

RESEARCH ARTICLE

Small and medium scale enterprises and economic growth in Nigeria

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Abstract

Due to the inconclusive situation of empirical studies on Small and Medium Enterprises (SMEs) and economic growth in Nigeria and the need to promote growth accompanied by poverty alleviation, this study examined SMEs financing and economic growth in Nigeria from 1999 to 2021. The hypotheses formulated and tested in the study included that there is no significant relationship between commercial bank loans, total credit to the private sector (which captures other means of financing SMEs) and lending rate. Annual data was collected from the Central Bank Statistical Bulletin. The augmented Dickey-Fuller unit root test revealed that the variables were stationary at the first difference, while the Johansen co-integration test indicated a long-run relationship among the variables. The Vector Error Correction Mechanism (VECM) indicated commercial bank loans have a weak negative effect on economic growth. Total credit to the private sector has a positive effect on economic growth, while lending rates have a significant negative effect on economic growth. It was concluded that SMEs financing has significant positive effects on economic growth in Nigeria. It was recommended that the government encourage more commercial bank loans to SMEs by guaranteeing such loans, more development bank branches should be established; and the lending rate should be lowered.

Keywords: Commercial bank loan; government; lending rate; private sector

Introduction

Small and Medium Enterprises (SMEs) have been recognized all over the world as the engine of growth in modern economies because due to their significant contribution to global economic growth and sustainable development through employment generation, poverty alleviation, wealth creation and food security. In China, Thailand and Malaysia, for instance, SMEs contributes more than seventy percent to export and this has been accounted for one of the major reasons why these countries experience rapid economic growth in recent times (Duro, 2018). The contribution of SMEs to economic growth can be felt through increase in the use of domestic raw materials, promotion of local private enterprise, mobilization of domestic savings, links with large enterprises, promotion of competition, innovation and efficiency, ensuring balance in both growth and development of rural and urban sectors and through distribution of investments more equally in the economy (Muritala, 2019; Ibitomi et al., 2020).

Today, SMEs sector is considered as the mainstay of the economy (Opafunso & Adepoju, 2014). Though smaller in size, SMEs are significant considering the fact that the summation of their individuals exceeds the aggregation of large firms (Ogbuanu et al., 2016; Ibitomi & Micah, 2020). Historical evidences showed that before the end of 19th century, SMEs served as the pillar of economies in Europe (Aremu & Adeyemi 2011). However, the advent of Industrial revolution, which brought about mass production, reduced the contribution of SMEs to economic growth in comparison to large enterprises (Ibrahim, 2017). The contribution of SMEs to Gross Domestic Product (GDP) in Nigeria in the last five years is forty-eight percent (According to Bureau of Statistics, 2022). This is higher than the standard 40 percent expected in an emerging economies according to World Bank (Ogbuanu et al., 2016). In the developed part of the world, SMEs was seen to be the engine room to their growth and development, as such they invested heavily in the sub-sector in order to witness more development mostly in the areas of job creation and contribution to the economy (Olateju & Ibikunle, 2023). The realization of the role SMEs plays in economic growth and development made the Federal Government of Nigeria through the implementation of Structural Adjustment Programme (SAP) in Nigeria in 1986, to shift her focus from capital intensive, large scale industrial project founded on the idea of import substitution and export promotion to small scale enterprises SMEs which has enormous capacities to bring about the development of domestic linkages needed for rapid and sustainable economic growth, promoting a self-reliant industrialization and growth of non-oil exports (Imoughele, et al., 2017).

Consequently, the Federal Government of Nigeria established institutions and programmes targeted towards providing financial support to SMEs in Nigeria for the purpose of reducing unemployment and at the same time contributing to the development of its economy (Ibitomi & Micah, 2022). Some of these institutions include Bank of Industry (BOI), Bank of Agriculture (BOA), Small and Medium Enterprises Development Association of Nigeria (SMEDAN), among others. BOI was established in 2001 through the merging of Agricultural Co-operative and Rural Development Bank (NACRDB), Nigeria Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND) that were all created in 1960s in order to facilitate development of small-scale enterprises. However, the extent to which the development banks have been able to resolve the financial needs of SMEs is characterized by a lot of controversies, as empirical studies have revealed mixed results and most of them inaccessibility and low capital base as the major challenges of funding SMEs through development banks (Johnson & Christianah, 2021; Aliyu et al., 2022; Ibitomi et al., 2022).

Funding has been recognized as one of the important elements that determine SMEs' survival and growth in both developing and developed economies (World Bank, 2019). SMEs are vital tools for economic prosperity in Africa and Nigeria specifically, as such leveraging technology, such as FinTech, Artificial Intelligence, and cybersecurity, can be seen as a vital instruments in accelerating their growth (Okoye et al., 2024). In the word of Adaga, et al., (2024), the challenges facing SMEs growth and development can be mostly seen in the areas of accessibility to finance, sustainability constraints, and high failure rates and many others which are essential for unlocking their full potential in driving economic growth in Africa and Nigeria in general.

Despite government efforts towards financial support to SMEs in Nigeria, previous and past empirical studies have identified inadequate finance as one of the major constraint that limits the capacity of SMEs to contribute to economic growth, as SMEs owners continued to laments about their inability to access formal sources of loans and where possible are being charge high lending rate (Ibitomi & Adeleke, 2020; Charles & Obumneke, 2021). The scarcity of capital impedes SMEs' capacity in resolving macroeconomic challenges.

