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ACCESS TO FINANCIAL INSTITUTIONS' FINANCING AND THE GROWTH OF SMALL AND MEDIUM ENTERPRISES: A STUDY IN IBADAN NORTH EAST LOCAL GOVERNMENT AREA, OYO STATE.

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Abstract

Promoting the growth of Small and Medium Enterprises (SMEs) is contingent upon ensuring their access to financial resources, as financial constraints often impede their development. This study sought to investigate whether access to financing from financial institutions can serve as a solution for fostering the growth of small businesses in Oyo State, Nigeria. The research sample comprised 152 SMEs, selected through purposive sampling techniques. Data analysis involved descriptive analysis, simple linear regression, and Analysis of Variance (ANOVA). The findings revealed that unimpeded access to external finance plays a significant role in facilitating the operations of SMEs and promoting their growth. Specifically, bank credit facilities were found to have a substantial impact on the growth of SMEs in the Ibadan North East Local Government Area. Consequently, it is recommended that financial institutions devise innovative approaches to provide more affordable funds to the SME sector, thereby fostering its growth within the economy.

Key words: Financing, Loans and Advances, Interest rates

JEL Classification: G21, L26, O16

Introduction

SMEs and entrepreneurs are at the forefront of today's global economy's quest for sustainable development in countries all over the world. A requirement for small businesses' creation and growth is ensuring that they have access to finance in the required forms and volumes. Access to finance becomes even more important in times of crisis, such as the one the world is currently experiencing in the wake of the COVID-19 pandemic, to counter the immediate and profound impact on SMEs. The effects of the crisis are still unfolding, and the long-term consequences for SMES access to finance are unclear. Governments all over the world are developing policies to help SMEs that need external financing. This background, combined with long-standing challenges in this field, necessitates a stronger evidence base in order to develop effective SMES financing policies (OECD, 2020).

Small and Medium Enterprises (SMEs) are of vital importance to any economy, as they hold significant potential for job creation, advancement of local technology, diversification of output, promotion of indigenous entrepreneurship, and integration with larger industries. However, in Nigeria, the SMEs sector has been experiencing substantial underperformance, which hampers its contribution to economic growth and development. The main challenges faced by SMEs in the country can be categorized into four key areas: an unfavorable business environment, inadequate funding, low managerial skills, and limited access to modern technology (Financial System Strategy, 2020). Among these challenges, the lack of sufficient financial resources stands out as a central issue.

Globally, commercial banks have traditionally been the primary source of funding for SMEs. However, in many cases, commercial banks have been reluctant to provide financial support to SMEs due to perceived risks and uncertainties. In Nigeria, the fragile economic environment and lack of necessary infrastructure have further exacerbated the challenges faced by SMEs. These factors have resulted in high operational costs and inefficiencies within SMEs, negatively impacting their credit competitiveness (Abdullahi and Sulaimon, 2015; Ezeh, 2012; Zirra and Charless, 2017).

Small and Medium Enterprises (SMEs) have been recognized as significant contributors to industrialization, economic growth, and development in both developed and developing countries. They play vital roles in generating employment, creating income opportunities, and driving progress in urban and rural areas (Hallberg, 2000; Arif et al., 2020). However, adequate financing for SMEs is crucial for their development, growth, and sustainability, serving as a catalyst for economic advancement. Governments and business communities worldwide have increasingly recognized the importance of SME financing as a cornerstone of economic development (Olutunla, 2001; OECD, 2004; Moscali, Girardone, and Calabrese, 2019). Despite the numerous challenges faced by SMEs in both developing and developed countries, finance has been identified as one of the most critical factors affecting their survival and growth (UNCTAD, 2001; SBA, 2000).

Abereijo and Fayomi (2005) point out that the majority of bank loans provided to SMEs have excessively short terms, which are insufficient for repaying sizable investments. Moreover, in many developing countries, banks tend to prioritize lending to the government rather than private sector borrowers due to lower risks and higher returns (Levitsky, 2017). This preference for government loans has crowded out private sector borrowers, making it more challenging for small businesses to access capital and finance their operations effectively.

The emerging economic consequences of the COVID-19 global pandemic are drastically shifting the outlook for global economic growth, after several years of optimistic developments in SMES financing. The epidemic is not just a public health disaster of a scale never seen before. It is also sowing the seeds of a major economic downturn, putting enormous pressure on economies and presenting enormous challenges to policymakers all over the world (OECD, 2020). Small companies and entrepreneurs are at the epicenter of these disruptions, and they are disproportionately impacted, not least in terms of their ability to obtain financing for cash flow and longer-term investments. Furthermore, in the coming years, poor trade and investment flows, as well as supply chain reorganization, will have a negative effect on the availability of credit and other types of finance for SMEs. Simultaneously, it remains to be seen how far SMEs will be able to use emerging technology, particularly for accessing external financing. It is therefore crucial to examine whether access to finance will improve the growth of SMEs or not.

