THE ROLE OF CREDIT FINANCING ON THE GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN KUDAN LOCAL GOVERNMENT AREA OF KADUNA STATE

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Abstract

This study investigated the role of credit financing on the growth of small and medium scale enterprises in Kudan Local Government Area of Kaduna State. Structured questionnaire were administered to source for information from 304 SMEs owners in the study area. Descriptive statistics and regression analysis were used to analyze the role of credit financing on the growth of small and medium scale enterprises in Kudan Local Government Area of Kaduna State. The findings of this study revealed that credit financing has significant impact on the growth of small and medium enterprises in Kudan Local Government Area of Kaduna State. The study found that bank loan and advances shows that there exist a positive and insignificant relationship between SMEs growth. More so, there is a positive and statistically significant relationship between informal credit financing and the growth of SMEs. The OPS variable's coefficient is positive and significant at the 5% level. The BOR variable coefficient is positive and significant at the 5% level. The RTP variable coefficient is positive and significant at the 1% level. The study therefore recommends that; commercial banks should channel credit to small and medium scale enterprises at cheaper funds and the removal of impediment and unavoidable collateral that would spur the growth of SMEs with the view of increasing productivity. SME's should be encouraged to building stronger internal credit structural base such that funds will be adequate to enable them function more effectively without necessarily going through commercial bank to seek for credit.

Keywords: Credit financing, SMEs, Economic Growth, informal financing, formal financing, and performance

Jel Classification: G21, L26, O40, G23, G24 and G29

1. Introduction

Small and medium scale enterprises (SMEs) are pivotal to the growth of national and regional economies. Hence, they are acknowledged as the engine of economic growth that promote economic well-being particularly in developing and emerging market economic through

employment generation and poverty alleviation. SMEs contributes to GDP, increases revenue from taxes, develops human capacity, fosters entrepreneurship culture, generates income, and improves the quality of life of members a society (Adeyemi, 2011). Ateke & Nwiepe (2017) add that SMEs fundamental components of the economic fabric of developed and emerging economies that stimulate economic growth, promote innovation and enhance prosperity. SMEs are perhaps, the oldest form of business in the world as many large organizations began as SMEs (Onyenebo, 2018).

The problems associated with SMEs financing have received tremendous attention from researchers and policy makers. Taiwo et al. (2016) opined that researchers over the years have identified cost of capital, shortage of equity capital, inappropriate terms of bank loans and risk as a major hindrance to success of SMEs in Nigeria. These problems are further compounded by lending policies of banks, government policies, environmental factors and infrastructure.

Several studies such as Nwosa & Oseni (2013) investigated the determinants of commercial banks' lending behaviour in Nigeria their study reveals that banking sector credit has significant impact on the growth of small and medium enterprises in Nigeria as it has positive impact on some major macro-economic variables of growth such as inflation, exchange rate, trade debts etc. Ayuba & Zubairu (2015); Iloh & Chioke (2015); Johnny & Ayawei (2018) found significant positive effect of commercial banks' credit to SMEs on economic growth in Nigeria measured as gross domestic product (GDP), others which include Sogules & Nkoro (2016); Owolabi & Nasiru (2017) argued that deposit money banks' credit facilities to SMEs exerted negative impact on economic growth in Nigeria. These studies despite being conducted within the same jurisdiction have resulted to varying findings and this has created gap for further studies to resolve the differences. Therefore, this study which focuses only on SME's sector and formal and informal channel of financing attempts to look more critically into this discourse and add to existing body of knowledge. It is against this background that this study

was conducted to investigate the role of credit financing on the growth of small and medium scale enterprises in Kudan Local Government Area of Kaduna State.

2. Literature Review

2.1 Theoretical Literature: Theory of financial intermediation developed in 1960 by Gurley and Shaw

This theory is founded on the agency theory and the informational asymmetry theory. They argued that, the existence of financial intermediaries is explained by the existence of the following categories of factors: high cost of transaction, lack of complete information in useful time; and the method of regulation. The theory describes the process where surplus units (savers) give funds, that is, through deposits, to intermediaries who include financial institutions such as banks, credit unions, mutual funds and insurance companies) who in return channel out the funds to deficit units (spenders or borrowers or SMEs) (Andries, 2009). The financial intermediation theory explains the role of commercial banks in intermediating funds through business credit availability to owners of SMEs as a social and profitable venture and hence stability. SMEs are categorized as risky borrowers by financial institutions and therefore meeting the lenders requirements has become a challenge for the SMEs to access fund from financial institutions and if they do it is at a very high transaction rate. Due to the constraints of fund the SMEs are not able to invest in new improved asset for the development and innovation of new products, the SMEs would not fully utilize their assets when they break down leading to a limitation of their maintenance, this would lead to a low revenue, stunted SMEs growth, reduced market share and also a low profitability. When there is a healthy financial intermediation SMEs would grow and also makes profits which would lead to economic growth (Andries, 2009; Muriithi, 2017).