In Nigeria, DMBs is a major source of formal funding of businesses, because it controls its level of liquidity is very high compared to the remaining formal sources (Ibitomi & Micah, 2021). However, due to information asymmetry, DMBs follow adverse selection when transacting with SMEs, therefore, the preference shown towards large firms (Afolabi, 2018). Regarding the unwillingness of DMBs to extend loans to SMEs, available

statistics showed that in 2019 out of the total 100 billion naira allocated to the private sector by DMBs, only 10 billion, representing 1 percent was allocated to SMEs. This ugly condition was also experienced in 2021 and 2022 which recorded 12 and 14 percent as the proportion of DMBs loans to private sector channeled to SMEs (Central Bank of Nigeria, 2022). This situation created the major factor that that hinders SMEs funding and its capacity solve the macroeconomic challenges of Nigeria. However, with the current macroeconomic condition of the country which is characterized by regular exchange rate depreciation, rising consumer price index, and high level of poverty, among others, the adequacy of internal finance in enhance SMEs growth and their contribution to economic growth is in doubt. This raises a serious concern among SMEs owners, government or policy makers, researchers, among others. It is on this note, that this paper examined SMEs financing and economic growth in Nigeria. The specific objectives are to:

- (i) determine if DMBs loan to SMEs has any significant effect on economic growth,
- (ii) examine whether total credit to private sector has any relationship with economic growth,
- (iii) find out if lending rate has any significant effect on economic growth.

Research questions and hypotheses were developed in line with the specific objectives with the purpose of providing the right solutions to the identified problem. The variables covered in this study include SMEs financing and economic growth. SMEs financing is measured by commercial bank loan to SMEs, total credit to private sector and lending rate. Total credit to private sector was used to determine the effects of other sources of SMEs especially, Development bank covered included Bank of Industry (BOI) and Bank of Agriculture (BOA) on economic growth. This also helps to capture government financial support to SMEs. The dependent variable of the study economic growth was proxy by increase in real GDP. The study covered SMEs in Nigeria. The study covered 1999 to 2022. The choice of this period was based on the fact that BOI was established in 2000 and also the return to Nigeria democracy since 1999.

The structure of this paper was divided into five section. Section one is the introduction of the paper which gave the foundation and background to the study, section two was the literature review of the study which explained the conceptual clarifications, theoretical review and empirical review. Section three was the methodology which deals with the research design used, the population and sample size, the sources of data collection, instrumentation, method of data analysis and the model specification. Section four deals with data analysis and discussion of findings, here, the study analyse the data collected and discussed the findings of the study in line with the empirical review of the study. The fifth section deals with conclusion and recommendations of the study, the conclusion was drawn base on the major findings of the study and the recommendations base on the major findings and conclusion from the study.

Literature Review

Conceptual Review

SMES Finance

Finance is the provision of funds needed for business operations. It also includes purchasing or investing. Financial institutions such as banks deal with the provision of funds needed by business organization for financing their business activities (Erikson, 2017). Bakare and Akinbode (2017) identify sources of financing SMEs in Nigeria as informal sources and formal sources. Informal sources which he describes as internal sources include personal savings, retained profits, loans from friends and family and cooperatives. Formal sources are financial

institutions and include commercial banks and development finance institutions. Development finance institutions consists of Bank of Industry, Bank of Agriculture, Federal Mortgage Bank of Nigeria, Educational Bank, The CBN has put more pressure on commercial banks for the past years to increase allocate more loans to SMEs. However, the commercial have continued to point at high risk, increase in the number of defaulters, among others as factors that prevent them from allocating loans to SMEs. Instead of giving loans to SMEs, banks choose to pay fines to the CBN. Moreover, they have sectors they preferred sectors which they considered profitable and less risky (Charles et al., 2017).

The establishment of Development Finance Institutions (DFIs) was expected to help solve the problem of SMEs financing to some extent. This is due to the fact that each of them was formed in order to develop a particular sector of the economy (CBN, 2017). The Bank of Industry(BOI) was formed in 2001 through the merging of the former Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND). It was set up in 2000 principally to provide credit to the industrial sector. The mandate of the BOI include providing financial assistance for the establishment of large, medium, and small projects; as well as expansion, diversification and modernization of existing enterprises; and rehabilitation of ailing industries (Bank of Industry, 2011). BOI provides soft loans to SMEs through all industries with little or no collateral and low interest rate. It also dedicates 85 percent of its loans to SMEs and the remaining 15 percent to large firms (Akingunola, 2011). BOI performs its functions through the support of its subsidiaries. The bank also has a robust external working dealings with both local and International Development Organisations such as; United Nation Development Programme (UNDP), United Nations Industrial Development Organisation (UNIDO), African Development Bank (AfDB), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), among others. In addition, BOI develops partnership with commercial banks in area of provision of working capital to support businesses (Onakoya et al., 2013).

Bank of Agriculture (BOA) was formed from the combination of the Nigerian Agricultural Cooperative Bank (NACB), the Peoples Bank and Family Economic Advancement Programme (FEAP) and Nigerian Agriculture Cooperative Research Development Bank (NACRDB) in 2000. The amalgamated financial institutions were located in rural areas and deal with provision credit those easily accessible and agricultural inputs to rural farmers, cooperative societies and SMEs. Even so, BOA main challenge is that it has narrow coverage as more than eighty percent of its target group has no access to their facilities (Anochie, 2015).

Accessibility to finance is an important ingredient for SMEs growth and development in both developing and developed countries, as such favorable economic environment is a paramount tool that can lead to the availability of credit and other forms of financing for business growth and expansion (Solomon, et al., 2024).

Other DFIs included Federal Mortgage of Nigeria (FMBN) established in order to provide soft loans to housing developers, Education Bank (EB) and Nigeria Import export Bank (NEXIM). All were established to meet the financial needs of the sectors indicated by their names (CBN 2007). However, adequate information about the extent to which SME have been funded by these DFIs is scanty (Bakare & Akinbode, 2017).

