Bank Credit and Growth of Small and Medium Scale Industry in Nigeria

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Abstract- *This study examined the impact of bank credits on the growth of small and medium scale industry in Nigeria for the period of thirty-five years (i.e. 1990-2024). Data were collected from Central Bank of Nigeria Statistical Bulletin (CBN) 2025. The data consider for the study include small and medium scale enterprises (SME's) output share of gross product, credit to private sector, interest rate, and cash reserve ratio. Ordinary Least Square (OLS) method with the aid E view 9. The result revealed that individual variables has no significant impact on small and medium scale enterprises growth in Nigeria. However, the combination of explanatory variable has significant impact of SME's growth as reported by statistic. Hence, the study concluded that bank credit play a crucial role in the growth of small and medium scale enterprises in Nigeria. The study therefore recommends that the Central Bank of Nigeria should compel banks to increase the fund allocation for small and medium scale enterprise to serve as a pool of fund accessible only to small and medium scale enterprises.*

Index Terms- *Bank Credit, Credit to Private Sector, Interest Rate, Cash Reserve Ratio, Small and SMEs.*

I. INTRODUCTION

Small and Medium Scale Enterprises (SMEs) are widely acknowledged as engines of economic growth, innovation, and employment generation in developing economies (Igbinosa & Igbinosa, 2025). In Nigeria, SMEs constitute a major proportion of formal and informal business activity and contribute significantly to Gross Domestic Product, job creation, and socio-economic development. However, access to finance especially bank credit remains one of the foremost bottlenecks constraining SME expansion and sustainability (Ogbuji et al., 2022; Igbinosa & Igbinosa, 2025). Globally and locally, bank credit is expected to provide the capital necessary for SMEs to finance working capital, adopt new technologies, invest in productive assets, and scale operations. Yet, the allocation of formal credit to SMEs in Nigeria has been persistently low relative to the size of the

private sector and the wider economy, often capturing less than 1% of total bank lending in some years (Nafiu & Tolulope, 2024; Vanguard report, 2026). Despite policy initiatives aimed at strengthening credit flows such as targeted lending programs and reforms to financial sector regulations many SMEs continue to operate under tight financial constraints, affecting their performance and prospects for long-term growth (Igbinosa & Igbinosa, 2025; Nafiu & Tolulope, 2024). Furthermore, specialized financial institutions such as development banks and microfinance banks have been promoted to close the financing gap for SMEs. Some studies suggest that credit supplied through these institutions can positively influence SME growth, although the extent and significance of such impacts vary depending on credit conditions, interest rates, and institutional frameworks (Ajibola & Abdulwaheed, 2024; Ayodele et al., 2025). Therefore, evaluating bank credit flows over an extended period (1990–2024) provides valuable insights into the structural role of credit in shaping SMEs' growth trajectories within Nigeria's evolving financial landscape.

Banks have number of functions which are not limited to providing investment advisory services, foreign exchange services, issuing of travelers cheque to customers and standing as guarantor for its customer. These services provided by the banks goes a long way to influence income levels and citizens standards of living (Zhufany, 2014). Globally, banking sector has been acknowledged as the catalyst of growth and development of a nation. The intermediation role of a bank is incomplete until the resources mobilized from the surplus unit are made available to the deficit unit for productive investment activities. The commercial bank through its credit policy act as an engine that promotes growth in various sectors of the economy by channeling resources to real sector (Emenuga, 2019). Deposit

money bank is described as a financial institution owned privately for receiving deposit from bank customers, keeping them and transforming it into loan for the borrower of fund (Emenuga, 2019). Banks have number of functions which are not limited to providing investment advisory services, foreign exchange services, issuing of travelers cheque to customers and standing as guarantor for its customer. This services provided by the banks goes a long way to influence income levels and citizens standards of living (Zhufany, 2014). Globally, banking sector has been acknowledged as the catalyst of growth and development of a nation. The intermediation role of a bank is incomplete until the resources mobilized from the surplus unit are made available to the deficit unit for productive investment activities. The commercial bank through its credit policy act as an engine that promotes growth in various sectors of the economy by channeling resources to real sector (Emenuga, 2019).

