12 percent had operated for between 0 to 4 years and 11 years and above respectively. Finally, 24 percent of the SMEs had received government support either in terms of grants or loans while, 76 percent of the SMEs had not received any government support in terms of grants or loans.

4.23 SMEs' Access to and Obstacles to Deposit Money Banks Loans

Table 4.3: SMEs' Access to and Obstacles to Deposit Money Banks Loans

| SMEs Access and Obstacles to Deposit Money Banks' Loan | Percentage |
|---------------------------------------------------------|------------|
| Access to Deposit Money Banks Loan | |
| Yes | 45.0 |
| No | 55.0 |
| Number of times Loan was Accessed | |
| One (1) | 73.0 |
| Two (2) | 20.0 |
| Three (3) | 5.0 |
| More than three (3) | 2.0 |
| Average Interest rate Charged Per Annum | |
| Less than 15% | 5.0 |
| 15% - 20% | 24.0 |
| 21% - 25% | 34.0 |
| More than 25% | 37.0 |
| Obstacles to Accessing Deposit Money Banks' Loan | |
| Lack of collateral security | 75.0 |
| High interest rate | 85.0 |
| Corruption | 64.0 |
| Inadequate information/knowledge | 45.0 |
| Poor record keeping | 35.0 |
| Gender discrimination | 12.0 |

Source: Authors' Computation (2025)

Table 4.3 above shows that 55 percent of the SMEs in South West, Nigeria do not have access to deposit money banks loans. While 45 percent of the SMEs have access to deposit money banks loans. 73 percent of SMEs that had access

to deposit money banks loans, accessed loans once, 20 percent accessed loans twice, 5 percent thrice and 2 percent accessed loans more than thrice. This implies that majority of the SMEs in South West, Nigeria do not have access to deposit money banks loans. Furthermore, 37 percent of the SMEs that accessed deposit money banks' loans paid more than 25% per annum interest rate while, 5 percent, 24 percent and 34 percent paid annual interest rates of between 15% to 20%, 21% to 25% respectively. In addition, 85 percent of the SME owners identified high interest rate as an obstacle to accessing deposit money banks' loan while, 75 percent, 64 percent, 45 percent, 35 percent and 12 percent identified lack of collateral security, corruption, inadequate information/knowledge, poor record keeping and gender discrimination respectively.

4.0 Empirical Results

4.1 Deposit Money Banks' Loans and Output of SMEs in South West, Nigeria

Table 4.4: Deposit Money Banks' Loans and Output of SMEs in South West, Nigeria

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------|-------------|------------|-------------|---------|
| C | 13.49533 | 0.44758 | 30.15160 | 0.00000 |
| GEN | 0.49729 | 0.10910 | 4.55821 | 0.00000 |
| AGE | -0.16010 | 0.01086 | -14.73979 | 0.00000 |
| EDU | -0.01324 | 0.05845 | -0.22647 | 0.82100 |
| FAM | 0.21994 | 0.02574 | 8.54476 | 0.00000 |
| BST | 0.14719 | 0.13487 | 1.09131 | 0.27600 |

| | | | | |
|-------------------|-----------|---------|----------|---------|
| BAGE | -0.02754 | 0.00604 | -4.56303 | 0.00000 |
| LOG(CAP) | 0.37988 | 0.02920 | 13.00770 | 0.00000 |
| LAB | 0.08417 | 0.01290 | 6.52714 | 0.00000 |
| WOR | -0.05826 | 0.09057 | -0.64329 | 0.52050 |
| LOG(LOAN) | 0.00477 | 0.01425 | 0.33465 | 0.73810 |
| GROW | -0.07872 | 0.03531 | -2.22931 | 0.02650 |
| GOS | -0.08908 | 0.05358 | -1.66250 | 0.09750 |
| | | | | |
| R-square | 0.83897 | | | |
| F-statistic | 130.68700 | | | |
| Pron(F-statistic) | 0.00000 | | | |

Table 4.4 above shows the OLS estimate of the model of the impact of deposit money banks' loans on the output of SMEs in South-West, Nigeria. The model shows that gender, family size, business status, capital, labour and deposit money banks' loan have positive impact on SMEs output in South-West, Nigeria. While the positive impact of gender of SMEs owners, family size, capital and labour are statistically significant at 5 percent level, those of business status and deposit money banks' loan are not statistically significant at 5 percent. These imply that SMEs that are run male owners with larger family sizes (i.e. above five (5) members) and with access to more capital and labour tend to have higher level of output *ceteris paribus*. In conformity with the a-priori expectations, capital, labour; tend to facilitate higher level of SMEs output *ceteris paribus*.

Age, SMEs owners' level of education, business years of operation, work status of SMEs owners, number of business branches and government support have negative impact on the output of SMEs in South-West, Nigeria. While the negative impact of age of business owners, business years of operation and number of business branches are statistically significant at 5 percent, those of SMEs owners' level of education, work status of SMEs owners and government support are not statistically significant at 5 percent level. These imply SMEs that are run older people that are working part-time on their businesses with more number of business branches and government support tend to experience lower output *ceteris paribus*. These are contrary to the a-priori expectations. The plausible reason for these may likely be a case of miss-application of government support for SMEs.

The model has an R^2 of 0.83897. This shows that about 84 percent variation in the output of SMEs in South-West, Nigeria is explained by the variables in the model. Also, the model has f-statistic of 130.7 with probability of 0.0000. This implies that the model as a whole is statistically significant at 5 percent level of significance.

5.0 Conclusion and Recommendation

The potentials and opportunities provided by SMEs in South West, Nigeria are not being fully utilized due to poor access to deposit money banks' loan. With access to more loans, the output of SMEs will significantly increase thereby contributing to increased internally generated revenues of the states in

the zone. SMEs in the South West, Nigeria are majorly facing the obstacle of high interest rate in their quest for loans to finance their businesses. Although, the impact of deposit money banks' loans on the output of SMEs in the South West, Nigeria is positive, the impact is not statistically significant. The Federal Government, through the CBN, should explore the possibility of reducing the monetary policy rate, which is the benchmark for deposit money banks' interest rates on loans. A single-digit interest rate for SMEs will be most suitable. This will increase SMEs' access to the deposit money banks' loans.

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