The Impact of SMEs Financing on Business Growth in Nigeria: A Study of Keffi and Mararaba Metropolis

[1]Zirra Clifford Tizhe Oaya, [2]Charles J. Mambula I.

[1]FCPA, MBA, Department of Business Administration Faculty of Administration, Nasarawa State University, Keffi, Nigeria,
[2] Ph.D, Associate Professor & Chair Department of Management School of Business Langston University

Abstract: The impact of SMEs financing on business growth in Nigeria using Keffi and Mararaba Metropolis as a case study was assessed in this work. Descriptive research designs as well t-test statistics for the test of hypotheses were utilized. Hypotheses applied for the study includes: banks credits to SMEs have no significant impact on growth of Nigeria economy as well as interest rates charged on credits has no effect on SMEs business expansion in Nigeria. Access to finance was found to be sine qua non for successful entrepreneurial development while in respect of interest rate charged on SMEs loans and advances; the entrepreneurs' ability to borrow was not hindered. The study therefore recommends strong availability to finance for successful growth of SMEs through different channels like microfinance banks and institutions in addition to formal and informal financial institutions. In addition, the scheme could be further expanded vide various tax palliatives. It is also recommended that the government should provide suitable incentives for the growth and effective performance of SMEs. There should also be close liaison between Nigeria Stock Exchange and family business to raise cheap funds for the growth of SMEs.

Keywords: SMEs, Loans and Advances, Interest rates, Business expansion, Economic development

1. INTRODUCTION

The full potentials for ensuring the expansion of entrepreneurs can be viewed from the performance of SMEs. Most kinds of literature associate the rising potentials of economic growth and development to SMEs. Several institutions like Bank of Industry, Bank of Agriculture, Entrepreneurship Development Centers, and Community/Microfinance Bank have been of great potentials to the growth of SMEs in Nigeria Ofoegbu, Akanbi& Joseph, 2013. According to Basil (2005) the SMEs affected by several problems. Some of the problems are include insufficient capital, inadequate market research, lack of business strategy, inexperience, cut-throat competition, as well as inadequate entrepreneurial skills. In addition, access to capital, poor operating environment and high illiteracy rate remain a limiting factor.

Research Questions
- How do Banks credits to SMEs affect economic growth in Nigeria?
- How do Interest rates charged on credits affect SMEs business expansion in Nigeria?

Research Hypotheses
The hypotheses stated in null forms as outline below:
H_{01}: Banks credits to SMEs have no significant impact on the growth of Nigerian economy.
H_{02}: Interest rates charged on credits has no effect on SMEs business expansion in Nigeria

2. Review of Previous Studies

2.1 A Brief Description of SMEs in Nigeria

Nigeria has vast potentials of resources; including both material and human resources (Obadan, 2003). The country has, however, had its share of political instability including military takeovers as well as the indigenization policy of the late 70s which had waned investors' confidence. Some of the policy summersault includes lack of accountability of public funds, poor infrastructural development, policy instability and corruption which led to World Bank to describe the country as a paradox (World Bank, 1996). According to All (1992) such is also applicable to most of the African countries.

Mambula (1997) lamented the leakages for small business programs since independence in the country which he noted had not produced the desired results. This was as a result of the various diversions of funds by public servants. The development of entrepreneurship as stated by Asmelash (2002) has been the flagship of economic transformation. In the same vein, he outlined the important role SMEs play developmental processes. This is line with the role SMEs play in a developed economy like the USA as noted by Schell, (1996). As noted by the Indian working group on science and technology for SMEs, the strategic place SME play economic growth inequitable economic development in most countries. SMEs constitute not less 90% in most countries and remain the backbone of several innovations as well as investment and export growth and employment generation. SMEs contribute not less than 60% of Chinese industrial output (Schell, 1996).

