Financing of Small and Medium-Scale Enterprises (SMEs) and Economic Growth in Nigeria

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Abstrast
The financing of small and medium-scale enterprises (SMEs) is a crucial aspect of economic development in Nigeria. However, SMEs often face significant challenges in accessing finance, hindering their growth and potential contributions to the economy. This study examines the role of deposit money banks in supporting SME financing in Nigeria using Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics fact book (NBS) covering the period of 1990 – 2022 on yearly basis with E-view. The study found out that bank credit to small and medium scale enterprises, credit to private sector, lending rate, interest rate have positive and significant effect on gross domestic product. This study recommend that bank should enhance financial inclusion, simplify loan application processes, develop risk mitigation mechanisms, strengthen financial literacy and advisory services, foster collaboration in other to provide financing opportunities to small and medium-scale enterprises

Keywords: Small and medium scale enterprises, credit to private sector, lending rate, interest rate.

1. INTRODUCTION

Small and medium enterprises (SMEs) play a critical role in the economic growth and development of countries, particularly in developing economies like Nigeria. SMEs are businesses that have fewer than 250 employees, and their annual turnover is less than €50 million. They can be found in various sectors such as agriculture, manufacturing, services, and retail etc. SMEs are considered the engine of economic growth, as they contribute significantly to job creation, innovation, productivity, and GDP growth. In Nigeria, SMEs are a vital component of the economy, accounting for over 50% of GDP and employing over 84% of the country's workforce (Central Bank of Nigeria, 2021; Anyanwu and Obi, 2014 and Oke, Iwuamadi and Fatile (2021). Central Bank of Nigeria (2021) asserted that small and medium enterprises (SME's) have been identified as critical drivers of economic growth, job creation, and poverty reduction in many developing countries like Nigeria. SMEs play a crucial role in the economic growth of Nigeria. The National Bureau of Statistics (NBS, 2022) affirmed that SME's account for about 84% of employment in Nigeria, making them a significant contributor to job creation and poverty alleviation. SMEs are also vital for income generation, especially in the informal sector, which accounts for over 60% of the country's GDP.

Authors like (Oduh, 2019; Ogundana., Adebisi, and Adekunle, 2020; Adeleke and Ogunnaike, 2018) are of opinion that despite their significant contribution to economic growth, SMEs in Nigeria face several challenges, including limited access to finance, inadequate infrastructure, and an unfavorable business environment. These challenges have hindered the growth and development of SMEs in Nigeria, leading to low productivity, limited innovation, and a high unemployment rate. Furthermore, the study of Ugwu and Ugwu, 2019; Mungai, and Ongori, 2015; Kaur, 2015) acknowledged that access to finance is a significant challenge faced by SMEs in Nigeria. SMEs have limited access to formal finance, as most financial institutions prefer to lend to large corporations with a lower perceived risk profile. The high perceived risk associated with lending to SMEs is due to several factors, including limited collateral, inadequate credit history, and a lack of financial management skills. SMEs in Nigeria often rely on informal sources of finance, such as personal savings, family and friends, and money lenders. These informal sources of finance are characterized by high-interest rates, which can be as high as 60-70%. High-interest rates increase the cost of capital for SMEs, making it difficult