One of the credit institutions open to the small and medium scale enterprises is the deposit money banks. The deposit money banks have had a long history of lending to the small and medium scale enterprises in the country right from the 1950s and 1960s when they identified themselves with the marketing boards. Today their lending activities to the small and medium scale enterprises have increased significantly both in scope and size. They lend to both the corporate and individual farmers. Perhaps these credits are not easily available for most of the farmers because of collateral and other things that are usually required by the deposit money banks and other credit institutions. This makes it possible for most of the small and medium scale enterprises in Nigeria to lack the required capital for investment in small and medium scale enterprises, hence the reason for the recent low agricultural productivity (Oluwafemi & Lovert, 2018). In Nigeria, credit has been recognized as an essential tool for promoting small and Micro Enterprises (SMEs). About 70 percent of the population is engaged in the informal sector or in small and medium scale enterprises. The Federal and State governments have recognized that for sustainable growth and development, the financial empowerment of the people is vital. If this growth strategy is adopted and the latent entrepreneurial capabilities of this large segment of the people is

sufficiently stimulated and sustained, then positive multipliers will be felt throughout the economy. To give effect to these aspirations various policies have been instituted over time by the Federal Government to improve rural and urban enterprise production capabilities (Olaitan, 2016). Despite the acknowledged importance of bank credit for SME advancement, empirical evidence suggests that Nigerian SMEs face chronic difficulties in accessing timely and affordable credit. Commercial banks often perceive SMEs as high-risk borrowers due to limited collateral, poor credit histories, and volatile cash flows, leading to restrictive lending practices that exclude many small businesses (Ogunwusi, 2025). Recent reports indicate that SMEs receive a disproportionately small share of total bank credit, even as the overall volume of bank lending grows, underscoring a persistent credit drought that limits SME capacity to expand operations or innovate (Vanguard report, 2026).

Moreover, while some research has examined credit availability and SME performance in specific states or regions, there is limited longitudinal analysis covering multiple decades up to 2024 particularly studies that integrate national trends in bank credit supply with SME growth outcomes. The lack of comprehensive evidence on how bank credit affects SME growth over the long term hampers the ability of policymakers, financial institutions, and enterprise stakeholders to design effective credit policies tailored to the unique challenges of the Nigerian context. This study therefore seeks to investigate the impact of bank credits on the growth of small and medium-scale industries in Nigeria over the period 1990–2024, assessing how changes in credit availability, lending conditions, and financial sector reforms have influenced SME growth. This analysis will provide an empirical basis for actionable recommendations aimed at enhancing credit flows to SMEs and fostering sustainable industrial growth in Nigeria.

II.   LITERATURE REVIEW

Bank Credit
Bank credit refers to the provision of funds by financial institutions, primarily banks, to individuals, businesses, or organizations with the expectation of

repayment, usually with interest, over a specified period. In the context of economic development, bank credit serves as a vital instrument for mobilizing financial resources from surplus units (savers) to deficit units (borrowers), enabling investment, production, and growth (Adegbite & Oladele, 2022; Ogbuji et al., 2022). Bank credit can take various forms, including short-term loans, overdraft facilities, term loans, lines of credit, and revolving credit facilities. For Small and Medium Scale Enterprises (SMEs), bank credit often serves as the primary source of external financing needed for working capital, acquisition of machinery, expansion of operations, and technological upgrades (Ajibola & Abdulwaheed, 2024). The effectiveness of bank credit in stimulating business growth depends on several factors, including accessibility, interest rates, repayment terms, and the broader financial and regulatory environment. In Nigeria, bank credit allocation to SMEs has historically been constrained by high perceived risk, inadequate collateral, and stringent lending policies, despite the existence of regulatory initiatives and targeted credit schemes designed to facilitate SME financing (Nafiu & Tolulope, 2024). In essence, bank credit is not merely a transactional activity but a critical driver of economic development, enabling productive investment, employment creation, and industrial growth. For SMEs, adequate access to bank credit can significantly influence their growth trajectories, operational efficiency, and capacity to contribute to national economic objectives (Ayodele et al., 2025).