Interest rate as noted by Cook and Nisxon (2000) has been a subject of attention in most developing countries. In 2006, Taiwanin noting the relevance of SMEs earmarked $61 million"branding initiative" from knowledge base to production base. The "branding Taiwan plan is a 7-year program designed to assist promising SMEs in developing their own brand as stated by Fadahunsi and Daodu 1997).

The Manufacturer Association of Nigeria (MAN), in 2004, the survey revealed that 10% and 90% of industries run by its members were fully functional and nonfunctional respectively. Since the majority of the industries were moribund portend critical danger for the growth of the economy. Jide (2012), also outlined funding as the biggest problem to its members apart from policy summersault in the real sector of the economy. Adding that 10 percent of industries in Nigeria are operated at a sustainable level, 30 percent have closed down while about 60 percent were epileptic. The acting Director-General of the Manufacturer Association of Nigeria accentuated that the competitiveness of manufacturing industries had been hampered by low capacity utilization as well as dwindling productivity (Jide, 2012). Most manufacturing companies with international affiliation receive tremendous assistance for their technical partner or parent companies abroad. This support includes expansion of their market, exportation of profits as well as other motivation (Olusegun Obasanjo, 2002).

2.2 Challenges Affecting Small and Medium Scale Enterprises Development in the Country

SMEs in the country have a plethora of problems like their counterpart in another part of the world some of which include:

2.2.1 Inadequate Financing

Owners' equity or family savings had been recognized in the world as the major source of financing SMEs. This is, however, negatively impacted by the excruciating poverty level in the country and limited level of savings. Such scenario has been the bane of SMEs in Nigeria resulting in the need for external borrowing. The inadequacy of personal equity before commencement of business according to (Ezeh, 2002) has been attributed as one of the reasons for business failure. Such paucity of funds is also attributed to such organizations not

able to access cheaper funds at the capital market as a result of their inability to meet up with the stringent terms and conditions.

2.2.2 Paucity of Infrastructural Facilities

The viability of Small and Medium Scale Enterprises in the country over the period have been hampered by inadequate infrastructural facilities like epileptic power supply, inadequate water supply, poor road network, as well as an unaffordable communication system. Since most business outlets survive on alternative source of power (generating plants) the cost of doing business has been outrageous resulting in poor performance in the real sector of the economy (Osoba, 2003).

2.2.3 Poor performance in the real sector of the economy

NCI in 2001 confirmed capacity utilization of between 30% to 35% of manufacturing capacity of established firms' performance between 1995 to 1996 on a study involving 39 SMEs performance in Nigeria. In its finding, dilapidating power supply, as well as poor infrastructural facilities, had been found to have directly contributed to the low performance of the real sector of the country.

2.2.4 Inadequate Management and Planning

The ingredients of management include planning, organization, coordination, and control of material and human resources to enable it to meet up its targets and goals (Basil 2005). Management and planning is the ability to execute efficiently and effectively the set target with and through the stakeholders. It is however sad to note that SMEs operating in developing countries hardly involve others in the running of their business and as such hardly have expert advice. This has led in most cases of wastages and underutilization of resources as well as declining profit margin. Gold (2005), however, reemphasizes the importance of planning as an essential management tool and brings into effect the importance of feasibility report in project management (Mogano, 2001).

2.2.5 Poor Literacy Rate and Experience

Most SMEs operators have low literacy as well as lacking necessary experience for businesses. This problem has a direct link to planning and management (Alasan and Yakubu, 2011). The development of skills, attitude, and knowledge has also been identified as a crucial factor for the development and expansion of Small and Medium Enterprises in the country and most of the developing world (Essien and Udofia, 2006).

2.2.6 Availability of Raw Material Management as well as Appropriate Technology

The unavailability of the requisite resources as well as obtaining the appropriate technology has been identified by the Nigerian Economic Summit Group (2002) as the bane of SMEs development in the country as most of these are imported. Some of the issues associated with the non-availability include conservation and storage of materials, maintenance as well as procurement while the selection of suitable technical knowledge and expertise remain the bane of appropriate technology.