Small and Medium Enterprises (SMEs)

The term Small and Medium Scale Enterprises (SMEs) has no generally established definition. Kadiri (2012) noted that the criteria for classification of an enterprise as small, medium or large varies from one country to another, depending on whether it is a developed or developing country. A small business for example in one country may be a large-scale business in another. In Nigeria, the major criteria used in defining Small Scale Enterprises (SSEs) include number of employees, financial strength, sales value, initial capital outlay, relative size, independent ownership and the type of industry. Small and Medium Industries Equity Investment Scheme

(SMIEIS) (2015) defines SMEs as 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.

Aderemi (2003) defines SMEs as any enterprise with a maximum asset base of N200 million, (excluding land and working capital); a labour size of between 10 and 200 employees; usually small, owner or family managed business offering basic goods and services. Small and medium enterprises (SMEs) involve an amalgamation of many business issues to give a meaningful and progressive result.

Esuh and Adebayo (2012) noted that SMEs are firms or businesses arising as a result of entrepreneurial activities of individual. SME sector is categorized into three namely; micro, small and medium enterprises or businesses. The micro SME's are the smallest among the three categories. In the word of Afolabi (2013) states that SMEs are businesses that employ up to 9 employees. Small businesses employ 10-49 employees while medium enterprises employ 50 to 199 employees.

However, for the purpose of this study, the definition of Small and Medium enterprises Development of Nigeria (SMEDAN) was adopted, which states that enterprises less than 10 employees are micro, 10 and 49 both inclusive are small enterprises, 50 to 199 both inclusive medium. This was because SMEDAN is the Federal Government Agency that stimulates, monitors and coordinates the development of Micro, Small and Medium Enterprises Sector in Nigeria and as found in National Policy on MSMEs (Ibitomi, et al., 2022).

Economic Growth

Economic growth is an increase in the production of goods and services over a specific period of time after adjusting or removing the influence of inflation. Economic growth is measured by computing growth rate which indicates the rate at which the GDP is increasing quarterly or annually .

Economic growth can be positive or negative. Positive economic growth produces more profit for business enterprises. This makes the prices of stock of such a company to increase. This makes companies to have more capital for investment and for employing more employees. As the creation of jobs increases, incomes rise. Consumers have more money to buy additional products and services. Purchases drive higher economic growth (Max, 2021).

It has been found that the best way to measure economic growth is by computing the country's GDP. Ibitomi and Micah (2021) states that GDP provides the best way to measure economic growth GDP considers the country's entire economic output. It includes all goods and services that businesses in the country produce for sale, irrespective of whether the goods are sold within the economy or abroad.

GDP has been defined as the market value of all final output produced within an economy over a period of time. The period can be quarterly or annually (Ibitomi & Micah, 2021). However, Kimberly states that most countries measure their GDP or economic growth quarterly. They stated further that in computation of GDP, intermediate products are excluded to avoid double counting.

The most accurate way to measure growth is real GDP (Max, 2021). Real GDP is nominal GDP (GDP at current market prices) that has been adjusted for inflation. The GDP growth rate makes use of real GDP.

The Gross National Product is used by the World Bank to measure economic growth. Gross National Product has been defined as the market value of all the final output (goods and services) produced by all the nationals (citizens) of a country irrespective of where they reside. It is GDP plus net factor income from abroad (Ghandi & Amissa, 2014).

Different stages have been identified as the economy grows. These stages are described by the business cycle. The first and the best stage is the expansion stage. At this stage the economic grows in a sustainable manner. However, if growth is far above a healthy growth rate, the economy is overheated and this results in asset bubble.

In such case, too much money chases too few goods and services thereby resulting in inflation. This is the "peak" phase in the business cycle (max, 2021).

At some point, confidence in economic growth dissipates. This makes more people sell their assets than buy, which thereafter results in contraction of the economy. This is the second stage in the growth of an economy. As this continues, it results in recession. This can lead to the third stage known as depression. An economic depression is a recession that lasts for a decade (Max, 2021).

If a country is not blessed with the factors of production, it must find other ways to spur growth. This can be achieved through the use of expansionary fiscal policy which involves increase in government expenditure or reduction in taxes or both. However, care has to be exercised in the use of expansionary fiscal policy stimulate growth. This is based on the fact that as the government keeps spending more and taxing less, it leads to deficit spending. This works for a while but eventually leads to higher debt levels. In time, as the debt-to-GDP ratio approaches 100%, it slows economic growth (Max, 2021).

Another way to spur growth is through expansionary monetary policy. This requires increasing the money supply by the central bank through lowering of interest rates. This results in increase the demand for loanable funds for investment and consumption purposes, thereby increasing the aggregate demand and subsequently aggregate supply or GDP (Ghandi & Amissa, 2014).

Many factors influencing economic growth have been identified. Max (2021) identifies the four factors of production land/natural resources, labor, capital equipment, and entrepreneurship as the factors influencing economic growth. Economic growth has also been driven by productivity gains. This has to do with increase in the output of labour per hour. In a free-market economy, productivity gain is achieved technological innovations.

Lending rate

Lending rate also known as interest rate is the amount charged by the lender, usually per annum for the money lent to a borrower. It is usually expressed as a percentage of the money lent. High interest rate creates discouragement among businessmen, thereby reducing the level of investment and economic growth. Low lending rate on the other hand, inspires businessmen. This raises the level of investment and output (Ibitomi & Micah, 2021).

They states further that in a developing country, SMEs' level of saving is low due to small amount of retained profits that is left. As a result, they depend on the financial institutions for funding their investments and will only borrow when the interest rate is low. In summary, the lower the interest rate, all things being equal, the higher the level of investment and output and vice versa.