for them to invest in growth and innovation Adegbite., Owolabi. and Alao, 2021; Adenikinju, 2018; Owolabi and Nasiru 2017; Alimi, Adeyemo, and Adeyemo,2018; Ojo, 2020; Onyeiwu, Muoneke, and Nkoyo, 2021). In addition, the study of (Oduh, 2019; Udegbunam, Udeoba, Ndu-Anunobi and Abasili, 2024). submitted that another challenge faced by SMEs in accessing finance is the limited availability of long-term financing since most financial institutions in Nigeria provided short-term financing, which is inadequate for the capital-intensive nature of SMEs' operations. Limited long-term financing options result in a reliance on short-term financing, which can lead to financial instability and limited growth (Kaur, 2015). The study of (Federal Ministry of Industry, Trade and Investment, 2013; Central Bank of Nigeria, 2021) confirmed that to address the challenges facing SMEs in Nigeria, various initiatives have been implemented by the government and other stakeholders. One such initiative is the Micro, Small and Medium Enterprises Development Fund (MSMEDF) established by the Central Bank of Nigeria (CBN). The fund provides low-interest loans to SMEs in various sectors, including agriculture, manufacturing, and services. The MSMEDF also provides training and capacity-building programs to enhance the skills of SMEs. In addition, another initiative aimed at supporting SMEs in Nigeria is the National Enterprise Development Program (NEDEP), established by the Federal Ministry of Industry, Trade, and Investment. The program aims to promote the development of SMEs in Nigeria by providing access to finance, technology, and markets. NEDEP also provides training and mentoring programs to enhance the skills of SMEs and improve their competitiveness. The Nigerian government has recognized the importance of SMEs in economic growth and development, and several policies and programs have been implemented to support their development as stated above. However, the study of (Ojo and Ojo,2018; Ndukwe and Allison, 2021) affirmed that these policies and programs have not been effective in addressing the challenges faced by SMEs, particularly access to finance since access to finance is crucial for SMEs to grow and thrive, but the majority of SMEs in Nigeria have limited access to formal finance, leading to a reliance on informal sources of finance with high-interest rates (Olowookere, Hassan, Adewole and Aderemi 2021; Ochinanwata and Ochinanwata, 2023).

Small and medium enterprises (SMEs) play a crucial role in the economic growth of Nigeria. They are the backbone of the Nigerian economy, contributing significantly to employment generation, poverty reduction, wealth creation and also SMEs also promote innovation and technological development, which can lead to increased productivity and competitiveness in the economy. However, one of the major challenges facing SMEs in Nigeria is access to finance (Peter and Olufemi, 2023). SMEs require capital to start, grow and expand their businesses, but access to finance remains limited due to several factors such as collateral requirements, lack of credit history and inadequate financial and various macroeconomic variables such as inflation, interest rates, exchange rates, government policies and economic growth in Nigeria. The remaining part of the paper is organized as follows. Section two includes a literature review. Section three describes the methodology proposed for this empirical research. Section four discussion of findings and finally, Section five discusses the main conclusions and recommendation

2. LITERATURE REVIEW

There are different types of theories that links financing of small and medium-scale enterprises (SMEs) and the role of deposit money banks in Nigeria. This section discusses two prominent theories, namely the pecking order and agency theories. The pecking order theory, proposed by Myers and Majluf (1984), examines the financing preferences of firms, suggesting that they prioritize internal funds, followed by debt and equity. In the context of SME financing in Nigeria, this theory helps explain the tendency of SMEs to rely heavily on internal funds and debt financing, considering the limited availability of external financing options. Understanding SMEs' financing choices and the significance of deposit money banks in providing debt financing aligns with the implications of the Pecking Order Theory (Myers and Majluf, 1984). In addition, the agency theory, developed by Jensen and Meckling (1976), focuses on the relationship between principals and agents within organizations. In the context of SME financing, this theory addresses the information asymmetry and agency problems that arise between SME owners and deposit money banks. SMEs often face challenges in providing credible information, which increases information costs and risk perceptions by banks. Deposit money banks, acting as intermediaries, play a crucial role in mitigating these issues through due diligence, monitoring, and providing expertise to reduce information asymmetry and align the interests of both parties (Jensen & Meckling, 1976).

Moreover, the institutional theory, developed by DiMaggio and Powell (1983), offers insights into the role of deposit money banks as institutional actors within the broader regulatory and cultural context. This theory

highlights how institutions shape norms, practices, and expectations, influencing the behavior of banks in SME financing. Understanding the institutional pressures faced by deposit money banks in Nigeria is crucial to comprehend their role in facilitating or constraining SME financing (DiMaggio & Powell, 1983). By exploring these theoretical perspectives, it provided a foundation for understanding the dynamics of SME financing in Nigeria and the role of deposit money banks and inform policymakers, researchers, and practitioners in designing effective strategies and policies to enhance SME financing, promote entrepreneurship, and drive sustainable economic development in Nigeria.