2.2 Empirical Literature

Mutie et al. (2020), investigated the impact of informal financing on the performance of wholesale and retail businesses in Kenya. The study aimed to establish the effect of informal finances on the performance of these businesses. The population included all 1.56 million businesses in Kenya, with a target of 510,000 licensed businesses in selected counties. Using simple random techniques, a sample of 384 respondents from the 310,000 licensed businesses in six selected countries was collected. Both secondary and primary data, gathered through structured questionnaires, were analyzed using regression and correlation analysis to test the connection between independent and dependent variables. The findings indicated a statistically significant relationship between the variables. While informal financing showed a positive relationship with performance, the use of Shylocks was uncommon due to high interest rates. The study concluded that no single source of finance solely contributes to business performance in Kenya, recommending further research to explore other factors influencing performance. A weakness noted in the study was the use of regression instead of correlation analysis to assess relationships between variables.

Charles et al (2020), examined the extent to which SMEs financing influenced economic growth in Nigeria through the use of time-series data from 1999-2018. After a literature search, other factors possessing the potential to influence the dependent variable ASGDP was added to the research model. Relying on Ordinary Least Squares estimation using E-views 10.0, findings shows that lending rate reduces ASGDP by 7% and gross capital formation reduces ASGDP by 5%. On the other hand, surprisingly, credit to SMEs did not retain the massive effect on growth as seen in previous studies. We can attribute this to our choice of adopting SME contribution to GDP as our target variable. Electricity distribution increased ASGDP by 4.6%.

Ashogbon et al (2022), evaluate the effect of interest rate on the growth of SMEs in Nigeria, using annual time series data from 2000-2019. The data for the study was sourced from the

World Development Indicator (WDI) and the Central Bank of Nigeria (CBN) statistical bulletin. The data collected were Small and medium scale enterprises GDP (SMEG) which is the dependent variable while commercial bank total credit to private sector, commercial bank loans to SMEs, percentage of commercial bank loans to SMEs, Monetary Policy Rate (MPR), inflation, exchange rate, reserve requirement and lending rates of commercial banks to SMEs are the independent variables. Descriptive and inferential statistics were employed, the Autoregressive Distribution Lag (ARDL) were used to test the long run relationship of the variables. The results show that LRCM have a negative effect on SMEGDP such that if the LRCM is increased by 1%, SMEGDP declines by 1.6%. On the other hand, an increase in RR by 1% leads to an increase in SMEGDP by 0.005%

Agbor et al (2024), investigated the impact of credit availability on performance of SMEs in Calabar metropolis, Cross River state. Data was collected from owners and the management team of selected SMEs using Likert scale structured questionnaires. With a sample size of 67 respondents, regression analysis was employed to analyze the questionnaire responses. The research findings revealed positive relationships between Bank loan (BL) (b_1=1.31) and informal financing (IFN) (b_3=0.01), while Bank overdraft (BOD) (b_2=-0.02), revealed a negative relationship with the performance of SMEs in Calabar metropolis. Bank loan (p-value=0.00) was found to be statistically significant at a p-value threshold of less than 0.05. Arising from the result, the study concluded that credit availability has a positive and significant effect on the performance of SMEs in Calabar Metropolis, Cross River State.