Research Questions

The following research questions are addressed in this paper

i. What significant effects have access to bank loan had on SMEs growth in Oyo State?
ii. Does the interest rate charged have a significant impact on the growth of Small and Medium Enterprises (SMEs) in Oyo State?

Research Objectives

The primary aim of this study is to examine the role of access to financial institutions' financing in fostering the growth of small businesses in Nigeria. The specific objectives of this research are as follows:

i. Examine the effect of access to bank loans on the growth of SMEs in Oyo State.

ii. Investigate the effect of interest rate charged on the growth of SMEs in Oyo State.

Research Hypotheses

In accordance with the stated objectives, the following null hypotheses are formulated and tested:

H_{01}: Access to bank loan facilities has no significant impact on the growth of SMEs in Oyo State.

H_{02}: Interest rates charged on loan has no significant effect on SMEs growth in Oyo State

Literature Review

Concept of SMEs

The definition of Small and Medium Scale Enterprises (SMEs) varies across different countries, depending on their level of development. The classification criteria for small, medium, and large businesses differ, and what may be considered a small business in one country could be categorized as a large business in another country. In Nigeria, SMEs are generally defined as businesses with an annual turnover of less than N100 million and/or less than 300 employees.

SMEs play a crucial role in the Nigerian economy; however, their contribution to GDP is relatively lower compared to countries at similar levels of development (Oyeyinka, 2020). Small and Medium Enterprises (SMEs) are business entities that fall within a certain size threshold, typically based on criteria such as annual turnover, total assets, and number of employees. The definition of SMEs may vary across countries and industries, but generally, they are characterized by their relatively smaller scale of operations compared to larger corporations (Mu, Van Riel, & Schouteten, 2022). SMEs are often considered vital contributors to economic growth and development due to their potential for innovation, job creation, and entrepreneurial dynamism.

While the specific thresholds may differ, common definitions of SMEs typically include micro-enterprises, small enterprises, and medium enterprises. Micro-enterprises are the smallest category, typically consisting of very small businesses with a limited number of employees, low turnover, and minimal assets (Salimon, et al, 2023). Small enterprises have slightly higher thresholds, including a higher number of employees and higher turnover or asset limits. Medium enterprises, the largest category within the SME classification, have higher thresholds than small enterprises but are still smaller in scale compared to large corporations.

Primary Sources of Financing for SMEs in Nigeria

The significance of finance for business organizations cannot be overstated. However, sourcing business finance, especially for Small and Medium Enterprises (SMEs), remains a challenging task. SMEs require funds from various available sources to meet their asset needs, capital requirements, and for expansion purposes. In Nigeria, there is a general consensus that government policies are biased towards the formal sector, which poses a disadvantage to SMEs in the country. SMEs in Nigeria predominantly rely on funds from the informal sector, as noted by Ekpenyong and Nyong (2016) and Ohanga (2015).

Formal sources of finance for SMEs include commercial banks, merchant banks, microfinance banks, and development banks. Despite the ample liquidity in the Nigerian economy, banks are hesitant to provide loans to SMEs, considering them a high-risk sector. Many banks prefer to pay penalties for not meeting the minimum credit requirement rather than exposing themselves to the associated risks.

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Internal Sources of Financing SMEs

Internal Finance: A Vital Source of Funding for SMEs

Internal finance, often referred to as informal finance, encompasses funds raised internally, such as retained profits and personal savings. It also includes loans obtained from relatives, moneylenders, rotating savings, credit associations, and non-profit organizations, where self-enforcing contracts and informal arrangements are commonly employed to ensure loan repayment In addition to these sources, Mendoza et al (2023) highlights other forms of internal financing, including personal savings, loans from friends, employers, colleagues, and credit card loans. Previous research has consistently demonstrated that access to internal finance can have a positive impact on business performance. Maran, (2022) as well as Owen, et al (2023) found that internal financing has the potential to facilitate SME growth and can play a role similar to that of angel investors in supporting the establishment and growth of fast-growing start-ups in developing countries.

The literature also suggests that internal finance can help bridge the finance gap faced by SMEs and significantly influence their performance (Aderemi, & Ishak, 2023). Chokera and Mutambara, (2023), further supports this notion, citing data from the Panel Study of Entrepreneurial Dynamic (PSED), which indicates that entrepreneurs prefer to rely on internal sources of financing over external sources. Particularly during the initial stages of SME development, owner-managers often rely on personal savings and support from family members or friends. Start-up SMEs face significant challenges in obtaining external finance from banks and financial institutions, making internal finance of critical importance (Esho & Verhoef, 2022; Singh & Pillai, 2022).