2.2.7 Absence of conducive enabling environment

The need to provide conducive enabling environment by the government to SMEs in Nigeria remains one of the greatest challenges. The need for stable monetary and fiscal policy, as well as avoidance of policy summersault by the government, remains the tonic needed by SMEs to spur economic growth and development in Nigeria (Adebayo, 2003).

2.3 Empirical Reviews: SMEs Financing and Economic Growth

Onakoya, Fasanya and Abdulrahman (2013) in their study indicated that credit to low-income operators enhances the growth of their enterprises while in the same vein interest rate has the reverse effect. From their findings, managerial capacity was assessed to be the major

hindrance to the development of SMEs while access to capital was also found to be a contributory factor. Aremu and Adeyemi (2011) in their study concluded that SMEs sector plays a major factor in youth empowerment, poverty alleviation as well as a reduction in income disparities.

Ooegbu, Akanbi and Joseph (2013), using Ilorin metropolis as a case study utilized Pearsons Correlation techniques, analysis of variance, logit regression methodology and paired sample T-test to assess an effect of a conceptual factor on the performance of small and medium scale enterprises in the country. From their findings, enabling environment, provision of adequate human and material resources as well as the erratic policy summersault by the government had a significant effect on the growth of SMEs in the country.

Evboumwan (2012), in his study on the preference of micro, small and medium enterprises to financial products in the country found out that inadequate working capital was the most mentioned problem with a percentage share of 60.7% followed by the problem of poor power supply/adequate infrastructure which took 55.7% while 75.7% of the respondents relied mostly on equity capital to fund their operation.

A study was undertaken by Akingunola (2011) using descriptive statistics to appraise certain financing indicators that assessed specific financing options available to SMEs in Nigeria and their contribution to economic growth via investment level.A statistical tool, a spearman's Rho correlation test was utilized to assess the impact of SMEs financing and investment level whose result confirmed a significant impact on SMEs financing and economic growth in Nigeria via investment level. He recommended access to cheap credit as the panacea for the growth and development of SMEs in the country.

2.4 Theories of Growth of Small and Medium Scale Enterprises
Ahiawodzi and Adade (2012), passive learning model and the stochastic and deterministic approaches theory of the growth of SMEs would be utilized in this study.

2.4.1 Passive Learning Model
Under this model, a firm enters a market without knowing its own growth potential; that is the firm begins to learn about the distribution of its own profitability based on information from realized a profit after it had entered the market. By continually updating such learning, the firm may decide to expand, or contract, or exit the market altogether. His learning model states that firms learn about their efficiency or growth potentials once they are established in the industry. Firm expand their activities when managers observe that their estimation of managerial efficiency had understated actual levels of efficiency. As the firm ages, the owner's estimation of efficiency had understated actual levels of efficiency. As the firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this model is that younger firms (mainly SMEs) should have higher and more viable growth rates (Cunningham and Maloney, 2001)

2.4.2 Stochastic and Deterministic Approaches
The stochastic growth model, which is also known as the Gibrats law, argues that all changes in the size of an enterprise are due to chance. Thus, the size and age of firms have no effort on the growth of SMEs. The deterministic approach assumes, on the contrary, that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics (Pier Giovanni et al., 2002).

3. Research Methodology

Descriptive research design was adopted. The study considered the use of non-probability sampling methods (purposive sample) to grant any element of the population an equal and an independent opportunity to be selected. A descriptive statistical technique such as simple percentage, correlation analysis, and tool score, were used in analyzing, summarizing and interpreting the data obtained from questionnaires administration.

896 SMEs loan borrowers in Keffiand Mararaba Metropolis, who engaged in running Small and Medium Enterprises with the help of SME financing were chosen for the study.