Theoretical Review

Supply Lending Theory

Supply lending theory was postulated by Ibrahim (2017). The stance of the theory is that , the presence of financial institutions and their provision of financial resources and services in before demand for such resources enhances efficient allocation of resources from surplus units to deficit units. This makes financial sector to lead other sectors of the economic in growth process (Rehanet & Zainab, 2015). The highpoints of this theory is broken into two dimensions which are the transfer of resources from traditional sectors to modern sectors and promotion and stimulus such resources to SMEs which leads to growth. Basically, the of the theory gives recognizes that the activities of the financial institutions serves as an important means through which the productive capability of SMEs can be increased in an economy.

Schumpeter in 1911 gave a strong support to finance-led casual relationship between SMEs financing and a country's economic growth. He defines the supply lending financing intermediation as "innovative finance". Experts believe that the supply lending theory offers an opportunity to prompt real growth through finance (Ezeaku et al., 2017).

This theory is relevant to this study because it tries to show that the supply of financial resources to SMEs in advance of demand promotes and stimulates SMEs in the growth process.

The Neoclassical Growth Theory

The neoclassical growth theory was postulated by Robert Solow in 1956. The theory lays emphasis on the role of savings and capital formation in growth process. The theory recognizes the established the growth of an economy can be measured through savings and capital formation in the real sectors and SMEs. In this theory, Solow states that as savings increases, capital formation increases in SMEs and real sectors. This increases labour utilization and makes the productivity of labour to increase at an increasing rate, thereby resulting in economic growth.

However, the economy attained a steady growth at a point where the growth rate of labour and capital is the same, that output per unit labour and capital per worker are constant. Robert opined that in order to increase the growth rate of the economy in the long run, increase in finance allocated to production and real sectors, increase in the supply of labour and enhancement in the efficiency of labour and capital are key factors.

Neo-classical believe that the economy cannot experience a stable growth due to the fact that , a continuous rise in capital asset and funding of productive, SMEs and real sectors in an economy make the growth rate of the economy to rise and becomes sustainable which lead to the achievement of economic development. They equally consider interest rate as a function of marginal efficiency of capital and savings. Thus, the inference that can be drawn from this theory is that increasing the accessibility of SMEs to finance is a significant factor that propels economic growth. The Neoclassical Growth Theory declares SMEs financing as the most potent factor of economic growth and tool of stabilizing the macro economy globally.

Pecking order theory

The pecking order theory was developed by Myers Sanders in 1984. The theory states that the financial needs of firms (usually SMEs) are satisfied in an order which followed a hierarchy. The most preferred source of finance by firms is internal source. This is followed by debt financing and lastly equity. The theory prefers internal finance most because it is the most easiest to obtain. Debt finance is preferred to equity when the firms meet the requirements because the effort and its requirements are less that of equity and a such the firm will only resort to equity finance when it seems unwise to utilize debt finance (Charles et al., 2017).

At the early stage, firms make more use of internal sources of fund. As the firm grows and the financial needs of firms increase, firms resort to the utilization of debt finance. Additional rise in the need of financial resources makes the firm to source for external equity. As a result, there seems to be an inverse relationship between profit and external borrowing by small firms.

This theory thus main idea presented in this theory is that businesses firms usually have preference for using internal source of finance. When such fund is not available, the next in the hierarchy the firm will like to utilize external source which is debt finance and will only consider equity financing as the last resort.

The theory equally suggests that grown-up businesses more funds at their disposal for promoting growth because they have higher capacity to accumulate funds produced internally (retained earnings). Holmes and Kent (1991) found that SMEs abide strictly to pecking order as a result of not finding it easy to secure external sources. However, as noted by Charles et al, (2017), SMEs in Nigeria have depend on constantly on the financial resources

generated internally, which progressively became insufficient as a result of regular exchange rate devaluation, rise in consumer price index, and increase in poverty, thus restraining the growth of SMEs' growth and their influence on economic growth. The theory is related to the study of SMEs financing and how SMEs ordinarily would have prefer using retained profit or other internal sources but which in recent time is not sufficient due some macroeconomic factors.

Empirical Review

A number of empirical studies have been carried out in Nigeria and in other countries on the effect of SMEs financing on economic growth. Most of the studies found that economic growth is positively related to SMEs. This sub-section of literature review provides a review of some of the studies.

God'stime (2021) carried out an empirical study on the role Small and Medium Enterprises (SMEs) play in achieving economic growth in Nigeria. The study made use of linear regression model. Econometric analysis employed included granger causality test, the Johansen co-integration test. Findings showed that there was a long run and unilateral relationship which implied that SMEs financing granger caused economic growth. The study is related to the study at hand in that it was conducted in Nigeria. However, while it only captured the effect of commercial bank loan to SMEs and interest rate on economic growth, this study added development loan to SMEs apart from commercial bank loan to SMEs and interest rate in its mode.

Ezeaku et al (2017) carried out an assessment on the influence of SMEs' financing on the growth of Nigeria's industrial sector from 1981 to 2014. The independent variables of the study included credit to SMEs, interest rate, inflation, and exchange rate. Ordinary least square method of estimation was used to estimate the multiple regression model formulated. The study indicated credit to SMEs had positive effect on economic growth while interest rate had negative effect.

Charles et al, (2017) empirically examined the degree to which SMEs financing affected economic growth in Nigeria. The study adopted time series data spanning from 1999-2018. Multiple regression analysis was adopted in the study. The dependent variable of the study was aggregate contribution of SMEs to economic growth (AGGDP) while the independent variables included commercial bank credit to SMEs, lending rate, Gross fixed capital formation and electricity distribution. The model was estimated through Ordinary Least Squares method of estimation. Analysis was facilitated through E-views 10.0. Findings revealed that lending rate had negative effect on was aggregate contribution of SMEs to economic growth, similarly, gross capital formation led to a decrease in ASGDP while credit to SMEs had positive but low effect on growth. Moreover, Electricity distribution resulted in an increased in ASGDP.