Provision of finance otherwise lending by the definition is a legal function of a bank. In essence it is one of the primary functions or purposes of existence of a bank. While relating bank historical existence with its lending function, (Anyanwokoro, 2008) links it with the parable of the talents in the gospel of St. Luke – Why did you not deposit the money in the bank so that the owner could at least get some interest on it. A little explanation here shows that banks were paying interest on deposits kept with them. And for bank to be paying interest on deposits, they must have been lending out the money to customers who pay them interest or must have been investing the money elsewhere for profit. Lending is perhaps one of the most important roles performed by deposit money banks in Nigeria. These banks usually play their intermediation role by sourcing for funds through deposits from customers and lending such funds out as loan which may be on short-term, medium-term or long-term basis to corporate bodies, government at various levels, institutions and individuals. The practice of lending by deposit money banks essentially constitutes the pivot of their operations and business. This is the more reason which informs their deployment of considerable expertise and deftness on the part of the bank management teams on lending administration and management (Dada, 2014). Small and medium enterprises (SMEs) in Nigeria, like other SMEs in countries of the world have been faced with restricted access to credit for their expansion. With the poor development of the Nigeria stock exchange as a source of funds for firm growth, SMEs in Nigeria have had to resort to seeking credit from the Nigeria bank system or other non-bank sources so as to have the required funding for their activities. The Structural adjustment programme which Nigeria undertook from 1986 to 1993 further contributed to restricting the access of SMEs in Nigeria to credit as the Nigeria financial system was liberalized and consequently interest rates and exchange rates were allowed to rise as the Nigerian economy became market-oriented and government relinquished control over interest rates, exchange rates and other financial system indicators (Oluwarotimi & Adaamu, 2017).

Challenges of Banking Sector Credit in Financing SME's in Nigeria

It is generally accepted by both the practitioners and academics that SMEs serve as catalysts for economic growth of the economy of any nation. However, SMEs are faced with many challenges in Nigeria; one of the major challenges faced by SMEs is inadequate capital to finance their operations (Fatai, 2009). Empirical evidence shows that financing contributes about 25% to the success of SMEs in Nigeria (Ogujuiba et al, 2004). A World Bank report showed that 39% of small-scale firms and 37% of medium scale firms in Nigeria are financially constrained. Many SMEs in Nigeria lack the capital to continue their business and they are forced to wind up because they are unable to access the required funds. A 2001 World Bank survey on Nigeria showed that although 85% of the firms had relationship with banks, most of them had no access to their credit (Terungwa, 2011). The lack of adequate financing for the SMEs is

traceable to among other reasons the reluctance of banks to extend credits to them for the following reasons; Inadequate collateral by SMEs operators, weak demand for the products of SMEs as a result of the dwindling purchasing power of Nigerians, lack of patronage of locally produced goods and poor management practices by SMEs operators. Despite the critical role that bank credit plays in facilitating the growth and development of Small and Medium Scale Enterprises (SMEs) in Nigeria, several challenges continue to limit its effectiveness. These challenges are multi-dimensional, spanning regulatory, institutional, and borrower-related factors.

High Interest Rates and Cost of Credit

One of the major barriers to SME access to bank credit is the high cost associated with borrowing. Commercial banks in Nigeria often charge relatively high interest rates due to perceived risks of lending to SMEs. High-interest rates reduce the profitability of SMEs and discourage borrowing, which in turn slows down their expansion and operational efficiency (Oluwaseun & Okorie, 2021).

Inadequate Collateral Requirements

Most banks require substantial collateral before approving loans to SMEs. Many SMEs, particularly startups, lack sufficient tangible assets to meet these requirements, limiting their access to formal credit facilities. This gap forces SMEs to rely on informal financing sources, which may be more expensive and less sustainable (Nafiu & Tolulope, 2024).

Poor Risk Assessment and Credit Appraisal

Banks often perceive SMEs as high-risk borrowers due to limited business records, inconsistent cash flows, and weak financial management practices. Inadequate risk assessment tools or reliance on conventional appraisal methods can result in rejection of loan applications or unfavorable loan terms (Ajibola & Abdulwaheed, 2024).

Inconsistent Policy Implementation

Although the Central Bank of Nigeria (CBN) and other regulatory bodies have initiated credit support schemes for SMEs, inconsistent policy implementation, bureaucratic delays, and lack of awareness among SMEs hinder the effective utilization of these programs (Adegbite & Oladele, 2022).

Limited Access to Long-term Financing

Many SMEs require long-term credit for capital-intensive projects, yet banks primarily offer short-term loans. This mismatch between the duration of loans and SME financing needs constrains their ability to invest in infrastructure, technology, and innovation that are essential for sustainable growth (Ayodele et al., 2025).

Financial Literacy and Management Challenges

A significant number of SMEs lack the necessary financial literacy to prepare proper loan applications, maintain records, or manage credit efficiently. Poor financial management increases the risk of default, further reducing banks' willingness to lend to the sector (Ogbuji et al., 2022).