Olowookere , Hassan , Adewole and Aderemi (2021) examined small and medium scale enterprises (smes) financing and sustainable economic growth in Nigeria with Fully Modified Ordinary Least Square and Granger causality approach. The study revealed that small medium enterprises financing contributed to sustainable economic growth in Nigeria whereas deposit money banks give loan to small medium enterprises in other to achieved sustainable economic growth. Tahir, Ibrahim and Babawulle (2021) examined Small and medium scale enterprises (SMEs) performance and economic growth nexus in Nigeria with ARDL-bound testing between 1980-2017. The findings revealed that SMEs output, serving as a proxy for SMEs performance, and domestic credit to the private sector positively influence economic growth in the long run, whereas their relationship with economic growth is negative and significant in the short run. In addition, commercial bank loans to SMEs shows a positive and significant relationship with economic growth in both the short run and the long run, this emphasize the important of financial intermediation role vis a vis loans and advance in enhancing economic growth through SME performance.

Adofu and Abu (2016) found that the interest rate charged by commercial banks was one of the major factors that influenced SMEs' access to bank loans. The study also found that the level of deposits and savings held by commercial banks was positively related to their lending to SMEs. The authors suggested that policymakers could improve SMEs' access to finance by implementing policies that promote a favorable lending environment, such as reducing the prime lending rate and increasing the level of deposits and savings held by commercial banks. Envbumwan, Okoruwa, and Ikpi (2018) examine the effect of deposit money banks' credit on the performance of MSMEs in Nigeria with the aid of a vector auto-regression and error correction mechanism (ECM) technique. Results of the empirical investigation confirmed credit has a positive effect on the GDP of MSMEs in Nigeria as the coefficient of CAM (credit to MSMEs) was positive and significant at a one percent level. It is therefore recommended that every effort should be made to improve access to credit by MSMEs so that they can play their potential roles of employment generation and wealth creation and move the majority of the entrepreneurs out of poverty.

Adewumi and Olokoyo (2019) found that the PLR has a significant negative effect on loans to SMEs in Nigeria. The study used data from 2006 to 2016 and found that increases in the PLR were associated with decreases in loans to SMEs. The study also found that other factors, such as economic growth and inflation, had a positive effect on loans to SMEs. Another study by Daramola and Olugbenga (2018) found a similar relationship between the PLR and loans to SMEs in Nigeria. The study used data from 2005 to 2015 and found that increases in the PLR were associated with decreases in loans to SMEs. The study also found that other factors, such as the exchange rate and lending rate spreads, had a significant effect on loans to SMEs. Nwaka, Uzoma and Abba (2021) examined the impact of inflation, interest rates, exchange rates, and government policies on SME financing in Nigeria using a dynamic panel data model. The study found that inflation and interest rates have a negative impact on SME financing in Nigeria, while government policies have a positive impact. The authors also found that exchange rates have a mixed impact on SME financing, depending on the direction of the exchange rate movement.

Ogunrinola and Ogbari (2019) conducted a review of the literature on access to finance by SMEs in Nigeria. The study found that the prime lending rate was a significant determinant of SMEs' access to finance from commercial banks. The study also found that the level of deposits and savings held by commercial banks was positively related to their lending to SMEs. The authors suggested that policymakers could promote SME financing by implementing policies that increase the level of deposits and savings held by commercial banks and reduce the prime lending rate. Kawugana and Faruna (2018) examined the impact of First Bank of Nigeria Plc on Financing SMSEs in Bauchi and Gombe States, Nigeria. The survey research design was adopted and the Instrument of data collection is a questionnaire and personal interview which formed the source of primary data. The data is analyzed using regression analysis. The major finding of the research is that banks contribute a lot to the continued survival of SMEs in the States. Based on the finding, the study concludes that FBN Plc impact positively to the growth and survival of SMEs in the States, based on the conclusion the study

recommends Central Bank of Nigeria and the Government do more by encouraging the bank to do more financing. It is also recommended to enlighten the SMSEs operators on the amount set aside for their usage by the banks.