Typically, SMEs exhaust internal sources of finance before turning to external sources, aligning with the pecking order theory that suggests a preference for internal financing before seeking external debt and equity (Rao, Kumar, Chavan, & Lim, 2023).

External Sources of Financing for SMEs

External financing for SMEs encompasses formal sources of funding obtained from outside the firm. This type of financing involves various options, including debt and equity. Debt financing involves obtaining loans from financial institutions or other lenders, while equity financing entails acquiring capital from investors in exchange for ownership shares in the business. Owner-managers of SMEs often prioritize debt financing initially, as it offers lower disruption and less risk of losing control compared to equity financing. This preference for debt aligns with the pecking order theory, where internal sources of finance are exhausted before seeking external options (Rao, et al, 2023). Debt-equity decisions are crucial early in the firm's life cycle and have long-term financial implications.

SMEs face challenges in accessing external finance due to their informational opacity and the reluctance of external financiers, particularly banks, to provide credit (Bernanke, 2023). However, external financing, whether through debt or equity, is crucial for SMEs' growth, expansion, and survival. Debt financing is particularly attractive to SMEs as it allows for faster access to funds and provides stability for growth. On the other hand, equity financing offers long-term funding options and may involve business angels, venture capitalists, or crowd funding platforms. Policymakers recognize the importance of SMEs in the economy and emphasize the need for entrepreneurs to have access to external financing to realize their growth potential. By securing external sources of financing, SMEs can overcome financial constraints and pursue their growth objectives (Du, & Nguyen, 2022).

Challenges in Banking Sector Credit for Financing SMEs in Nigeria

SMEs are widely acknowledged as catalysts for economic growth in Nigeria. However, they face several challenges, and one of the main issues is the lack of sufficient capital to finance their operations (Sharma, et al, 2021). Empirical evidence suggests that financing plays a crucial role in the success of SMEs in Nigeria. A significant percentage of small-scale and medium-scale firms in the country are financially constrained, leading to closures and businesses unable to access the funds they need. In Nigeria, many SMEs struggle to obtain the necessary financing despite having relationships with banks. This reluctance of banks to extend credit to SMEs can be attributed to various reasons, including inadequate collateral provided by SME operators, weak demand for their products due to reduced purchasing power, and poor management practices (Effiom & Edet, 2022). These challenges in the banking sector create obstacles for SMEs in accessing the required funds, hindering their growth and sustainability.

Theoretical Framework

Social Capital Theory

This study hinge on the Social Capital Theory. Social Capital Theory, propounded by Robert Putnam in the year 1993, explores the value and impact of social networks and relationships in achieving individual and collective goals within a society. According to Putnam, social capital refers to the trust, norms, and networks that exist within social relationships, enabling individuals to cooperate and collaborate effectively. It emphasizes the importance of social connections, reciprocity, and social trust in fostering economic development and enhancing the overall well-being of individuals and communities.

In the context of SME financing, Social Capital Theory is highly relevant. The theory highlights the role of social networks and relationships in accessing financial resources. SMEs often face challenges in obtaining formal financing from banks and other financial institutions due to limited collateral or perceived risk. In such situations, social capital can play a crucial role in filling this gap. Through strong social ties, SMEs can tap into informal financing sources such as family, friends, or community members who are willing to provide loans or invest in their businesses.

Moreover, social capital can facilitate access to information, knowledge, and opportunities that are vital for SME growth. By being part of supportive networks, SMEs can gain valuable market insights, mentorship, and guidance from experienced entrepreneurs or industry experts. These networks can provide access to potential customers, suppliers, and business partners, opening up new avenues for growth and expansion.

Overall, Social Capital Theory emphasizes the importance of social connections and networks in facilitating access to resources, including financial capital, for SMEs. By leveraging social relationships, SMEs can overcome some of the challenges they face in obtaining formal financing and gain access to critical support systems that contribute to their success. Understanding and harnessing social capital can be instrumental in promoting the growth and sustainability of SMEs in today's business environment.

Empirical Review

In a study conducted by Arif et al. (2020), the researchers examined the relationship between the usage of formal finance and the growth of small and medium enterprises (SMEs) in ASEAN countries. The SMEs were classified into four categories based on their innovation activities: non-innovators, product innovators, process innovators, and those engaged in both product and process innovation. The findings of the study indicated that SMEs that simultaneously pursued product and process innovation were more likely to experience higher growth compared to non-innovators. However, the researchers also found that the usage of formal finance by SMEs solely focused on product innovation or process innovation did not significantly differ from that of non-innovators.