Macroeconomic and Regulatory Risks

Fluctuating interest rates, inflationary pressures, and unstable regulatory frameworks contribute to the uncertainty in SME lending. Banks, in response to these external risks, may adopt restrictive credit policies, further limiting SME access to finance (Oluwaseun & Okorie, 2021).

Deposit Money Banks and Small and Medium Scale Enterprise Financing in Nigeria

Deposit Money Banks (DMBs) play a pivotal role in the development and sustainability of Small and Medium Scale Enterprises (SMEs) in Nigeria. As the main financial intermediaries in the Nigerian economy, DMBs mobilize savings from surplus units and channel them into productive investments, including the financing of SMEs. The role of DMBs in SME financing is particularly crucial because SMEs often face liquidity constraints and have limited access to alternative sources of capital.

Role of Deposit Money Banks in SME Financing

DMBs provide various financial products and services tailored to the needs of SMEs, including short-term loans, overdraft facilities, trade finance, and working capital loans. These banks are crucial in enabling SMEs to acquire machinery, expand production capacities, and manage day-to-day operational expenses. By providing timely and

structured credit, DMBs contribute directly to SME productivity, employment generation, and overall economic growth (Eze & Ojo, 2022).

Credit Policies and SME Lending Programs
In Nigeria, DMBs are guided by regulations from the Central Bank of Nigeria (CBN) and other relevant authorities, which often include specific credit support initiatives for SMEs. For instance, schemes like the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) and Targeted Credit Facility (TCF) aim to reduce collateral constraints and risk exposure for banks while encouraging them to lend to SMEs. Such initiatives have enhanced SME access to formal financing, albeit with varying degrees of success (Oluwaseun & Okorie, 2021).

Challenges Faced by DMBs in SME Financing
Despite the importance of DMBs in SME development, banks face significant challenges in extending credit to this sector. These include high perceived risks, poor financial documentation by SMEs, lack of long-term lending options, and high administrative costs associated with loan appraisal. Furthermore, the macroeconomic environment, including inflation and currency fluctuations, often affects banks' willingness to lend, as these factors increase the risk of non-performing loans (Ajibola & Abdulwaheed, 2024).

Impact of DMB Financing on SME Growth
Empirical studies have shown that where DMBs actively engage in SME financing, there is a positive impact on employment generation, business expansion, and overall productivity of SMEs. Effective credit allocation by DMBs enables SMEs to invest in technology, workforce development, and market expansion, which ultimately contributes to sustainable economic growth (Adegbite & Oladele, 2022).

Innovative Approaches and Digital Integration
With the advent of digital banking and fintech innovations, DMBs are increasingly adopting technology-driven solutions to enhance SME financing. Mobile banking, digital credit scoring, and automated loan application platforms have improved transparency, reduced transaction costs, and accelerated access to credit for SMEs. These innovations help bridge the financing gap and foster a more inclusive financial ecosystem for small businesses (Ayodele et al., 2025).

III. THEORETICAL REVIEW

The study is anchored on the Financial Intermediation Theory, which provides a robust framework for understanding the relationship between bank credit and the growth of SMEs. The theory was propounded by Gurley and Shaw in 1960, and it emphasizes the crucial role of financial intermediaries, such as banks, in mobilizing savings and allocating resources to productive sectors of the economy. According to the theory, financial intermediaries reduce transaction costs and information asymmetries between savers and investors, thereby facilitating efficient capital allocation and promoting economic growth. In the context of SMEs, financial intermediation ensures that businesses, which typically lack sufficient internal funds, gain access to external financing necessary for expansion, operational sustainability, and innovation. Financial Intermediation Theory is particularly relevant for developing economies like Nigeria, where SMEs constitute a significant proportion of businesses but face systemic financial constraints. The theory underscores the importance of deposit money banks as conduits for channeling funds from surplus units (savers) to deficit units (SMEs requiring capital). Gurley and Shaw (1960) argue that the presence of effective financial intermediation enhances liquidity, reduces investment risk, and fosters entrepreneurial activity, all of which are critical for the growth and sustainability of SMEs. The justification for adopting this theory in the study lies in its capacity to explain how bank credit can directly influence SME growth. By providing loans, overdraft facilities, and other financial services, banks serve as intermediaries that enable SMEs to overcome liquidity shortages, invest in capital projects, and expand market operations. Moreover, the theory helps to understand why inadequate intermediation, poor credit access, or high lending costs can constrain SME development, which aligns with the identified challenges in the Nigerian banking sector.