Ibitomi, et al (2022) examined the impact of SMEs financing on economic growth in Nigeria from 1980 to 2020. The data used was time series and generated from secondary source. The study adopted Vector Auto-regression (VAR) method of modeling. The tests carried included unit root tests and co-integration test. The results revealed that commercial bank finance, Development finance and foreign direct investment have significant impacts on economic growth.

Oluwarotimi and Adamu (2017) carried out an analysis on the effect of deposit money bank finance on SMEs and economic growth in Nigeria using data covering the period 1992 and 2015. Pearson correlation coefficient and Ordinary Least Square were used to estimate relationship. Findings showed that bank deposit financing had significant negative effect on SMEs and economic growth.

Benson (2017) determined the effect of bank lending on economic growth in Nigerian. The data used in the study spanned from 1992 to 2015. OLS method of estimation was used to measure the relationship. Findings indicated that bank lending rate had significant negative effect economic growth in Nigeria.

Okeye (2016) carried out an examination of deposit money banks' lending and the growth of small businesses in Nigeria. The dependent variables of the study was SMEs output while the independent variables commercial bank credit, inflation rate, lending rate, exchange rate, inflation rate, and bank density. The results from the regression analysis showed that the independent variables have no significant effects on SMES growth.

Methodology

This study adopted correlational design in examining in analyzing SMEs financing and economic growth in Nigeria. The reason for the utilization of correlational design was because the aim of the study was to analyze the relationship between SMEs financing and economic growth. The design also permitted the use of existing quantitative data to test the hypotheses regarding the relationship between the sources of SMEs financing and economic growth in Nigeria. In addition, the design was also used because it involves an orderly process where the researcher cannot influence data as a result of the way it occurs.

The population of the study consisted of data on economic growth, commercial banks loans to SMEs, total credit to private sector and lending rate from 1960 to 2021. The sample period is 1999 to 2021. This choice of the period was because Bank of Industry was created in 2001.

The study adopted secondary data extracted from Central Bank Statistical Bulletin, 2021. The data are annual time series data covering the period 1999 to 2021. The data were collected on real GDP, Commercial bank loans to SMEs, total credit to private sector and lending rate. Secondary data was chosen instead of primary data because it is easily accessible and because reliable sources are available. Moreover, secondary data was preferred over primary data because primary data cannot be used since data has to be generated over time. Data analysis was facilitated through Econometric software (Version 10.0). Thereafter, the output of the analysis extracted and presented in tables. The procedure of data analysis involved descriptive analysis of both dependent and independent variables, this was followed by pre-estimation test (Unit root test and co-integration test). After which the parameter estimation was done through regression analysis. The estimates were evaluated through both statistical tests and econometric tests.

Both descriptive and inferential statistics were used to analyze data. Descriptive statistic used to analyze data included mean, standard deviation, kurtosis, skewness and graph. The mean of the variables shows the average value of the variables from 2000 to 2021, standard deviation indicates the spread of the data from their mean values while graph was used to depict the long run movement of the variables and fluctuations around the trend. Inferential statistics was used to test the hypotheses formulated. Multiple regression analysis, precisely, t-test and F-test were used to test hypotheses.

Moreover, Regression analysis was used to estimate the relationship between Economic growth and SMEs financing variables (Commercial bank loans to SMEs, BOI loans to SMEs, BOA loans to SMEs and interest rate. Regression analysis involves estimating the relationship between dependent variable and independent variables. Gujarati (2003) identified four stages of regression analysis as model specification, model estimation, model evaluation and testing the forecasting power of the model.

The model is multiple regression model. Economic growth, proxy by GDP is the dependent variable while the independent variables are commercial bank loan to SMEs, Development Bank loan to SMEs and lending rate. In order to obtain a robust model, inflation rate was included as moderating or control variable. The model is specified functionally as:

$$RGDP= f (CBL, LR, DBL)$$

Linearly, it is specified as:

$$RGDP = \beta_0 + \beta_1 CBL + \beta_2 TCP + \beta_3 LR + \mu$$

2

Where:

RGDP = Real GDP (Economic growth measure) ; CBL = Commercial Bank Loan to SMEs.

TCPS = Total Credit to Private Sector (represents other means of financing SMEs)

LR = Lending rate. β_0 = Intercept of the regression model

β_1 - β_3 are parameters of the regression model (Equation 2) to be estimated. They measure the effects of CBL, TCPS, LR, on economic growth respectively.

μ = Error term that captures other factors a part from commercial bank loan to SMEs, Bank of industry loan to SMEs, development bank loan to SMEs, electricity distribution and capital expenditure that were omitted in the model.

Based on theory, Small and medium enterprises financing is expected to affect economic growth positively. Similarly, electricity consumption and government capital expenditure are expected to lead to economic growth while lending rate is expected to affect economic growth negatively. As a result, the parameters of SMEs financing in model 2 to be greater than zero. Mathematically, $\beta_1 > 0$, $\beta_2 > 0$, β_3 while $\beta_3 < 0$.

Results and findings

Presentation of Data

The data used for estimating the relationship between economic growth (ECG measured by GDP), commercial bank loans to SMEs (CBL), total credit to private sector (TCPS) Lending rate (LR) .

Descriptive Statistic

Table 2 presents the descriptive statistics of the variables, specifically, it presents the mean, median and standard deviation of the variables.