Furthermore, the study confirmed that access to finance has a positive impact on the performance of SMEs in the country. This suggests that SMEs that have better access to formal financial resources are more likely to achieve higher levels of growth and overall success.

A study conducted by Ofoegbu, Akanbi, and Joseph (2013) focused on investigating the impact of contextual factors on the performance of small and medium enterprises (SMEs) in the Ilorin metropolis of Nigeria. The researchers gathered data from a sample of 250 SMEs and employed various statistical techniques such as Logit regression, Pearson product moment correlation, and Analysis of Variance estimation. The findings of the study revealed that in order for SMEs to thrive in the State, it is crucial to have an enabling environment that supports their operations. This includes the provision of adequate human and material resources, as well as access to finance with less stringent collateral requirements. These factors were found to have a significant influence on the performance of SMEs in the Ilorin metropolis.

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A comprehensive study conducted by Moscali, Girardone, and Calabrese (2019) aimed to investigate the growth of small and medium enterprises (SMEs) under financing constraints and the integration of banking markets in the Euro area between 2009 and 2015. The researchers focused on the largest countries within the Euro area and employed multiple regression analysis to estimate the data. The findings of the study highlighted the detrimental impact of financing constraints on the growth of SMEs in the largest Euro countries. It revealed that when SMEs face limitations in accessing adequate financing, their growth potential is hindered. These constraints can arise from various factors such as limited availability of credit, high collateral requirements, and stringent lending conditions imposed by banks. Furthermore, the study emphasized the relevance of banking market integration in this context. The integration of banking markets can facilitate access to finance for SMEs by providing them with a broader range of funding options and increased competition among financial institutions.

Olatunji and Ibukun-Falayi (2018) conducted a study to examine the impact of interest rate regulation on credit administration for small and medium enterprises (SMEs) in Nigeria over a twenty-year period from 1994 to 2013.

The researchers analyzed the trends of interest rates and credits extended to SMEs to determine the relationship between interest rate regulation and credit administration. They also evaluated the extent to which interest rates influenced the availability of credit for SMEs and the nature of these effects. The study utilized secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletins, which provided information on average interest rates during the study period. The findings of the study revealed a positive but weak correlation between interest rate regulation and credit administration for SMEs. The researchers concluded that interest rate regulation did not have a significant impact on the administration of credit to SMEs.

Conceptual Framework

A conceptual framework is a logical tool used to integrate relevant aspects of a concept in order to provide the most effective explanation for a given problem. In the context of SMEs growth, both internal and external sources of finance have been identified as influential determinants (Ahinful, Boakye, & Osei Bempah, 2023). Given that financing needs depend on accessibility to various sources and other firm and entrepreneur characteristics, it is important to develop a framework that can guide the identification and analysis of financing preferences for SMEs in order to determine their growth potential. This framework serves as a valuable guide for future research on SMEs' access to financing sources.

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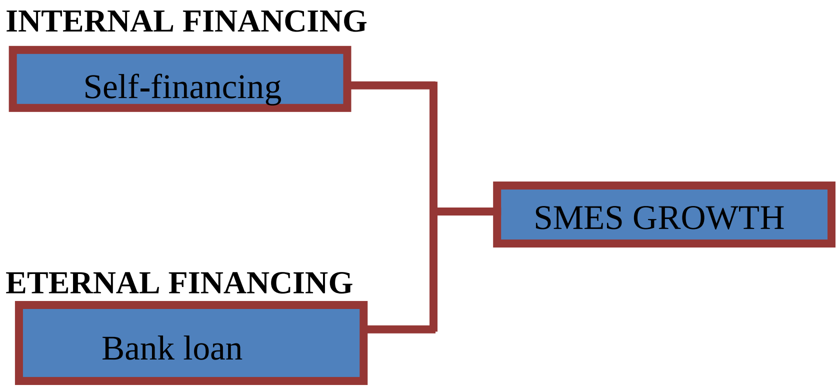
Furthermore, the existing research highlights the significance of financial education for entrepreneurs, as it enhances their participation in the financial market and contributes to the growth of SMEs (Molina-Garcia et al., 2022). Figure 1 provides a visual representation of the conceptual framework that focuses on financing sources for determining SMEs growth. It offers a comprehensive approach to understanding the interplay between financing and growth in the context of SMEs.

Figure 1



Source: Author's conception, 2023

Methodology

A descriptive research design was employed for this study. Non-probability sampling methods, specifically purposive sampling, were utilized to ensure that every element of the population had an equal and independent chance of being selected. The data collected from the administered questionnaires were analyzed using descriptive statistical techniques, including simple percentage, correlation analysis, and tool score. These methods were employed to summarize, analyze, and interpret the data. The study focused on 250 SMEs loan borrowers in Ibadan North Local Government area who were actively involved in running small and medium enterprises with the assistance of SMEs financing.