Empirical studies have often utilized Financial Intermediation Theory to examine the nexus between banking services and enterprise growth. It provides a conceptual lens through which the dynamics of credit availability, risk management, and financial inclusion can be analyzed, especially over a longitudinal period such as 1990–2024 in Nigeria. The theory supports the premise that effective credit provision by deposit money banks can significantly enhance the performance, productivity, and sustainability of SMEs, thereby contributing to broader economic growth.

IV. METHODOLOGY

The source of data is secondary. This is so because the published data on growth of small and medium scale enterprises, credit to small and medium scale enterprises, credit to private sector, interest rate, and inflation rate will be gathered from Central Bank of Nigeria Statistical Bulletin, 2025. The Instrument that will be used to get the CBN bulletin will be from the internet. To examine credit administration and growth of small and medium scale industry in Nigeria, using Ordinary Least Square (OLS) method to formulate multiple regressions model. Secondary source of data will be adopted and gathered from Central Bank of Nigeria Statistical Bulletin for the period of 35 years (1990 - 2024). The variables considered for the study include Growth of small and medium scale enterprises (dependent variable), and credit to small and medium scale enterprises, credit to private sector, interest rate, and cash reserve ratio are the explanatory variables. The model is specified as follows:

$Y = f(x)$…………………………. i
$GSMSE = F(CSMSE, CPS, INTR, CRR)$ ……………………… ii
Hence, the econometric form of the model is:
$GSMSE = \beta_0 + \beta_1 CSMSE + \beta_2 CPS + \beta_3 INTR + \beta_4 CRR \mu$ ……….……… iii
Where:
GSMSE= Growth of small and medium scale enterprises
CSMSE= Credit to small and medium scale enterprises
CPS= Credit to private sector
INTR= Interest Rate
CRR = Cash Reserve Ratio
B0= Constant intercept β_0 = Constant term;
B_1-β_4= Coefficient of explanatory variables
μ = Error term representing factors other than those specified in the model

V. RESULTS AND DISCUSSION

For the purpose of this study, secondary data have been gathered for the purpose of scientifically using them to validate or refute the hypotheses formulated. This chapter presents the data collected. It also analyzed these data using the appropriate models as constructed in model specification. In addition, conclusions from the research tests and analyses were drawn and related to the research hypotheses. The data obtained from the study has been clearly, analyzed, using Ordinary Least Square (OLS) method with E-view version.

Summary Statistics of the variables used in the regression analysis

	GSMSE	CSMSE	CPS	CRR	INTR
Mean	5612.072	34636.46	5921727.	13.93750	19.27300
Median	1707.600	29044.10	2300218.	16.00000	18.06500
Maximum	22416.32	90176.50	16500150	22.50000	31.65000
Minimum	47.80000	10747.89	75456.30	1.000000	12.50000
Std. Dev.	7132.082	23560.95	6166186.	8.829268	3.762842
Skewness	1.152632	1.019652	0.532076	-0.383973	1.304457
Kurtosis	2.937636	3.217774	1.674720	1.529313	5.295952
Jarque-Bera	6.647663	4.907216	3.370249	1.376331	15.09729
Probability	0.036015	0.085983	0.185421	0.502497	0.000527
Sum	168362.2	969820.8	1.66E+08	167.2500	578.1900
Sum Sq. Dev.	1.48E+09	1.50E+10	1.03E+15	857.5156	410.6104
Observations	35	33	33	22	35

Source: Authors' computation using Eviews 9.0

The summary of the statistics of the variables used in this study as presented in Table 4.1 above. As it was depicted from the table that interest rate (INTR) has the lowest mean value of 19.27300 and the mean value of credit to private sector has the highest mean value of 5921727 whereas the mean values of growth of small and medium scale enterprises (GSMSE), credit to small and medium scale enterprises (CSMSE), cash reserve ratio (CRR) was estimated to be 5612.072, 34636.46 and 13.93750 respectively. The analysis was also fortified by the values of the skewness and kurtosis of all the variables involved in the models. The skewness is a measure of the symmetry of the histogram while the kurtosis is a measure of the tail shape of the histogram. The bench mark for symmetrical distribution i.e. for the skewness is how close the variable is to zero while in the case of kurtosis, when it is three is called mesokurtic but values lower than that is called platykurtic and above is referred to as leptokurtic. The result of the Jarque-Bera also confirms the normality distribution assumption of the model.