The mean of GDP, commercial bank loans to SMEs, total credit to private sector, lending rate, electricity distribution and capital expenditure during the period were 52140.20 billion naira, 40.93 billion naira, 11642.70 billion naira, 17.46%, 20.11 KW and 931.59 billion naira. Real GDP, commercial bank loans to SMEs, total credit to private sector and capital expenditure were characterized by high instability revealed by the standard deviation 17180.81 billion naira, 10 291.19 billion naira, 31.23187 billion naira, and 608.1810 billion naira, which are very large when compared to their mean values. On the other hand development finance loan to SMEs, lending rate low dispersion judging by their standard deviations 18.17 billion naira, 2.74%, 20.11 KW and 3.89 billion naira respectively which are very low in comparison to their mean values. Commercial bank loans to SMEs, total credit to private sector and lending rate are positively skewed while RGDP, while commercial bank loans to SMEs, total credit to private sector, lending rate and capital expenditure are leptokurtic revealed by the coefficient 3.27, 5.38 and 3.89 which are greater than 3.0.

Table 1. Distribution of GDP, commercial bank loans to SMEs, development Bank Finance, and Lending rate, 1999 to 2021.

Year	GDP (₹ 'billion')	Commercial bank loans to SMEs (₹ 'billion')	Total credit to private sector (₹ 'billion')	Lending rate (%)
1999	24215.78	46.82	431.17	21.32
2000	25430.42	44.54	530.37	17.32
2001	26935.32	52.43	764.96	18.29
2002	31064.27	82.37	930.49	24.85
2003	33346.62	90.18	1096.5	20.71
2004	36431.37	54.98	1421.7	19.18
2005	38777.01	50.67	1838.4	17.95
2006	41126.68	25.71	2290.6	17.26
2007	43837.39	41.1	3668.7	16.94
2008	46802.76	13.53	7899.1	15.14
2009	50564.26	16.37	9889.6	18.99
2010	55469.35	12.55	10518.2	17.59
2011	58180.35	15.61	9600	16.02
2012	60670.05	13.86	13293.6	16.79
2013	63942.85	15.35	14461.4	16.72
2014	67977.46	16.07	16753	16.55
2015	69780.69	12.95	18688.4	16.85
2016	68652.43	10.75	21025	16.87
2017	69205.69	10.75	22459.2	17.56
2018	70536.35	44.82	22646.3	19.33
2019	72094.09	123.93	25676.9	15.53
2020	70800.54	62.51	29030	12.32
2021	73382.77	83.74	32868.5	11.55

Source : Central Bank Statistical Bulletin, 2021

Table 2. Descriptive Statistics

	RGDP	CBLSME	TCPS	LR
Mean	52140.20	40.93870	11642.7	17.46217
Median	55469.35	41.10000	10291.19	17.26000
Maximum	73382.77	123.9300	9889.6	24.85000
Minimum	24215.78	10.75000	431.17	11.55000
Std. Dev	17180.81	31.23187	2.740517	2.740517
Skewness	-0.269972	0.990200	0.523625	0.323625
Kurtosis	1.580926	3.274929	5.382164	4.472163
Observations	23	23	23	23

Test carried out on the variables

Unit Root Test at Level

Augmented Dickey Fuller unit root test was used in table 3 to determine whether or not the variables were stationary or not. The unit root test is important because estimating relationships with non-stationary data produces spurious regression. Before, embarking estimation of parameters, the variables were log in order to produce straight elasticities. Therefore, the unit root test was first carried out at level. The results are presented in Table 3.

Table 3: Unit Root Test for variables stationary

Variables	ADF –Statistic	5% ADF Critical value	Probability value
LGDP	-2.6778	-2.9639	0.0896
LCBLSME	-2.0554	-2.9639	0.2631
LTCPS	-2.3666	-2.9639	0.0605
LR	-0.0739	-2.9763	0.9575
ED	-1.8045	-2.9639	0.9996
LCEXP	-1.3466	-2.9639	0.0708

Table 3 shows the unit root test at level. The absolute ADF statistics of all the variables are less than their absolute critical values at 5% level of significance. Based on this, we fail to reject the null hypothesis that the variables are stationary. This means that the variables are not stationary at level and as such unit root test was conducted at first difference.

Table 4. Unit Root Tests at First Difference

Variables	ADF –Statistic	5% ADF Critical value	Probability value	Order of Cointegration
LGDP	-6.3638	-2.9678	0.0000	I(1)
LCBLSME	-5.2893	-2.9678	0.0002	I(1)
LTPCS	-6.0418	-2.9719	0.0031	I(1)
LR	-3.9276	-2.9763	0.0058	I(1)
LED	-3.6162	-2.9639	0.0116	I(1)
LCEXP	-4.5883	-2.9678	0.0003	I(1)

Table 4 shows the unit root test at first difference. The absolute ADF statistics of all the variables are greater than their absolute critical values at 5% level of significance. Based on this, the null hypothesis that the variables are not stationary is the rejected. The result also shows that the variables are integrated of order one (I(1)). Based on this, Johansen Cointegration test shall be employed to determine the long run relationship among the variables.

Johansen Cointegration test (Trace Test)

Since all the variables are stationary at first difference, which implies that they are integrated of order one, Johansen Cointegration test developed for determination of long run relationship among variables integrated of

order one was utilised. As a result of the fact that the model of this study consisted of four variables, we tested the null hypothesis that the number of cointegrating equations was zero, one, two or three.

Table 5: Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.851072	116.5767	69.81889	0.0000
At most 1*	0.744705	63.25655	47.85613	0.0010
At most 2	0.475514	25.02718	29.79707	0.1605
At most 3	0.207459	6.957745	15.49471	0.5826
At most 4	0.015852	0.447420	3.841466	0.5036

In table 5, the trace statistics (116.5767 and 63.25655) are greater than the critical values (69.81889 and 47.85613). The estimated trace statistics are statistically significant at 5%, indicated by their p-values (0.0000 and 0.0010) which are less than 0.05. However, the trace statistics (25.02718, 6.957745 and 0.447420) are less than their critical values (29.79707, 15.49471 and 3.841466). In addition, their p-values (0.1605, 0.5826 and 0.5036) are greater than 0.50, indicating that the trace statistic 29.79707, 15.49471 and 3.841466 are not significant at 5%. Since only the first and second trace statistics are significant, it means there are co-integrating equations.