The data obtained from the questionnaire were analyzed using the Statistical Package for the Social Sciences (SPSS 20). Descriptive statistics were employed to analyze the questionnaires, providing a summary of the collected data. Additionally, regression analysis and Analysis of Variance (ANOVA) were utilized to test the first and second hypotheses.

Model Specification

Model I:

To fulfill the initial objective of the study, which aimed to investigate the impact of access to bank loans on the growth of SMEs in Oyo State, a simple linear regression analysis was conducted. The model's functional form was specified as follows:

$$GR = f(LSMEs) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

Where: GR = Growth of SMEs

LSMES = Bank loan to SMEs

In econometric form, the model takes the form:

$$GR = \alpha_o + \alpha_1 LSMEs + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

Where α_o = constant; α_1 coefficient of LSMEs and μ_t = error term

On apriori it is expected that $\alpha_o < 0$

Model II:

In order to determine the second objective; the effect of interest rate charged on the growth of SMEs in Oyo State, the simple linear regression was also used and the functional form is specified as:

GRSMEs = f(ICL) ---------------------------------- (3)

Where GRSMEs = Growth of SMEs,

ICL = Interest rate charged on loan

The mathematical specification of the model takes the form:

$$GRSMEs = \beta_o + \beta_1 ICL + E_t \text{ ------------------------ (4)}$$

Where β_o = constant; β_1 coefficient of ICL and μ_{t} = error term

On apriori it is expected that $\beta_o < 0$

Method of Data Analysis

The study adopted descriptive analysis on the demographic characteristics of the respondents while simple regression analysis with ANOVA were used to addressed the first and the second objectives. The SPSS 20 package was used for the analyses.

Results and Discussion

The completed questionnaire was analyzed using the Statistical Package for Social Science (SPSS 20) to generate frequency and percentages.

Table 1: Educational Qualification of Respondents

	Frequency	Percent
OND/HND	25	16.4
B.Sc	59	38.8
M.Sc /MBA	41	27
Professional Qualification	27	17.8
Total	152	100

Source: field survey, 2023

Table 1 above shows the distribution of respondents based on the academic qualification, out of the 152 respondents 25(16.4%) of the respondents are OND/HND holders, 59(38.8%) are BSc. holders, 41(27.0%) are MSc/MBA holders while 27(17.8%) have professional qualifications. This analysis implies that majority of the SMEs owners are educated which indicate that they are familiar with the issue of financing business with either internal or external finance. The distribution is presented on the pie chart below

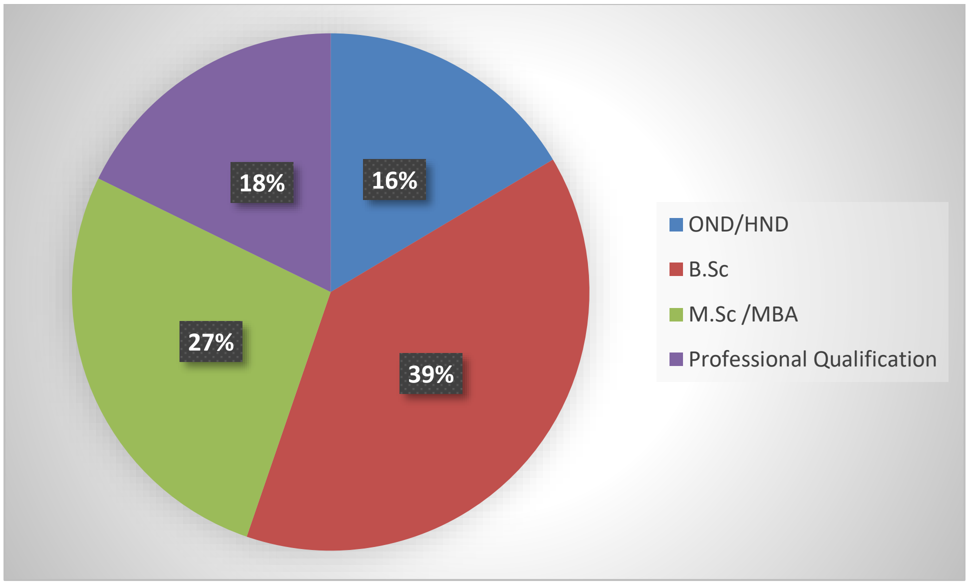


Figure 1: Distribution of respondents based on their academic qualification

Table 2: Sex of Respondents

	Frequency	Percent
Female	40	26.3
Male	112	73.7
Total	152	100

Source: field survey, 2023

As regard the sex of the respondents. Table 2 above indicate that out of the 152 respondents 40(26.3%) are female while 112(73.7%) are male. This analysis implies that more male participants responded to the questionnaire than their female counterpart. The distribution of the respondents based on their sex is presented on the bar chart below:

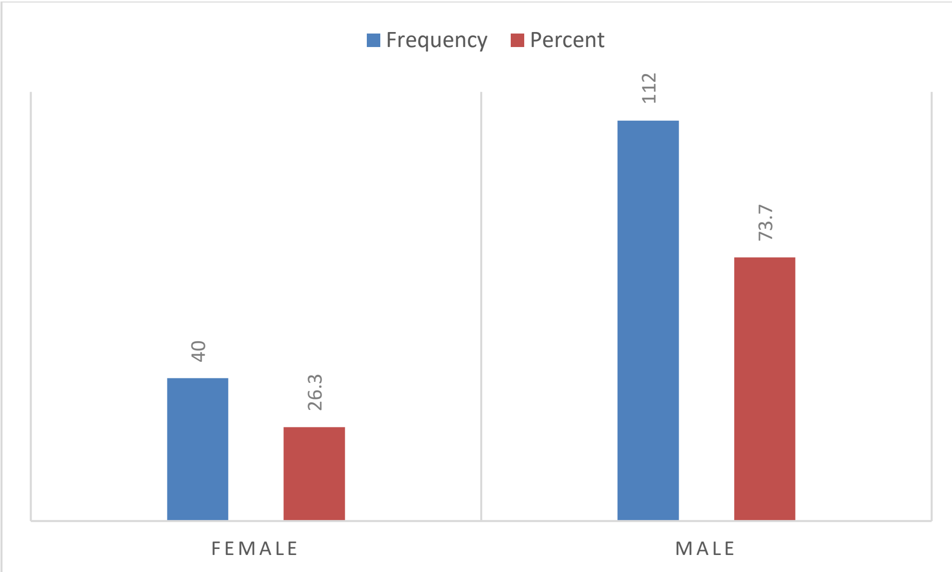


Figure 2: Distribution of respondents based on sex of respondents

Table 3: Years in Business

	Frequency	Percent
Less than 2 years	38	25
2-5 years	80	52.6
5-10 years	26	17.1
10-15y years	8	5.3
Total	152	100

Source: field survey, 2023

Table 3 above shows that 38(25.0%) of the respondents have been in business for less than 2 years, 80(52.6%) of the respondents have been in business for about 2-5 years, 26(17.1%) have been in business for about 5-10 years while 8(5.3%) have been in business for about 10-15 years. The distribution of respondents based on the year of business is presented in the pie chart below

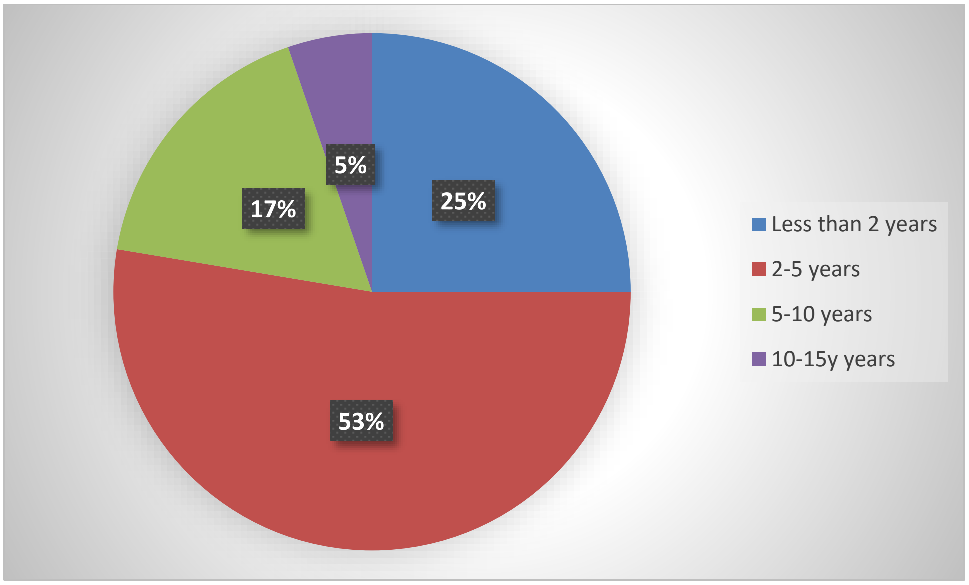


Figure 3. Distribution of respondents based on the years of operation

Table 4: Banks, in collaboration with the Small and Medium Scale Development Agency of Nigeria (SMESDAN), actively facilitate the disbursement of loans to small and medium enterprises (SMEs).