Akingunola and Oyebisi (2021) analyzed the impact of macroeconomic factors, including the prime lending rate and total deposits and savings of commercial banks, on SMEs' access to finance in Nigeria. The findings revealed that these factors significantly influenced SMEs' access to bank loans. Adegbite et al. (2019) examined the determinants of access to finance for SMEs in Nigeria using data from the 2013/2014 demand-side survey. The study found that the interest rate charged by commercial banks was negatively related to SMEs' access to finance. The study also found that the level of deposits held by commercial banks was positively related to their lending to SMEs. The authors suggested that policymakers could promote SME financing by implementing policies that encourage banks to increase their lending to SMEs, such as reducing the prime lending rate and providing incentives for banks to increase their deposits. Oluwarotimi and Adamu (2017) evaluated deposit money bank credit to small and medium enterprises, social economic performance, and economic growth in Nigeria between 1992 and 2015. The results from the Pearson correlation and ordinary least squares revealed a negative and highly significant relationship between the variables.

Oke, Iwuamadi and Fatile (2021) examined macroeconomic variables and access to finance for small and medium-sized enterprises in Nigeria using a probit regression analysis to analyze data from the World Bank Enterprise Survey to determine the impact of these variables on SME financing. The study found that inflation and interest rates have a negative impact on access to finance for SMEs in Nigeria, while government policies have a positive impact. The authors also found that exchange rates have a mixed impact on access to finance for SMEs, depending on whether the Nigerian currency is appreciating or depreciating. Uremadu and Ogunleye (2018 uses the Vector Error Correction Model (VECM) to examine the long-run and short-run impact of macroeconomic variables on SME financing in Nigeria. The study found that inflation and interest rates have a negative impact on SME financing in the long-run and short-run, while government policies have a positive impact in the long-run. The authors also found that exchange rates have a mixed impact on SME financing, depending on the direction of the exchange rate movement. The study suggests that policymakers and financial institutions should focus on stabilizing inflation and interest rates to promote SME financing in Nigeria.

Ayuba and Mohammed (2015) examined the impact of banking sector credit on the growth of small and medium enterprises in Nigeria. The main objective of the study is to investigate whether banking sector credit has a significant impact on the growth of small and medium enterprises in Nigeria. As part of the methodology, annual data between 1985 and 2010 were collected and used in the study while descriptive statistics, correlation matrix, and error correction model were used to test the formulated hypotheses which reveal that banking sector credit has a significant impact on the growth of small and medium enterprises in Nigeria as it has a positive impact on some major macro-economic variables of growth such as inflation, exchange rate, trade debts, etc. The study, however, recommends that financial lending institutions (Monetary Authorities) should relax the stringent conditions associated with a credit facility in the funding of SMEs in the country to encourage easy accessibility of loans which will help in improving SME financing and performance. Aremu and Adeyemi (2018) examined the impact of macroeconomic variables on financing small and medium enterprises in Nigeria. The study found that inflation and interest rates have a negative impact on SME financing in Nigeria, while government policies have a positive impact. The authors also found that exchange rates have a mixed impact on SME financing, depending on whether the Nigerian currency is appreciating or depreciating. Overall, this study highlights the importance of macroeconomic stability and government policies in promoting SME financing in Nigeria.

Benson (2017) investigated bank lending and its influence on Nigerian economic growth from 1992 to 2015. The study used the OLS method to measure GDP as explained variable and bank lending to small businesses, money supply, lending to the private sector, and interest rate as explanatory variables. The findings showed an insignificant relationship between the explained and explanatory variables. Onyeiwu (2014) examined the impact of SMEs' financing on Nigeria's economic growth and found that SMEs have a significantly higher impact on growth than such variables as a loan to the private sector, capital formation, and money supply in the model. Richard (2016) examined how SMEs' financing and economic growth relate in the Nigerian context (from 1981 to 2014). He used the ordinary least squares technique, and the results of the study showed that both the financing levels and interest rate impacted economic growth and are both statistically significant. Imoisi and Ephraim (2015) researched the association between small businesses and Nigerian growth (1975 to 2012). GDP stood as the dependent variable, finance availability to SMEs, inflation, and the interest rate was

used as stimulus variables. Findings from the ordinary least square (OLS) showed that SMEs' financial availability had a positive and significant relationship with GDP. Hence, inflation and interest rate showed a positive and negative influence on GDP, respectively

3. METHODOLOGY
3.1 Research Design
The research design that was adopted for this study is *ex post facto*. The data was obtained from the Central Bank of Nigeria (CBN) statistical bulletin and National Bureau of Statistics fact book (NBS) covering the period of 1990 – 2022 on yearly basis.