In determining the sample size for this study, Smith (1984) formula was adopted via:

$$n = \frac{N}{3+N(e)^2}$$

Extrapolating:
n = Sample size;
N = Population size
e = Level of precision required
3 = Constant
In determining the sample size, the following variables were used:
Confidence interval =95%
e = Margin of error = 0.05
Substituting into the formula,
Sample size for the number of SMEs to be used:

$$n = \frac{N}{3+N\,(e)^2}$$

$$n = \frac{896}{3+896(0.05)^2}$$

$$n = \frac{896}{3+896(0.0025)}$$

$$n = \frac{896}{3+2.24}$$

$$n = \frac{896}{5.24}$$

n = **171**

The research instrument was found valid and reliable for further analysis from the preliminary analysis of this work. The overall result of the reliability test is shown in Table 1 below.

Table 1: Result of Reliability Test

Reliability and Validity Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Item
0.823	.978	11

Source: Computed result using SPSS, 2016

The result of the reliability test of the research instrument shows that the Cronbach Alpha value for the questionnaire is 0.823. This means that the Questionnaire is reliable enough to conduct this research as they have Alpha value above 0.70 as the minimum Alpha recommended by Cronbach (Schaums 2003). It thus showed that 82.3% of the variance in the score is internally consistent reliable variance

4. Results and Discussion

4.1 Finding SMEs, Economic and SMEs Growth in Keffi and Mararaba Metropolis

Table 2: Banking Sector gives sufficient loans/credits for SME's development

	Frequency	Percent
Disagree	17	9.9
Strongly Disagree	21	12.3
Undecided	32	18.7
Agree	55	32.2
Strongly Agree	25	14.6
Missing System	21	12.3
Total	171	100

Source: Field Survey 2016

Out of the total respondents, 32.2% agreed that banking sector gives sufficient loans credit for SME's development, 18.7% undecided, 14.6% strongly agreed, 12.3% strongly disagreed, and 9.9% disagreed. This implies that banking sector gives loan credit at a sufficient level.

Table 3: Loans Granted by Banking Sector have accelerated the Development of SME's in Keffi and Mararaba Metropolis

	Frequency	Percent
Disagree	18	10.5
Strongly Disagree	13	8.8
Undecided	31	18.1
Agree	60	35.1
Strongly Agree	26	15.2
Missing System	21	12.3
Total	171	100

Source: Field Survey 2016

35.1 % of the respondents agreed that the loan granted had accelerated the development of SMEs, while 18.1% undecided, 15.2% strongly agreed, followed by 10.5% disagreeing and 8.8% strongly disagreed. This implies that the loans granted by banks have accelerated the development of SMEs in Keffi and Metropolis.

Table 4: Baking Sector Are Willing to Assist SME's through Lower Interest Rates

	Frequency	Percent
Disagree	18	10.5
Strongly Disagree	13	8.8
Undecided	31	18.1
Agree	60	35.1
Strongly Agree	26	15.2
Missing System	21	12.3
Total	171	100

Source: Field Survey 2016

Out of the total respondents, 31.6% agreed that banking sectors are willing to assist SMEs in granting lower interest rates, 22.2% undecided, 13.5% strongly agreed, 10.5% strongly disagreed, and 9.9% disagreed. This implies that banking sector(s) are willing to assist SMEs in granting credit/loan facilities in any way.

Table 5: Small and Medium Enterprises has a significant relationship with the Economic Growth and Development of Keffi and Mararaba Metropolis

	Frequency	Percent
Disagree	16	9.4
Strongly Disagree	22	12.9
Undecided	36	21.1
Agree	53	31.0
Strongly Agree	23	13.5
Missing System	21	12.3
Total	171	100

Source: Field Survey 2016

31.0% out of the total respondents confirmed that SMEs has a significant impact on the economic growth and development of Keffi and Mararaba Metropolis, 21.1% undecided, 13.5% strongly agreed, 12.9% strongly disagreed, and 9.4% disagreed. This implies that the economic growth and development of Keffi and Mararaba Metropolis would have been elevated if the government and other financial sectors had tremendously contributed to the development of SMEs.