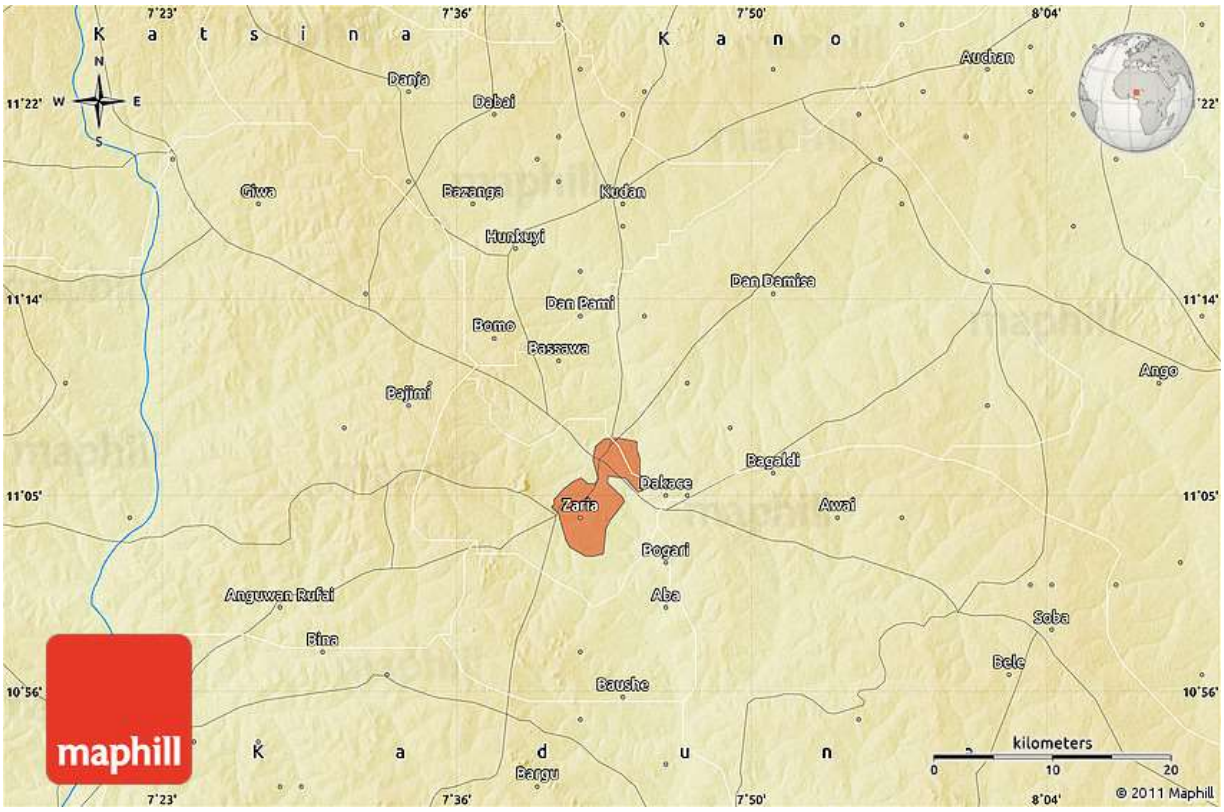
3. Methodology

3.1 The Study Area

Kudan is a Local Government Area in Kaduna State, Nigeria. Its headquarters are in the town of Hunkuyi. The Local Government Council is chaired by Shuaibu Jaja. The postal code of the area is 812.There are 10 wards council in Kudan Local Government Area. Lokoro Ward, Duka

Ward, Garu Ward, Hunkuyi Ward, Kurmin Wali North Ward, Kurmin Wali South Ward, Kudan Ward, Sabon Garin Hunkuyi Ward, Taban Sani Ward and Zabi Ward. It has an area of 400 km^2 and a population of 138,992 at the 2006 census. Kudan LGA is located between latitude 11^o 16' 22.80" N longitude 7^o 47'56. 40"E.

3.2 Map of Kudan LGA



Source: Adopted from Google (2016)

3.3 Population of the Study

The group of people, objects, events or things that a researcher has interest in investigating is called a population (Sekaran & Bourgie, 2010). Therefore, the target population for the study is the SMEs in Kudan Local Government Area of Kaduna State.

Table 1: Krejcie & Morgan Sample

Population of Kudan LGA	Sample size

138,992	382

3.4 Instrument of Data Collection

The instrument use in collecting data for the study is questionnaires which were administered to the population sample in order to obtain their view and opinion of the respondents.

3.5 Model Specification

The model specification for the study employed a linear regression model to assess the role of credit financing on the growth of small and medium scale enterprises in Kudan LGA of Kaduna State.