3.2 Method and Technique for Data Analysis

Econometric software (E-Views version 10.0) was employ to analyze the data collected. The researcher employed the pre-estimation test of Augmented Dickey-Fuller Test to test for stationarity of the data. The Augmented Dickey-Fuller Test revealed stationarity at level (0) and first difference (I) informing and validating the deployment of Auto-regressive distributed Lag (ARDL) which helps to derive the short-run and long-run relationship and impact between the dependent variable and independent variable.

3.3 Model Specification

This study adopts the model used by Akintola, Oluwalaiye, Adeogke 2020; Onyeiwu, Muoneke and Nkoyo, 2021).

$$GDP_g = f(SMEF, MS, CPS, LR, INT, INF)\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.1$$

$$GDP_g = (\alpha_0 + \beta_1 SMEF_t + \beta_2 MS + \beta_3 CPS + \beta_4 LR + \beta_4 INT + \beta_5 INF + \beta_4\,\mu_t)\ldots\ldots.2$$

GDP_g = GDP growth

$SMEF_t$ = SMEs financed measured as bank credit to SME's as % of GDP

MS= is broad money supply measured as % of GDP

CPS= Credit to private sector, measured as % of GDP

LR= Lending rate at time t

INT= Interest rate measure

INF= Inflation rate

α = Intercept

μ_t = Error term

4.0   RESULTS AND ANALYSIS

4.1 Unit Root Test

Variable	Level T-stat	Critical value @ 5%	First Difference @ 5%	Critical value @ 5%	Prob	Order of Intergration
GDP	-1.9870	-2.9639	0.2906	-2.9571	0.001	I(1)
SMEF	4.37714	-2.95402	-2.5696	-2.9571	0.001	I(1)
MS	-1.3619	-2.9540	-5.8362	-2.9571	0.000	I(0)
CPS	-0.8473	-2.9862	1.8834	-2.9862	0.000	I(1)
LR	2.7933	-2.9604	-2.766	-2.960	0.000	I(1)
INT	-4.3390	-2.9604	0.0018			I(0)
INF	-4.2143	-2.9604	0.0025			I(0)

Authors' Compilation (2023)

The Augmented Dickey Fuller unit root results showed MS (Money supply), INT (Interest rate) and INF (Inflation rate) is also stationary at level. GDP (Gross Domestic product), SMEF (Credit to SME's), CPS (Credit to private sector), LR (Lending rate), are all non-stationary at level but after first differencing they become stationary at first difference I(I) and none of the variables is integrated at order I(2) ARDL method will be used to investigate both short and long relationship among the variables. This will aid to avoid any spurious result, if the order of integration is not followed according to Granger 1957.

4.2 Optimal Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	70.40200	1.263702	3.446311	-4.226800	-3.899854	-4.122207
1	259.7661	277.7340	3.268615	-13.58441	-10.96884*	-12.74766
2	326.9387	67.17260*	1.761515*	-14.79591*	-9.891723	-13.22702*

Authors' Compilation (2023)

The table above shows different lag length criterion (LR, FPE, AIC, SC and HQ).The Akaike information criterion depicting lag order length of (II) for the model is selected. After establishing the lag order length, the ARDL, short and long-run equation results was estimated and explained.

4.3 Autoregressive Distributed Lag (ARDL) Estimates

Dependent Variable: GDP

Variable	Coefficient	Std. Error	t-statistic	Prob
GDP(-1)	0.852168	0.141410	6.026239	0.0000
SMEF	0.017657	0.025755	0.685586	0.5001
MS	-0.133361	0.059683	-2.234496	0.0359
CPS	0.225275	0.107641	2.092836	0.0481
LR	0.493724	0.234445	2.105926	0.0468
LR(-1)	1.458151	0.298363	4.887168	0.0001
INT	0.012990	0.030285	0.428915	0.6722
INF	0.016517	0.017123	0.964587	0.3452
C	-2.885822	0.747757	-3.859306	0.0008
R-squared	0.99814		Mean dependent	4.2693
Adj R-squared	0.99746		S.D dependent	0.7129
F-statistic	1476.077		Durbin-Watson	1.7637
Prob(F-statistic)	0.00000			

