



## THE ROLE OF DEPOSIT MONEY BANKS ON THE GROWTH OF SMES IN CROSS RIVER STATE, NIGERIA

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### ABSTRACT

This study examined the role of deposit money banks on the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria. The objectives of the study were to examine the degree of relationship between deposit money banks credit, multiple taxations and government policies on the growth of SMEs. In order to achieve these objectives, three research hypotheses were tested at 5% level of significance. The survey research design was adopted and a well structured questionnaire was constructed to gather data for the study. The questionnaire was administered on 158 respondents comprising SMEs operators and banks staff. The Pearson product moment correlation statistical technique was applied. Findings resulting from the test revealed that deposit money banks credit had a significant relationship with the growth of SMEs. Multiple taxations and government policy summersault were found to significant affect SMEs growth. Based on these findings, the CBN was encouraged to mandate deposit money banks to set aside a certain percentage of their loanable funds for on lending to SMEs and to set up an enforcement team to ensure compliance by the banks. There was need to eliminate multiple taxation, reduce corporate taxes and strengthen government policy framework to impact significantly the growth of SMEs in Nigeria.

**Keywords:** Deposit money bank; credit and small and medium enterprises (SMEs)

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## INTRODUCTION

The growth of the industrial sector of any economy is achieved through the interdependence and interrelationship among various business units. Growth has been defined as the numeric increase in the productive activities of a country. It is an increase in the amount of goods produced by all sectors of an economy in naira value. SMEs are sub-sectors of the industrial sector and they play crucial role in industrial development (Ahmed, 2006). SMEs have been identified as veritable engines that accelerate economic growth. According to Ettah (2004), they are very vital for the indigenization of the industrial sector, creation of employment opportunities, utilization of local raw materials and development of local technology and man power needed to feed large scale enterprises. They also correct imbalances in development among regions through the distribution of investment projects since they can more readily be located in the rural areas (Ettah, 2004). In addition, they have potentials for generating multiplier effects through the process of forward and backward linkages with large scale enterprises.

Irrespective of these vital roles play by SMEs scholars believed that the sector's full potential has not been completely exploited (see Ihyembe (2000), Ojaide (1999), Levy (1993) and Cooney (2001),). The reasons for this situation are many. Afolabi (2013) noted that financial constraint, explained by high lending rates, high loan requirements, lack of entrepreneurial skills, lack of adequate credit for SMEs, traceable to the reluctance of banks to extend credit to them owing, among others to poor documentation at project proposals as well as inadequate collateral by SMEs operators constitute some of the major problems of SMEs in Nigeria.

It could therefore be inferred from the foregoing that most of the problems faced by SMEs in Nigeria evolved as a result of inadequate credit and funding of the sector. Credit has been defined Aryeety (1996) as the amount extended out with a promise to repay both the principal and interest at a stipulated future date. NDIC (1990) as cited by Ugwu (2010), defined credit to include the aggregate of all loans, advances, overdraft, commercial papers, bankers' acceptance, bills discounted lease and guarantee.

The responsibility of providing credit to SMEs is placed on deposit money banks. Other than the provision of credit, Anyanwu, Oaikhenan, Oyefusi & Dimowo (1997) identified other roles played by deposit money banks to include encouragement of savings, provision of capital needed for development, encouragement of trading activities through the use of cheques, encouragement of investment, provision of managerial advice to SMEs industrialists who do not engage the services of specialists and rendering financial advice. Ironically, deposit money banks that ought to perform these functions to enhance the sector's role in the economy have been accused of charging arbitrary rates on the services provided to the sector (see Victor & Eze, 2013 and Okafor 2011). This study is therefore meant examine the role played by deposit money banks on the growth of the SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

SMEs are faced with many problems ranging from financial constraint, explained by high lending rates, high loan requirements, lack of adequate credit for SMEs, traceable to the reluctance of banks to extend credit to them, to lack of entrepreneurial skills, illiteracy, bad roads network, infrastructural decay, multiple taxation, to mention but a few.

The results of the forgoing are eminent, high cost of production, high prices, use of obsolete technology and crude methods of production, poor product quality, lack of funds for research and development and above all a drastic drain in the sector's capacity to perform as a wheel that drives industrialization. To reduce the negative impact of lack of funding on SMEs performance, the CBN in its prudential guidelines often consider the interest of the SMEs by requiring deposit money banks to channel a certain percentage of their loan portfolio to SMEs. The question that readily comes to mind is has CBN efforts really increased deposit money banks credit to SMEs?