$Y_i = f(X_i)$

Where Y=The growth of SMEs measured by binary dependent (SMEs growth or un-growth)

X= determinant of SMEs growth. The model for this study is specified thus;

$SMEs=\alpha_0+\beta_1 BLA+\beta_2 OPS+\beta_3 BOR+ \beta_4 RTP+\mu_i$

Where SMEs = is the Binary dependent variable, measuring extent of SMEs growth;

BLA = Bank loan and advances

OPS = Owners personal savings

BOR = Borrowing from friends, family and credit thrifts

RTP = Retained profits from the business

$\int_0^1 = 1\ if\ they\ are\ SMEs\ growth\ and\ 0\ if\ they\ are\ not\ SMEs\ growth$

β_1, β_2, β_3, and β_4 = are respectively the slope coefficients measuring the marginal effect of the independent variables

α_0 = Constant Value

μ_i= random error term

4. Results and Discussion

Table 2: Questionnaire Distribution and Response Rate

Description	Frequency	Percentage (%)
Distributed questionnaires	382	100.00
Returned questionnaires	304	79.6
Retained questionnaires	78	20.4

Source: Researcher Fieldwork, 2024

4.1 Response Rate

This study achieved a response rate of 79.6% hence adequate enough to establish the role of credit financing on the growth of small and medium scale enterprises in Kudan Local Government Area of Kaduna State. This rate is considered sufficient considering the Sekaran's (2003) argument as cited in (Bambale, 2013) that response rate of 30% is acceptable for surveys (Bartlett, Kotrlik, & Higgins, 2001; Hair et al., 2010). According to Mugenda (2003) response rate above 50% is adequate enough to accomplish study objectives.

Table 3: Socio-economic characteristics of the respondents in the study area

Variables	Frequency	Percentage (%)
Gender:		
Male	180	59.2
Female	124	40.8
Total	304	100.0
Age:		
20-30	22	7.2
31-40	53	17.4
41-50	143	47.3
51-60	70	23.0
61-70	12	3.9
Above 70	04	1.3
Total	304	100.0
Marital Status:		
Married	217	71.4
Single	87	28.6
Total	304	100.0
Educational Qualification:		
Primary	54	17.8
Secondary	86	28.3

Tertiary	164	53.9
Total	304	

Source: Researcher Field Survey, 2024

Table 3 above shows that majority of the respondents in terms of gender were male indicating about 59.2 percent, while female respondents indicated 40.8 percent. This is in line with most literature on rural communities in the north as SMEs is mostly seen among men due to its labour-demanding nature and cultural belief. Also, this complies with the findings of Agbor et al. (2024), which had 56.72

In term of age bracket, 7.2 percent of the respondents fall between the age bracket of 20-30 years, 17.4 percent fall between the age bracket of 31-40 years, 47.3 percent fall between the age bracket of 41-50 years, 23.0 percent fall between the age bracket of 51-60 years, 3.9 percent fall between the age bracket of 61-70 years while 1.3 percent fall between the age bracket of 70 years above. Majority of the SMEs (47.3 percent) were in the 41–50 age brackets. This indicates that most of these SMEs owners are still strong and energetic to increase productivity.

With regards to the marital status of the respondents, 217 were married representing about 71.4 percent, 87 were single representing 28.6 percent. Therefore, most of the respondents in Kudan LGA of Kaduna State are married. This may be due to cultural believed that encourage early marriage in the region.

As regards the respondents' educational level, 17.8 percent had primary education, 28.3 percent of respondents had secondary school education, and 53.9 percent had tertiary education. Educational status of the respondent's shows that majority of the respondents were literate. This implies that education is an important weapon in the battle against SMEs productivity and growth. This finding is in line with Agbor (2024) who supported the results by showing that in their study area, the majority of respondents had a standard form of education.

Table 4: Dimension of credit availability to small and medium scale enterprises in Kudan LGA of Kaduna State

Determinants	SA		A		SD		D		Total	
	F	%	F	%	F	%	F	%	F	%
Banking Sector gives sufficient loans/credits for SME's growth	43	14.1	56	18.2	96	31.6	109	35.9	304	100.0
Business owners personal savings enhances the growth of SMEs	111	36.5	155	51.0	25	8.2	13	4.3	304	100.0
Borrowing from family, friends, and credit thrift improved the growth of SMEs	170	55.9	114	37.5	12	3.9	8	2.6	304	100.0
Retained profits played significant in the growth of SMEs	122	40.1	171	56.3	8	2.6	3	1.0	304	100.0
Aggregate column observation	**446**	**36.7**	**496**	**40.8**	**141**	**11.6**	**133**	**10.9**	**1216**	**100.0**

Source: Researcher field work, 2024

Table 4 shows the dimension of credit availability to small and medium scale enterprises in Kudan Local Government Area of Kaduna State. Among such credit availability are; banking sector loans and advances, business owners personal savings, borrowing from family, friends, and credit thrift, retained profits. About 35.9% disagree that banking sector does not gives sufficient loans/credits for SME's growth, 51.0 % agree that business owners personal savings enhances the growth of SMEs, 55.9% strongly agree that borrowing from family, friends, and credit thrift improved the growth of SMEs, and 56.3% agree that retained profits played significant in the growth of SMEs. On the aggregate, about 40.8% agreed that credit availability to small and medium scale enterprises in Kudan Local Government Area of Kaduna State such as banking sector loans and advances, business owner's personal savings, borrowing from family, friends, and credit thrift, retained profits are necessary for the growth of small and medium scale enterprises.