	Frequency	Percent
Strongly Disagree	3	2
Disagree	5	3.3
Not sure	14	9.2
Agree	51	33.6
Strongly Agree	79	52
Total	152	100

Source: field survey, 2023

Table 4 displays the distribution of responses regarding the availability of banks, in collaboration with the Small and Medium Scale Development Agency of Nigeria (SMESDAN), to disburse loans to SMEs. Among the respondents, 3 individuals (2.0%) strongly disagreed with the statement, 5 (3.3%) disagreed, 14 (9.2%) were unsure, 51 (33.6%) agreed, and 79 (52.0%) strongly agreed that banks, in collaboration with SMESDAN, are readily available to disburse loans to SMEs.

Table 5: Banking Sector gives sufficient loans/credits for SMES's development

	Frequency	Percent
Strongly Disagree	3	2
Disagree	9	5.9
Not sure	16	10.5
Agree	93	61.2
Strongly Agree	31	20.4
Total	152	100

Source: field survey, 2023

Table 5 above shows that 3(2.0%) of the respondents strongly disagreed that Banking Sector gives sufficient loans/credits for SMES's development, 9(5.9%) disagreed with the statement, 16(10.5%) are not sure about the statement, 93(61.2%) agreed with the statement while 31(20.4%) of the respondents strongly agreed that Banking Sector gives sufficient loans/credits for SMES's development.

Table 6:Unhindered access to external finance is a powerful development lubricant, which grease the productive channels of SMEs and simulates its smooth operation

	Frequency	Percent
Strongly Disagree	3	2
Disagree	5	3.3
Not sure	14	9.2
Agree	51	33.6
Strongly Agree	79	52
Total	152	100

Source: field survey, 2023

Table 6 presents the distribution of responses regarding the statement that unhindered access to external finance is a powerful development lubricant that greases the productive channels of SMEs and stimulates their smooth operation. Among the respondents, 3 individuals (2.0%) strongly disagreed with the statement, 5 (3.3%) disagreed, 14 (9.2%) were unsure, 51 (33.6%) agreed, and 79 (52.0%) strongly agreed that unhindered access to external finance is indeed a powerful development lubricant that facilitates the smooth operation of SMEs and enhances their productivity.

Table 7: Finance has always created means for expansion for SMEs

	Frequency	Percent
Strongly Disagree	4	2.6
Disagree	11	7.2
Not sure	31	20.4
Agree	55	36.2
Strongly Agree	51	33.6
Total	152	100

Source: field survey, 2023

Table 7 above shows that 4(2.6%) of the respondents strongly disagreed that Finance has always created means for expansion for SMEs, 11(7.2%) disagreed with the statement, 31(20.4%) are not sure about the statement, 55(36.2%) agreed with the statement while 51(33.6%) strongly agreed that Finance has always created means for expansion for SMEs.

Table 8: Inability of SMEs to access loans from commercial banks due to the perceived risk in lending to SMEs deters the growth of SMEs

	Frequency	Percent
Strongly Disagree	2	1.3
Disagree	9	5.9
Not sure	22	14.5
Agree	44	28.9
Strongly Agree	75	49.3
Total	152	100

Source: field survey, 2023

Table 8 above shows that 2(1.3%) of the respondents strongly disagreed that inability of SMEs to access loans from commercial banks due to the perceived risk in lending to SMEs deters the growth of SMEs, 9(5.9%) disagreed with the statement, 22(14.5%) are not sure about the statement, 44(28.9%) agreed with the statement while 75(49.3%) strongly agreed that Inability of SMEs to access loans from commercial banks due to the perceived risk in lending to SMEs deters the growth of SMEs.

Test of Hypotheses

Hypothesis 1

Statement of Hypothesis in null form

H_o = Access to bank loan facilities has no significant effect on SMEs growth in Oyo State.

In order to achieve this objective, regression analysis along with ANOVA techniques was employed and the result is presented below:

Table 9: Simple Linear Regression Model Statistics Summary of Bank credit to SMEs and Growth of SMEs

R	0.738
R^2	0682
Adjusted R^2	0.666
Standard error	1.889
Observation	152

Source: Researchers computation 2023, via SPSS 20,

Table 9 displays the summary statistics of the simple linear regression model, including the multiple R-square, R-square, adjusted R-square, standard error, and the number of observations. The results indicate that the independent variable explains approximately 68% of the variation in the dependent variable, suggesting that banks' loans to SMEs are strong predictors of SMEs' growth in Ibadan. The remaining unexplained variation of around 32% is attributed to stochastic random factors that are not accounted for in the model.