Table 6: Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No of CE(s)	Eigenvalue	Maximum Eigenvalue	0.05 Critical Value	Prob.**
None *	0.851072	53.32012	33.87687	0.0001
At most 1*	0.744705	38.22937	27.58434	0.0015
At most 2 *	0.475514	18.06943	21.13162	0.1273
At most 3	0.207459	6.510324	14.26460	0.5486
At most 4	0.015852	0.447420	3.841466	0.5036

In table 6, the first two maximum eigenvalue (53.32012 and 38.22937) are greater than the critical values (33.87687 and 27.58434). Their p-values (0.0001 and 0.0015) are less than 0.05, indicating that the eigenvalues are statistically significant at 5%. However, the maximum eigenvalue (18.06943, 6.510324 and 0.447420) are less than their corresponding critical values (21.13162, 14.26460 and 3.841466). The p-values (0.1273, 0.5486 and 0.5036) are greater than 0.05, indicating that the last three maximum eigenvalue are not significant at 5%. Consequently, maximum eigenvalue test revealed two co-integrating equations.

Normalized Cointegrating Coefficients

Based on the existence of long run relationship indicated by Johansen cointegration test, the vector error correction methodology (VECM) was used to estimate the long run effects of commercial bank loans to SMEs,

development bank loans to SMEs and lending rate. The results of the cointegrating equation are presented in table 7

Table 7. Vector error correction methodology test

Variable	LCBLSME	LTCPS	LR	C
Coefficient	0.0491	3.2770	-0.17120	-5.6781
Standard error	(0.0052)	(0.5442)	(0.0522)	
T-Statistic	[9.44523]	[6.0217]	[3.2796]	

Table 7 shows commercial bank loans to SMEs have positive effect on economic growth in the long run. An increase in commercial bank loans to SMEs by one percent, ceteris paribus results in an increase in real GDP by 0.0491%. The t-statistic of the estimated coefficient (9.4452) > the critical value 2.07 which implies that the relationship is statistically significant at 5%. However, the effect of commercial bank loan to SMEs is weak judging from size of the coefficient of commercial bank loan (0.0491). This reveals that amount of loans commercial banks allocates to SMEs is low. The estimate also conforms with apriori expectation or theoretical postulates.

In contrast, total credit to private sector has strong positive effect on economic growth in the long run indicated by coefficient 3.27707. Precisely, an increase in total credit to private sector by one percent, all other factors remaining the same, results in an increase in real GDP by 3.2771%. This estimate is statistically significant at 5% revealed by its t-calculated (6.0217) which is greater than the table value (2.07). The magnitude of total credit to private sector coefficient is relatively large when compared to commercial bank financing, indicating that other sources of financing SMEs, especially development banks are better means of financing SMEs in Nigeria. Based on the analysis, the null hypothesis that total credit to private sector has no significant impact on real GDP was rejected.

However, lending rate has significant negative effect on economic growth in Nigeria as shown in Table 7. The estimate -0.17120 shows that when lending rate increases by one percent, all other factors remaining the same, economic growth decreases by -0.17120%. The t-value of the estimated coefficient (3.27724) is greater than the critical value (2.07) implying that the estimate is statistically different from zero. The estimate agree with economic postulations regarding the expected relationship between lending rate and economic growth.

Table 8. Short run VECM Coefficients

Dependent Variable :LRGDP

Variable	LCBLS(-1)	LDBLS(-1)	LR(-1)	ED(-1)	LCEXP	ECM
Coefficient	0.00537	0.0337	- 0.0337	0.33017	1.3403	-0.15292
Standard error	(0.3305)	(0.7267)	(0.7267)	(0.0791)	(0.8452)	(0.0452)
T-Statistic	[0.0163]	[0.0464]	[0.0464]	[-4.1739]	[1.5858]	[-3.3779]
R-squared		0.7590				
Adjusted						
R- squared		0.7217				

Having estimated the long run equilibrium relationship, in table 8 the short run dynamics of the model is thereafter estimated. The results are presented in Table 8.

The error correction term is -0.152921. The estimate is negative as expected and statistically significant at 5%. This indicates that any deviation from long run equilibrium relationship is adjusted by 15.29 percent in a year. The coefficient of determination (R-Squared) of the estimated model is 0.7590. This means that 75.9% variation in economic growth is explained by commercial banks loans to SMEs, total credit to private sector and lending rate while the remaining 24.1% is variation in economic growth due to other determinants of economic growth that have been omitted in the model. Judging from the R-square, it is evident that the estimated model has high overall goodness of fit. This is an indication of the high joint effects of the independent variables in predicting the economic growth in Nigeria.

Table 9. Serial Correlation LM Test

Lags	LM- Stat	P-value
1	49.52727	0.0624
2	47.27714	0.0845

In table 9, the p-values of the LM-Statistics are greater than 0.05, which means that the LM statistic are not significant at 5%. Based on this, we fail to reject the null hypothesis that there is no serial correlation in the residuals. Therefore, there is absence of serial correlation in the residual.

Table 10. Heteroskedacity Test

Joint Test		
Chi- sq	Df	Prob.
203.5058	180	0.1106

In table 10, the p-value of Chi-square statistic is greater than 0.05, which means that Chi-square statistic is not significant at 5%. Based on this, we fail to reject the null hypothesis of absence of heteroskedacity. Therefore, the residual is homoscedastic.