Table 5: Reliability and Validity Statistics Test

Reliability and Validity Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of items
0.845	0.977	5

Source: Computed result using SPSS, 2020

The result of the reliability test of the research instrument shows that the Cronbach Alpha value for the questionnaire is 0.845. 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 84.5% of the variance in the score is internally consistent reliable variance.

Table 6: Variables Correlation Matrix

	SME	BLA	OPS	BOR	RTP
SME	1				
BLA	-0.323114	1			
OPS	0.716223	-0.559814	1		
BOR	0.674302	-0.833725	0.653743	1	
RTP	0.784939	-0.496237	0.816789	0.5872628	1

SME growth (SME) has weak negative correlation relationship with Bank Loan and Advances (BLA = -0.32), a strong positive association with Owner's Personal Savings (OPS = 0.72), a strong positive relationship with Borrowing from friends, family and Credit Thrift Associations (BOR = 0.67), a strong positive relationship with Retained Profit (RTP = 0.78). The correlation therefore shows that, Owner's Personal Savings (OPS), Borrowing from friends, family and Credit Thrift Associations (BOR), and Retained Profit (RTP) are more associated with SMEs growth and has the capacity to impact on productivity. While Bank Loan and Advances (BLA) shows a weak negative correlation relationship with SMEs has less impact on the growth of SMEs in the study area.

Table 7: VIF AND THE TOLERENCE VALUE OF IV'S

Independent Variable	Tolerance Value	VIF
Bank loan and advances	0.214	5.641
Owners personal savings	0.179	6.115
Borrowing	0.328	2.661
Retained profit	0.446	3.995

Source: SPSS output, 2020

Garson (2006) suggest the rule of thumb is that when VIF is greater than 4.0, multi-collinearity is a problem. However, more lenient cut-off of points was used in application, for instance, Dielman (2001) use 10 as the cut off points. O'Brien (2007) indicate the most common rule of thumb for a VIF is 10, which is regarded by many researchers as a sign of severe or serious

multi-collinearity problems (O'Brien, 2007). Myers (1990) also shared the similar view that if average VIF is greater than 10, then multi-collinearity may be affecting the least-squares estimates of the regression coefficient, Conversely, VIF values below 10 indicate that multi-collinearity is not a problem (Myers, 1990). Thus, from the above table it was revealed that VIF values are less than 10 while the tolerance values are more than .10 indicating the absence of multi-collinearity among independent variables.

Table 8: Linear Regression Result

Variable	Coefficient	Std. Error	t-statistic	Prob.
Constant	2.334572	0.721167	3.237217	0.0560
BLA	0.261147	0.030072	8.684058	0.2167
OPS	0.436025*	0.120401	3.621440	0.0501
BOR	0.448013*	0.209457	2.138924	0.0462
RTP	0.151393**	0.060186	2.515419	0.0032
Dependent Variable: SMEs growth				
R2= 0.637 Adj. R2 = 0.621 F-stat= 94.883 Prob. (F-stat)= 0.0000 D.W stat= 1.96				
** (*) indicates significance at 1% and 5% levels				

Source: Researcher's computation using SPSS version 2020

Table 8 above revealed that, holding the other explanatory variables constant, the magnitude of SMEs growth in Kudan Local Government Area of Kaduna State will be 2.334 on average. However, the result of SMEs growth to BLA shows that there exist a positive and insignificant relationship between SMEs growth and bank loan and advances. This is as a result of the commercial banks inability to give loan to private sector without desired collateral security. This finding agrees with the study of Akujuobi & Nwezeaku (2015); Onuorah & Ozurumba (2013) examined the impact of bank credit on economic growth in Nigeria, the study found a positive and statistically insignificant relationship between commercial bank credits to general commerce and economic growth measured as gross domestic product. This further means that as SMEs increase in Kudan Local Government Area of Kaduna State, the magnitude of bank loan and advances among SMEs decrease by 26% or 0.26 units. The result also shows that