Author's Compilation (2023)

The result of the ARDL revealed that previous GDP (Gross domestic product) has a significant positive effect on GDP (Gross Domestic product). SMEF (Bank credit to small and medium scale enterprises) has a positive insignificant effect on GDP (Gross Domestic product). MS (Money supply) has negative significant effect on (Gross Domestic product). CPS (Credit to private sector) has a positive significant effect on (Gross Domestic product). LR (Lending rate) has positive significant effect on (Gross Domestic product) at first level and lag one. INT (Interest rate) has positive insignificant effect on (Gross Domestic product). INF (Inflation rate) has positive insignificant effect on (Gross Domestic product). The Durbin Watson value of 1.7 indicate a non-serial correlation among the explanatory variables. The R-square of 99% variation in the dependent variable can be explained by the independent variable. The Adjusted R-square depicts that if additional variable is added to the independent variable, the independent variable will still be able to explain at 99% variation in the dependent variable .The F-statistics (1476.07) which is greater than its prob (F-statistics) 0.000000 at 5% level of significance indicates that the linear relationship between the independent and dependent variables are statistically significant.

4.4 ARDL Bound Test

t-statistics	Value	K	I(0)	I(1)

F-statistics	15.9383	6	2.45	3.61

Bound test at 5% level of significance

The above table revealed the bound test result. The results of the F-statistics value which is 15.9383 is higher than I(I) results which is 3.61 at 5% level of significance. This implies that the null hypothesis which depicts that there is a long-run co-integration among the variables will be rejected and the alternative hypothesis will be accepted therefore. There is a long-run co-integration relationship among the variables in the model.

4.5 ARDL Co-Integration and Long-Run Result

Variable	Coefficient	Std-Error	t-Statistic	Prob
D(SMEF)	0.017657	0.025755	0.685586	0.0001
D(MS)	-0.133361	0.059683	-2.234496	0.0359
D(CPS)	0.225275	0.107641	2.092836	0.0481
D(LR)	0.493724	0.234445	2.105926	0.0468
D(INT)	0.012990	0.030285	0.428915	0.6722
D(INF)	0.016517	0.017123	0.964587	0.0452
ECM(-1)	-0.147832	0.141410	-1.045416	0.3072

Authors' Compilation (2023)

The table above depicts the co-integration results. The estimated coefficient of the ECM (-1) is -0.147832. The error correction model is the short run estimate and has a negative adjustment correcting back the shock at 14.1 percent quarterly. This means that 14.7832 gap between long-run equilibrium value and actual value of the dependent variable GDP has been corrected. The negative sign signifies the existence of co0integration among the variables.

4.6 Long Run Coefficients

Variable	Coefficient	Std-Error	t-Statistic	Prob
SMEF	0.119441	0.216094	0.552726	0.0060
MS	-0.902111	1.202898	-0.749948	0.4612
CPS	1.523859	0.897674	1.697564	0.0037
LR	13.20334	13.794114	0.957172	0.0489
INT	0.087869	0.213704	0.411171	0.0849
INF	0.111728	0.171264	0.652372	0.5209
C	-19.520966	22.220091	-0.878528	0.3892

Authors' Compilation (2023)

The long-run coefficient further revealed that SMEF (Bank credit to small and medium scale enterprises) has positive significant effect on GDP (Gross domestic product) which implies that a percentage increase in SMEF (Bank credit to small and medium scale enterprises) will lead to 0.11 unit increase in GDP (Gross domestic product). MS (Money supply) has negative insignificant effect on GDP (Gross domestic product) which implies that implies that a percentage increase in MS (Money supply) will lead to -0.90 unit decrease in GDP (Gross domestic product). CPS (Credit to private sector) has positive significant effect on GDP (Gross domestic product) which implies that a percentage increase in CPS (Credit to private sector) will lead to 1.52 unit increase in GDP (Gross domestic product). LR (Lending rate) has positive significant effect on GDP (Gross domestic product) which implies that a percentage increase in LR (Lending rate) will lead to 13.2 unit increase in GDP (Gross domestic product). INT (Interest rate) has positive significant effect on GDP (Gross domestic product) at 0.1% which implies that a percentage increase in INT (Interest rate) will lead to 0.08 unit increase in GDP (Gross domestic product). INF (Inflation rate) has positive insignificant effect on GDP (Gross domestic product) which implies that a percentage increase in INF (Inflation rate) will lead to 0.11 unit increase in GDP (Gross domestic product).