Table 10: ANOVA and Coefficient of Simple Regression Statistics: Bank Credit to SMEs and Growth of SMEs

	Df	SS	MS	F	Sig. of F	Decision
Regression	1	479.439	239.720	28.709	0.000	Reject H_o
Residual	151	776.531	8.350			
Total	152	1256.000				

	Coefficients	Standard Error	t Stat	p-value
Intercept	3.912	0.312	12.54	0.00
Bank loan to SMEs	0.157	0.078	2.002	0.047

Source: Researchers computation 2023 using SPSS 20

Independent variable: bank loan to SMEs

Table 10 indicated that the independent variable (bank loan to SMEs) is a significant predictor of the growth of SMEs in Ibadan with (F (1, 151) = 28.709; $\rho < 0.05$. R^2 = 0.682). The weight of the parameter estimate for bank loan to SMEs is found to be β=0.157, with ρ<0.05. This indicates a positive and significant effect of bank loan to SMEs on the growth of SMEs in Ibadan. Based on the result, the null hypothesis that bank loan to SMEs has no significant impact on the growth of SMEs is rejected.

Hypothesis 2

Statement of Hypothesis in null form

H_o = Interest rates charged on loan has no significant effect on SMEs growth in Oyo State

In order to achieve this objective, linear regression along with ANOVA were used and the result are displayed below:

Table 11Simple Linear Regression Model Statistics Summary: Interest Rate Charged on SMEs and Growth of SMEs

R	0.848
R^2	0.798
Adjusted R^2	0.695
Standard error	1.24029
Total Observation	152

Source: Researchers computation 2023, via SPSS 20

Table 11 presents the summary of the simple linear regression model statistics, including the multiple R-square, R-square, adjusted R-square, standard error, and the number of observations. The findings indicate that the independent variable, which is the interest rate charged on loans, accounts for approximately 80% of the variation in the growth of SMEs in Ibadan. The low standard error of 1.24029 suggests a relatively small amount of variability in the model's predictions. The remaining 20% of the variation is attributed to the error term, which captures the unexplained factors influencing SMEs' growth in the context of the model.

Table 12: Summary of Simple Linear Regression Model Statistics: Interest Rate Charged on Loan and Growth of SMEs

	Df	**SS**	**MS**	**F**	**Sig. of F**	**Decision**
Regression	1	1828.068	457.017	7.087	0.000	Reject H_o
Residual	151	207.675	1.538			
Total	152	2035.743				
	Coefficients	**Standard Error**	**t Stat**	**p-value**		
Constant	2,405	0.745	3.227	0.002		
Interest rate charged by bank	-0.729	0.296	2.463	0.003		

Source: Researchers computation 2023, using SPSS 20

Dependent Variable: Growth of SMEs

The table presents the results of the linear combination analysis, assessing the effect of interest rate charged on loans by banks to SMEs on the growth of SMEs in Oyo State. The analysis reveals that the linear combination of interest rate charged on loans has a significant effect on the growth of SMEs in Oyo State ($F(1, 151) = 7.087$, $p < 0.001$). The coefficient of determination (R) is 0.848, indicating a strong positive correlation between the interest rate charged on loans and SMEs' growth. The R-squared value of 0.798 suggests that the independent variable (interest rate charged on loan) accounts for approximately 80% of the variation in the growth of SMEs in Ibadan, Oyo State, Nigeria. The adjusted R-squared (adjusted R2) of 0.695 takes into account the number of predictors and provides a more conservative estimate of the model's explanatory power.

The relative contribution and significance level of the independent variable are represented by the parameter estimate ($\beta = -0.729$, $p < 0.01$), indicating a negative and significant effect of interest rate charged on loans on the growth of SMEs in Ibadan. This suggests that higher interest rates charged on loans by banks have a detrimental impact on the growth of SMEs. The results from the F-statistics support the rejection of the null hypothesis, indicating that the interest rate charged on loans to SMEs has a significant effect on their growth.

Conclusion and Recommendations

In conclusion, the study highlights the importance of access to bank loans and external financing for the growth of SMEs in Nigeria. The collaboration between banks and SMESDAN has significantly improved the availability of loans to SMEs, supporting their growth and development. Unhindered access to external finance is identified as a powerful catalyst for SMEs' smooth operation and overall performance. Bank loans are found to have a positive and significant effect on SMEs' growth, emphasizing the need for continued financial support from banks. However, interest rate regulation alone may not be sufficient in enhancing credit administration to SMEs, and it is recommended to implement complementary measures such as effective credit guarantee schemes, subsidized interest rates, and financial education to further support SMEs' access to finance..

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