Also, interest rate (INTR) has the least standard deviation of 3.762842 implying that interest rate is the most stable variable among all the variables considered in this study. Whereas, credit to private sector is the most volatile variable because it has the highest standard deviation of 6166186. Meanwhile, from the results of the normality test presented in the table above, the null hypothesis of a normal distribution is accepted for CSMSE, CPS and CRR and because their Jarque-Bera statistic has a probability greater than 0.05.

Variables	Order of Stationarity	Augmented Dickey-Fuller test statistic	1% Level Critical Value	5% Level Critical Value	10% Level Critical Value	Order of Integration	Decision
GSMSE	At level	3.404608	-3.689194	-2.971853	-2.625121	1(1)	Stationary
	1st difference	-1.425389	-3.699871	-2.976263	-2.627420	1(0)	Not stationary
CSMSE	At level	-1.236643	-3.699871	-2.976263	-2.627420	1(1)	Not stationary
	1st difference	-3.343247	-3.711457	-2.971853	-2.629906	1(0)	Stationary
CPS	At level	0.893026	-2.976263	-2.627420	-2.627420	1(1)	Not stationary
	1st difference	-3.610110	-3.711457	-2.981038	-2.629906	1(0)	Stationary
CRR	At level	-1.381755	-4.297073	-3.212696	-2.747676	1(1)	Not stationary
	1st difference	-3.464570	-4.297073	-2.747676	-2.747676	1(0)	Stationary
INTR	At level	-2.530307	-3.679322	-2.967767	-2.622989	1(0)	Not stationary
	1st difference	-6.568229	-3.689194	-2.971853	-2.625121	1(1)	Stationary

Source: Authors' computation using Eviews 9.0

However, the Augmented Dickey-Fuller test or unit root test was shown in table 4.2 above. Unit root analysis is a test conducted to ascertain if the variables under consideration are stationary. We take the following decision rule: if the absolute value of the Augment Dickey Fuller (ADF) test is greater than the critical value either at 1%, 5% or 10% level of significance at the order of zero, one, or two, it shows that variables under consideration are stationary, otherwise they are not. The results of the unit root test show that credit to small and medium scale enterprises (CSMSE), credit to private sector (CPS), cash reserve ratio (CRR) and interest rate (INT) critical values of the variables are greater than the ADF statistical values at level and they were

stationary at first difference [1(1)]. However, it was observed that growth of small and medium scale

enterprises (GSMSE) was estimated to be stationary at level but not stationary at first difference.

Table 4.3: Regression analysis

Dependent Variable: GSMSE
Method: Least Squares
Date: 22/02/26 Time: 15:00
Sample (adjusted): 1990 2024
Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11889.58	10134.89	-1.173133	0.2791
CSMSE	0.089472	0.050721	1.764016	0.1211
CPS	0.000638	0.000689	0.925626	0.3854
CRR	400.3582	233.6696	1.713351	0.1304
INTR	551.8388	690.6476	0.799016	0.4505

R-squared	0.943622	Mean dependent var	12747.18
Adjusted R-squared	0.911406	S.D. dependent var	6347.536
S.E. of regression	1889.323	Akaike info criterion	18.22016
Sum squared resid	24986802	Schwarz criterion	18.42221
Log likelihood	-104.3210	Hannan-Quinn criter.	18.14536
F-statistic	29.29062	Durbin-Watson stat	2.401450
Prob(F-statistic)	0.000183		

Source: Authors' computation using Eviews 9.0

Likewise, the regression results presented in Table 4.3 above depicted that all the independent variables positively related to growth of small and medium scale enterprises without statistical significant effect. The coefficient of credit to small and medium scale enterprises (CSMSE) credit to private sector (CPS), cash reserve ratio (CRR) and interest rate (INTR) was estimated to be 0.089472, 0.000638, 400.3582 and 551.8388 respectively signaling that a unit increase in CSMSE, CPS, CRR and INTR is followed by an increase in growth of small and medium scale enterprises. Although, all the independent variables employed have positive relation with the dependent variable but no individual significance was observed.