5. DISCUSSION OF FINDINGS

Based on the findings above that SMEF (Bank credit to small and medium scale enterprises), CPS (Credit to private sector), LR (Lending rate), INT (Interest rate) has positive significant effect on GDP (Gross domestic product). This implies that the credit to small and medium scale enterprises in the country, improve the aggregate level of growth in the economy, along with the credit to private sector in the economy. The Lending rate which is a micro component of the interest rate shows positive impact on the gross domestic product in the economy, which implies that the favorable lending rate and interest rate has been able to spur investment and absorptive capacity of the economy. These findings agree with the findings of Imoise and Ephriam (2015) and Richard (2016) that emphasized on financing the small and medium scale enterprises to spur investment and growth in the economy. The study of Oluwarotimi and Adamu (2017) and Aremu and Adeyemi (2018) indicated that financing the SME's and implementation of good interest rate spurs the level of growth in the economy. The enquiry does not follow the findings of Benson (2017), Aremu et.al (2018) and Oke et al (2021) that revealed the interest rate, inflation rate and financing small and medium scale enterprises does not impact in the gross domestic product and negative influence of capital accumulation which transcend into growth.

6. CONCLUSION

The financing of small and medium-scale enterprises (SMEs) and the role of deposit money banks in Nigeria are crucial elements for economic growth and development. Throughout my exploration of this topic, I have gained valuable insights into the challenges faced by SMEs in accessing finance and the role that deposit money banks play in supporting their growth. SMEs are vital contributors to job creation, innovation, and overall economic development in Nigeria. However, they often face difficulties in accessing formal financing due to factors such as limited collateral, inadequate financial records, and high interest rates. This lack of access to finance hampers their ability to expand operations, invest in technology, and seize growth opportunities. As a result, there is a need for effective mechanisms to bridge the financing gap and support the growth and sustainability of SMEs in Nigeria.

Deposit money banks play a critical role in providing financial services to SMEs. They have the potential to leverage their expertise, capital and extensive branch networks to facilitate access to finance for SMEs. By developing tailored financial products, streamlining loan application processes, and providing financial literacy and advisory services, banks can enhance SMEs' financial capabilities and promote their growth. Collaboration between banks, government agencies and other stakeholders is essential to creating an enabling environment that supports SME financing and promotes entrepreneurship. To improve SMEs' access to

finance, efforts should be made to enhance financial inclusion. This can be achieved through the promotion of digital banking services, the expansion of banking infrastructure in rural areas, and the development of innovative financial products tailored to the specific needs of SMEs. Deposit money banks should streamline their loan application and approval processes to make them more accessible and less burdensome for SMEs. This can involve reducing paperwork, shortening approval timelines, and implementing technology-driven solutions that facilitate faster credit assessments. Nevertheless, addressing the issue of collateral, banks should explore alternative risk mitigation mechanisms such as credit guarantees and loan portfolio guarantees. These mechanisms can provide assurance to banks and encourage them to lend to SMEs with limited collateral.

In addition, banks should prioritize financial literacy programs and advisory services targeted at SMEs. This will help improve their financial management skills, enhance their understanding of banking products and services, and equip them with the knowledge needed to make informed financial decisions. Collaboration between deposit money banks, government agencies, industry associations, and other stakeholders is crucial. By working together, they can create a supportive ecosystem that addresses the financing needs of SMEs, promotes entrepreneurship, and drives sustainable economic growth. In conclusion, addressing the financing challenges faced by SMEs and strengthening the role of deposit money banks in Nigeria is essential for promoting economic development and entrepreneurship. By implementing the recommendations mentioned above, we can foster an enabling environment that facilitates SME financing, drives innovation, and nurtures the growth of small and medium-scale enterprises in Nigeria.

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