The major objective of this study is to assess the role of deposit money banks on the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria. The specific objectives include:

- (i) To examine the relationship between deposit money banks credit to SMEs and the growth of SMEs in Government area, Cross River State, Nigeria;
- (ii) To assess the relationship between multiple taxation and the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria;
- (iii) To determine the degree of relationship between government policies and SMEs growth in Yakurr local Government Area, Cross River State, Nigeria.

To attain the above objectives, three null hypotheses were formulated thus:

H<sub>0</sub>: Deposit money banks credit does not relate significantly with the growth of SMEs in Yakurr Local Government Area of Cross River State, Nigeria.

H<sub>0</sub>: Multiple taxations have no significant relationship on the growth of SMEs in Yakurr Local Government Area in Cross River State, Nigeria.

H<sub>0</sub>: Government policies do not significantly relate with the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

## THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Banks cannot always set high interest rates. Banks should consider the problem of adverse selection and moral hazard since it is very difficult to predict the borrower type at the start of the banking relationship (Stiglitz & weiss, 1981) as cited by Victor & Eze (2013). If banks set interest rates too high, they may induce adverse selection problems because high risk



borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behaviour since they are likely to take highly risky investments (Choddecai, 2004) as found in Victor & Eze (2013).

Commercial banks should advance only short term self liquidating productive loans to business firms. Self-liquidating loans are those loans which are meant to finance the production and movement of goods through the successive stages of production, storage, transportation, and distribution. When such goods are ultimately sold, the loans are considered to liquidate themselves automatically (Jhingan, 2009).

Mbat (2001) held that the ideal assets of banks under this theory should consist of short term business loans made to business firms for the management of their working capital. When a bank finances the working capital of a firm, it expects funds for repayment to come from the management of working capital itself.

The theory further believes that when commercial banks make only self-liquidating productive loans, the central bank in turn should only lend to the banks only on the security of such short term loans. Jhingan (2009) affirms that this principle would ensure the proper degree of liquidity for each bank and the proper money supply for the whole economy.

SMEs have assumed various definitions depending on the judgement of the person defining. Many definitive rods have evolved gear at capturing the concept. Little wonder Okonkwo (1995) explained that SME is a relative and heterogeneous concept. In a bid to conceptualise SME, countries adopt quantitative indicators like number of employees, sales and capital employees and qualitative indicators like legal status, ownership structure, factor intensity and technology (Rogers 2002 and Onwumere 2000). In addition to these indicators, SMEDAN (2007) identified turnover, asset, and investments and paid up capital as the measuring rods through which SMEs could be differentiated from large enterprises.

SME is an outfit with a maximum asset base of 200 million, excluding land and working capital and with the number of staff employed by the enterprise not less than 10 and not more than 300 (Oboh, 2002). Ayegusi (2004) defined SME as an enterprise which has an investment capital of up to 150000 naira and employs not more than fifty (50) persons or workers.

Several studies have been conducted by scholars on the funding activities of deposit money banks and the performance of SMEs in Nigeria. Some studies investigated the factors that inhibit commercial banks credit to SMEs in Nigeria, while others assessed the factors that limit SMEs performance in Nigeria.

Akeem (2004) used correlation analysis to examine banking sector and the development of SMEs in Osun State, Nigeria. The study revealed a positive relationship between the provision of credit facilities by commercial banks and the development of SMEs in Osun State.

Gbandi & Amisshah (2014) conducted a descriptive study on the financing options for SMEs in Nigeria. The study examined debt financing by considering the role commercial, microfinance banks, co-operatives and other finance institutions play in the financing of SMEs in Nigeria. The study revealed that the informal financial sector provides more than 70% of funds to SMEs in Nigeria and concluded that funding of SMEs in Nigeria is very critical if SMEs are to perform their role of growth and development of the nation's economy.