From Table 6 below it is evident that 33.9% of the respondents agreed that the growth and development of Small and Medium Enterprises in Keffi and Mararaba Metropolis would be elevated if the Banking Sector comes into play, 19.3% undecided, 12.2% disagreed, 11.7% strongly agreed, and 10.5% strongly disagreed. Therefore, the banking/financial sector is a major catalyst in the development in the development of Keffi and Mararba Metropolis.

Table 6: The Growth and Development of Small and Medium Enterprises in Keffi and Mararaba Metropolis will be elevated if the Banking Sector comes into play

	Frequency	Percent
Disagree	21	12.3
Strongly Disagree	18	10.5
Undecided	33	19.3
Agree	58	33.9
Strongly Agree	20	11.7
Missing System	21	12.3
Total	171	100

Source: Field Survey 2016

4.2 Statistical Test of Hypothesis

The hypotheses earlier formulated are approached by the use of t-test statistical tool.

Applying the student *t*-test (*t*-statistic), we can deduce that a variable is statistically insignificant if the t^* is less than the tabulated value of ±1.96 under 95% (or 5%) confidence levels and it is statistically significant if t^* (*t*-calculated) is greater than the tabulated value of ±1.96 under 95% (or 5%) confidence levels.

As stated by Nijsse (1988) the justification and utilization of *t*-test application to the product moment Pearson Rho (p). The *t*-test is therefore defined as follows:

$$t = \frac{p}{(1-p^2/n-2)^{1/2}}$$

That is;
H_0: $\beta_0 = 0$ (Null hypothesis)
H_1: $\beta_1 \neq 0$ (Alternative hypothesis)

4.2.1 H_{01}: Banks credits to Small and Medium Enterprises have no significant impact on growth of Nigerian economy

Table 7: Banks credits to SMEs and economic growth in Nigeria

Stepwise Regression Analyses of Banks credits to SMEs on Outcome variables				
Dependent Variable: Economic growth				
R^2 = 0.6612; F = 0.009; Sig = 0.6112				
Independent Variable	Beta	t-value	Pearson Correlation (r)	Probability value
Banks credit to SMEs	14.78	0.88189	0.0021	

Source: Authors Computation, E-views, 9.0

From Table 7, the calculated t-value for Banks credits to SMEs gave 3.32, and the critical value is given as 1.96, under 95% confidence levels. Since the calculated t-value is greater than the critical value (3.32 > 1.96), we reject the null hypothesis H_{01} and accept the alternate hypothesis (H_{01}). We thus conclude that Banks credits to Small and Medium Enterprises have significant impact growth of Nigeria economy.

More so, R^2 (R-square) value shows that Banks credits to SMEs have a very strong impact on economic growth. This was explained by the high value of 66.12% impact.

4.2.2 H_{02}: Interest rates charged on credits has no effect on SMEs business expansion in Nigeria

Table 8: Correlation Result for Interest rates and SMEs business expansion

Product Moment Correlation coefficient						
Variables	N	Mean	SD	Rho	p-value	Remark
Interest rates	171	15.87	7.32	0.476	0.0831	p>0.05
SMEs business expansion	171	15.87	6.21	0.476	0.0831	p>0.05

Source: Authors Computation, SPSS 17

Table 8 shows the correlation coefficient (rho) on whether Interest rates have a significant correlation with **SMEs business expansion** in Nigeria. The rho value gave 0.476 (indicating a very weak or poor correlation) and with a p-value of 0.831. The p-value of 0.0831 was found to be greater than the 0.05 (or 5%) confidence level thus implying that the second null hypothesis to be accepted. **This indicates that Interest rate charged credits has no effect on SMEs business expansion.**