Furthermore, the R-squared (R^2) in the regression table revealed that the model is fit as 94% of changes in dependent variable were explained by the independent variables in the model. The probability of F-statistic showed that the overall regression is statistically significant at 1%, 5% and 10% probability level with a value of 0.000183. The Durbin-Watson statistic is 2.401450 which is greater than one is an indication that there is no serial correlation. Furthermore, the adjusted coefficient of determination (Adj R^2) showed that about 91% of change among the independent variables have effect growth of small and medium scale enterprises. This is an indication that deposit money bank credit variables employed have significant relationship on growth of small and medium scale enterprises in Nigeria. Likewise, the F-statistics 0.000183 has the

probability lesser than 5%, which indicated that deposit money bank credit variables used have significant relationship with growth of small and medium scale enterprises.

VI. DISCUSSION OF FINDINGS

The empirical results show that none of the individual explanatory variables (CSMSE, CPS, CRR, INTR) had a statistically significant impact on SME growth in Nigeria during 1990–2024. While this may appear surprising, it aligns with several documented structural challenges within the Nigerian financial ecosystem:

Low Effective Credit Penetration:
Although credit to SMEs and the private sector increased over time, much of the credit stock did not effectively reach viable SMEs due to stringent collateral requirements, risk aversion, and weak credit appraisal systems (Nafiu & Tolulope, 2024; Ajibola & Abdulwaheed, 2024).

Monetary Policy Paradox:
The positive but insignificant coefficient for interest rate may reflect the fact that high interest rates have co-existed with increased lending volumes due to inflationary episodes and policy rate volatility. High cost of credit can dampen investment incentives for SMEs even when loans are available (Oluwaseun & Okorie, 2021).

Inconsistent Credit Allocation:
Periods of robust credit growth were often linked to macroeconomic cycles rather than targeted SME interventions. Banks sometimes directed credit to larger firms or public sector enterprises, leaving SMEs under-funded.
Regulatory Constraints:

Despite policy interventions from the Central Bank of Nigeria (CBN), including targeted credit facilities and special lending schemes, structural inefficiencies and administrative bottlenecks weakened their effectiveness in stimulating SME growth (Eze & Ojo, 2022; Ayodele et al., 2025).

Overall, the findings suggest that bank credit alone is insufficient to drive significant SME growth in Nigeria without supportive institutional, structural, and policy environments.

VII. CONCLUSION

On the basis of the regression analysis conducted, the result of T-statistic which measures individual effect revealed that all the four hypotheses tested was not statistically significant under the study period which could be due to unavailability of annual series data for some particular years. This study therefore found out that; there is no significant relationship between credit to small and medium scale enterprises and performance of small and medium scale enterprises growth in Nigeria. Also, evidence of no statistical significant effect was found between credit to private sector on performance of small and medium scale enterprises growth in Nigeria. In addition, analysis from this study revealed that there is no significant relationship between interest rate and performance of small and medium scale enterprises growth in Nigeria. Lastly, this study realized that cash reserve ratio and performance of small and medium scale enterprises growth in Nigeria have no significant relationship under the period of study.

VIII. RECOMMENDATIONS

Based on the findings made in the course of this study, the following recommendations are hereby provide below:

Review and Strengthen Targeted SME Credit Policies:
Government and the Central Bank of Nigeria (CBN) should revamp and deepen targeted lending programs (e.g., SMEDAN, TCF, Agric credit schemes) with flexible terms, lower interest rates, and real risk-sharing mechanisms to ensure credit flows directly support SME growth activities.

Encourage Innovative Credit Solutions:
Banks should adopt alternative credit risk assessment methods (e.g., fintech credit scoring, transaction history analytics) to overcome collateral barriers. Partnerships with microfinance banks and digital lenders can expand credit access to early-stage SMEs.

Promote Long-term Credit Instruments:
Policy-makers should encourage the development of longer-term credit products (e.g., development financing, credit guarantees) that match SME investment cycles rather than short-term working capital loans.

Monetary Policy Stability:
The CBN should aim for monetary policy consistency, targeting inflation reduction and interest rate predictability. A stable rate environment supports credit expansion without discouraging SME investment due to high borrowing costs.

Improve Financial Literacy and Business Advisory Support:
Government agencies (e.g., SMEDAN) and financial institutions should develop capacity-building programs that improve SMEs' financial management, record-keeping, and loan application skills to support credit utilization and repayment performance.

Enhance Regulatory Frameworks for SME Credit:
Regulatory reforms should incentivize banks to allocate a fixed percentage of their credit portfolio to SMEs, backed by credit risk sharing schemes and partial guarantees to reduce risk exposure and encourage lending.

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