there is a positive and statistically significant relationship between owners personal savings on the growth of SMEs the OPS variable's coefficient is positively signed and significant at the 5% level, that is, a 1% increase in owners personal savings will prompt an increase in the growth of SMEs by 43.6%. The BOR variable coefficient is positively and significant at the 5% level, meaning that a 1% increase in borrowing from friends, family, and informal credit thrift association will lead to an increase in the growth of SMEs by 44.8%. More so, the RTP variable coefficient is positively and significant at the 1% level, meaning that a 1% increase in retained profit or plough back of the business profit will lead to an increase in the growth of SMEs by 15.1%. This finding on owners personal savings, borrowing from friends, family, and informal credit thrift association and retained profit is consistent with the study of Mutie, et al (2020), who used multiple regression to analyze the effect of informal financing on the performance of wholesale and retail businesses in Kenya, the result shows that informal financing has a positive effect on business performance and Agbor et al (2024), investigated the impact of credit availability on performance of SMEs in Calabar metropolis, Cross River State Nigeria the result of the regression analysis indicated that informal credit financing has positive and significant impact of Credit Availability on Performance of SMEs in Cross River State, Nigeria.

4.2 Discussion of Findings

The main objective of this study is to investigate the role of credit financing on the growth of small and medium scale enterprises in Kudan Local Government Area of Kaduna State. The study found that credit financing has significant impact on the growth of small and medium enterprises in Kudan Local Government Area of Kaduna State. The study found that bank loan and advances shows that there exist a positive and insignificant relationship between SMEs growth. This finding agrees with the study of Akujuobi and Nwezeaku (2015); Onuorah and Ozurumba (2013) examined the impact of bank credit on economic growth in Nigeria, the study

found a positive and statistically insignificant relationship between commercial bank credits to general commerce and economic growth measured as gross domestic product. The result also shows that there is a positive and statistically significant relationship between informal credit financing and the growth of SMEs. The OPS variable's coefficient is positively and significant at the 5% level. The BOR variable coefficient is positively and significant at the 5% level. The RTP variable coefficient is positively and significant at the 1% level. The finding on owners personal savings, borrowing from friends, family, and informal credit thrift association and retained profit is consistent with the study of Mutie, et al (2020), used multiple regression analysis to examine the effect of informal financing on the performance of wholesale and retail businesses in Kenya, the result shows that informal financing has a positive relationship with business performance and Agbor et al (2024), who investigated the impact of credit availability on performance of SMEs in Calabar metropolis, Cross River State Nigeria regression analysis found that informal credit financing has positive and significant impact of Credit Availability on Performance of SMEs in Cross River State, Nigeria.

5. Conclusion and Recommendations

5.1 Conclusion

The conclusion arrived at in this study is that, from the empirical and analytical findings the results reveals that the role of credit financing on the growth of small and medium scale enterprises in Kudan Local Government Area of Kaduna State is quite necessary for the growth of small and medium scale enterprises in the study area. Banking sector credit was important but insignificant in understanding growth in Kudan Small and Medium Scale Enterprises. The implication is for the banks to understand that irrespective of the size of SME's, banking sector credit is an important factor to the overall success of SME's in Kudan and Nigeria as a whole which is a catalyst for economic growth. The current priority attention being accorded the banking credit sector by government is well deserved. This is because the sector has great

potentials to be the engine of growth in Nigeria. When credit is made available through borrowing either formal or informal sector, economic transactions can take place efficiently and the economy can grow. Credit allows business owners to get access to factors of production they need to produce the items they wanted to produce. A business that couldn't have access to credit will be unable to fulfill its objectives. The study opined that better functioning financial systems both formal and informal financing is very significant to the growth of small and medium scale enterprises.

5.2 Recommendations

Based on the conclusion above, the following recommendations were inevitable for the growth of small and medium scale enterprises in the study area and Nigeria at large; Commercial banks should channel credit to small and medium scale enterprises at cheaper funds and the removal of impediment and unavoidable collateral that would spur the growth of SMEs with the in view of increasing productivity. SME's should be encouraged to building stronger internal credit structural base such that funds will be adequate to enable them function more effectively without necessarily going through commercial bank to seek for credit. Owners of SMEs should be encouraged to engage in personal savings that boost their access to credit availability. SMEs should be encouraging constructive informal financing for businesses to have access to credit availability for expansion.

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