4.3 Discussion of Findings

From this analysis, it was discovered that Banks credits to SMEs have a significant impact on the growth of Nigerian economy. The finding tallies with the work of Fasanya and Abdulrahman (2013) to the effect that credits to Small and Medium Enterprises have a significant impact on the growth of Nigerian economy. While access to finance is a major catalyst though not strong enough for economic growth. Akingunola (2011) who used descriptive statistics to appraise some financing variables suggested the availability of cheap funds to finance SMEs growth in Nigeria. This analysis whose finding is in line with the work of Terungwa (2011) who accessed the performance of SMEs and SMEEIS citing Benue and Nassarawa State as a case study, indicated that the Interest rates charged have no effect on SMEs business expansion in Nigeria. His work further confirmed no relationship between the interest rate charged on bank credits granted to Small and Medium Enterprises before and after the introduction of SMEEIS. As it was established that stringent conditions were set up by SMEEIS to access its credits to SMEs, this, therefore, confirmed that credits granted to SMEs had little impact on their growth. Afolabi (2013) highlighted that lack of viable entrepreneurial skills, high lending rate as well as high loan requirement had been the bane in Nigeria economic development process in the past years. The study by Osamwonyi and Tafamel (2010) confirmed accessibility and not the source of funds as the greatest challenge in funding SMEs in Nigeria.

5. Conclusion and Recommendation

Conclusively, this research work makes a useful contribution to knowledge by appraising the various means of financing SMEs in Nigeria in comparison with financing in other lands or countries. The study thus recommends that:

- The financial institutions should creatively craft and adopt the availability of cheaper funds that would spur the growth of SMEs with the in view to enhancing economic growth.
- Effective liaison with both commercial and microfinance banks to develop financial products suitable to SMEs like advocacy of cooperative societies to be a vital tool for lending in order to reduce risks and high-interest rate associated with such lending.

- To a greater extent, there should be an effective collaboration with NSE and family owned enterprises to use capital market instruments to raise the desired funds for SMEs. This would ensure cheaper access to funds to finance their projects.
- Government should create the enabling environment for the development of necessary infrastructural facilities, tax incentives and other incentives that will spur the growth of SMEs for economic growth.

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APPENDIX I: QUESTIONNAIRE

PART A: General Information

1.   Gender:
a.   Male ( )
b.   Female ( )

2.   Age Group:
a.   20 – 30 years ( )
b.   31 – 40 years ( )
c.   41 years and above

3.   Length of service:
a.   5 years below ( )
b.   6 – 10 years ( )
c.   11 – 15 years ( )
d.   61 years ( )

4.   Marital status:
a.   Divorced ( )
b.   Single (Never married) ( )
c.   Married ( )
d.   Separated ( )
e.   Windows ( )

PART B: SMEs Financing and Economic Growth

After reading each of the items, evaluate them in relation to SMEs financing and economic growth knowledge and the tick against the choices below:

5.   Banking Sector gives sufficient loans/credits for SME's development
Strongly agree ( ); strongly disagree ( ); Agree ( ); Disagree ( ); Uncertain ( )

6.   Loans Granted by Banking Sector Have Accelerated the development of SME'sin Keffi and Mararaba Metropolis:

Strongly agree ( ); strongly disagree ( ); Agree ( ); Disagree ( ); Uncertain ( )
7.   Banking Sector are Willing to Assist SME's through lower interested rates:
Strongly agree ( ); strongly disagree ( ); Agree ( ); Disagree ( ); Uncertain ( )

8.   SMEs play a significant an impact in Economic Growth and Development of Keffi and Mararaba Metropolis
Strongly agree ( ); strongly disagree ( ); Agree ( ); Disagree ( ); Uncertain ( )

9.   The Growth and Development of Small Medium Enterprises in Keffi and Mararaba Metropolis will be elevated if the Banking Sector comes into play:
Strongly agree ( ); strongly disagree ( ); Agree ( ); Disagree ( ); Uncertain ( )