Table 11. Residual Normality Test

Component	Jarque-Bera	Df	Prob
1	0.748837	2	0.6877
2	14.82020	2	0.0006
3	0.476481	2	0.7880
4	0.868563	2	0.6477
5	0.007431	2	0.9963
Joint	16.92152	10	0.0761

Table 11 shows that the p-values of the joint Jarque- Bera (0.0761) statistic is greater than 0.05. Based on this, we fail to reject the null hypothesis that the residuals are normally distributed. Therefore, the residual is normally distributed.

Table 12: Test of hypothesis

Hypothesis	Coefficient	t-calculated	Critical value	Decision
There is no significant relationship between commercial bank loans to SMEs and economic growth	0.0491	9.4452	2.120	Reject null hypothesis
Total credit to private sector has no significant effect on economic growth	3.2770	6.0217	2.120	Reject null hypothesis
There is no significant relationship between lending rate and economic growth	-0.1712	3.2796	2.120	Reject null hypothesis

Discussion of Findings of the Study

Based on analysis, the following are the major findings of the study:

- (i) There is a weak significant positive relationship between economic growth and commercial bank loans.
- (ii) The relationship between total credit to private sector and economic growth is positive and significant.
- (iii) Lending rate has significant negative relationship with economic growth in Nigeria.

This study has shown that the relationship between commercial bank loan to SMEs and economic growth is positive and significant but weak. This was revealed by the estimated coefficient 0.3940. This implies that an increase in commercial bank loans to SMEs, all other factors remaining the same results in an increase in goods and services produced in the economy. The t-statistic of the estimate 9.4452 is greater than the critical value 2.120 at 16df, 5% level of significance. However, the magnitude of the estimated coefficient is low. This is an indication that loans allocated to SMEs by commercial banks are not large enough to leads to a large amount of increase in GDP. This is in line with Schumpeter in 1911 finance-led theory of economic growth. The finding is also supported by Charles et al (2017) who found that credit to SMEs had positive but low effect on growth.

Moreover, the study has also shown that total credit to private sector has significant positive effect on economic growth in Nigeria. This was revealed by the estimated coefficient - 0.334299 which was statistically significant at 5% shown by absolute t-statistic 2.5417 which was greater than critical value 2.120 at 16 df at 5% level of significance. This means that increase in mobilization of medium and long-term funds and allocation to SMEs increases the production of goods and services in the economy. This findings conform with theoretical expectation and is also supported by Ibitomi and Micah (2021) who found that development finance (other sources of financing SMEs) had significant positive impact on economic growth in Nigeria.

However, analysis revealed that lending rate has negative significant relationship with economic growth in Nigeria. This was indicated by estimated coefficient -0.043 and its corresponding absolute t-value 2.2526 which is greater than t-tabulated 2.120 at 16 df at 5% level of significance. This means that increase in bank lending rate during the period of study discourages production of goods and services by SMEs. This is so because high lending rate prevents some SMEs from collecting loans, while it increases cost of production for those being granted loans. The findings above are in line with apriori expectation and also agree with Benson (2017) and Okeye (2016) who found that lending rate had significant negative effects on economic growth in Nigeria.

Conclusion

Despite the large amount of liquid assets possessed by commercial banks in Nigeria, their contribution to SMEs financing and subsequently economic growth is weak. This can be attributed to the fact that their loans are short term in nature and not accessible by many SMEs that cannot provide collateral security. Development finance through Bank of Industry, Bank of Agriculture among others are better means of financing capital projects of SMEs and promoting economic growth in Nigeria. The lending rate, especially the rate commercial banks charge SMEs for loans received have mitigated the capacity of SMEs to promote economic growth. Based on the findings of this study, it is concluded that commercial bank loans to SMEs have weak significant positive effect on economic growth while total credit to private sector has positive significant effect. It was also concluded that lending rate has negative significant effect on economic growth in Nigeria. The general conclusion is that SMEs financing has significant positive effect on economic growth in Nigeria which implies that increase in mobilization of financial resources and efficient allocation to SMEs will lead to a higher economic growth, especially the much needed rapid growth needed for economic development. The findings of this study shows that finance-led growth theory is valid in Nigeria.

Based on the conclusion of this study, the following recommendations have been made:

- i. Commercial banks should be encouraged to increase loans allocated to SMEs. This can be achieved through creation of database management for registered SMEs by the Central Bank of Nigeria. The essence of the database is provide avenue for credit risk assessment of SMEs. Moreover, CBN can encourage commercial banks in granting loans to SMEs by guaranteeing loans allocated to SMEs by commercial banks. Similarly, the government assistance is needed in the area of establishment of a well-funded National Credit Guarantee Fund targeted at guaranteeing loans granted to SMEs. In addition, commercial banks should reduce the conditions SMEs are expected to meet in order to qualify for loans. This will increase the accessibility of SMEs to commercial banks loans. SMEs operators on the other hand should encourage commercial banks by ensuring that loans granted to them are not diverted to other uses different from the purpose for which they are granted.
- ii. More priority should be given to other sources of financing SMEs, especially development financial institutions especially Bank of Industry and Bank of Agriculture in financing of SMEs in Nigeria. The implication of this is that more funds from government and international development financial institutions such as African Development Bank, World Bank, among others should be channeled to SMEs through Bank of Industry and Bank of Agriculture. In order to increase accessibility of SMEs to development banks loans and increase financial inclusion, Bank of Industry as well as Bank of Agriculture should open more branches in the country, especially in the rural areas.
- iii. In order to increase investment by SMEs and economic growth, commercial banks should reduce the lending rate to SMEs. The rate should be low in order to reduce cost of capital and associated default by SMEs due to high cost of servicing loans.

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