Mba & Cletus (2014) studied the challenges and prospect of SMEs in Port Harcourt city, Nigeria. Using the descriptive research design and 120 randomly selected sample of registered operators of SMEs in Port-Harcourt City, the study analyzed the data collected using descriptive statistics while the hypotheses were tested using z-test. The Results from the data analysis indicated that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Port-Harcourt

City In a similar study, Osotinehin, Jegede, Akinlabi & Olajide (2012), investigated the challenges and prospects of micro small scale enterprises development in Nigeria. The study adopted the non parametric statistics and the Z-test analysis. It was disclosed that financial constraints and Lack of management skill hamper the efficient performance of micro and small scale enterprises in Nigeria

Abubakar & Yahya (2013) used the t-test statistics to analyse the need for strengthening SMEs as a strategy for poverty reduction in Northern Nigeria. The study highlighted inadequate raw materials, lack of spare parts and high cost of production, ineffective demand, lack of government support, irregular power supply and high corporate taxes as the major challenges of SMEs in Nigeria. Findings from the study also showed that large enterprises contribute more in the area of employment provision than the SMEs against the popular view that SMEs provide greater employment opportunities than large firms.

Emmanuel & Daniya (2012) used the deductive approach to investigate the role of government and other financial institution in the development of SMEs. The study discovered that financial institutions provide the necessary financial lubricant that facilitate the development of Small and Medium Scale Enterprises, but, a lot still need to be done by the government in terms of policy formulation in order to complement the efforts of financial institutions. The study also unfolded that poor implementation of government policies, erratic financing of schemes initiated by government and other administrative bottlenecks have hindered the economic potentials of SMEs in Nigeria from being fully harnessed.

Olutunla & Obamuyi (2008) employed the fixed effect regression model to empirically determine the factors associated with the profitability of SMEs in Nigeria. With panel data of 115 SMEs that have taken loans. The study revealed a positive and significant relationship between loan size of the business and SMEs profitability.



Tajudeen (2012) examined the relationship between commercial bank credits indicators and rural economic growth in Nigeria. Using a double-log equation within the context of Ordinary Least Square (OLS) framework and co-integration test, the study finds that rural economic growth is co-integrated with bank credits indicators in Nigeria. The study also revealed a positive relationship between rural economic growth and commercial banks rural loans as well as commercial bank loans to agricultural and rural economic growth.

Safiyah & Garba (2013) investigated the contribution of commercial banks to the growth of SMEs in Nigeria. Applying the descriptive method ratio and trend analysis, It was discovered that commercial banks contribute to financing small and medium scale enterprises but their contribution has declined as the government through CBN directives abolished the mandatory bank's credit allocations.

## RESEARCH METHODOLOGY

The survey descriptive design was adopted for this study using structured questionnaire. The theoretical population of this study was made up of SMEs in Yakurr Local Government Area of Cross River State and the First bank of Nigeria PLC. However, the study was restricted to SMEs operating in Ugep and Ekori since First Bank are only located in these villages.

The purposive and accidental sampling techniques were adopted to select required sample of the study. Foremost, the researchers hand picks 158 respondents that were judge to be typical of the population under study. The researchers then proceeded to administer the research instrument to these SMEs operators base on their willingness to attend to the research instrument. The choice of these designs was considered appropriate since no finite population size of SMEs could be obtained.

Both the primary and secondary data sources were used for this study. The primary sources were used to collect information from the respondents using structured questionnaire. This information were coded, and used to test the study's hypotheses and answer the research questions. The secondary data sources were used to explore the research problem and to review the relevant literatures in the study. Other methods of data collection include personal observation, interview and personal discussion with respondents.

The instrument of this study was a 21 item questionnaire structured to cover all the variables under study. The questionnaire was divided into two sections. Section A had five items and was designed to collect information on the personal and background information of the respondents. The items cover by section A were sex, age, highest education level, occupation and job experience.

Section two was divided into two sub-scales. Sub-scale one measured deposit banks loans and advances, savings facilities and advisory services. Each of these sub heading had four items. Sub-scale two on the other hand measured the growth of SMEs and consist four items. The instrument was designed on a four likert scale basis of strongly agree, agree, disagree and strongly disagree.

Data collection will be presented using tables' the Pearson product moment correlation and the chi square model and it interpretation will be used. The adoption of these statistical techniques is to facilitate the establishment of a relationship between the variables under study and to clearly identify the most effective capital budgeting criteria. The Pearson product moment correlation is given as

$$r = \frac{n \sum Xy - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2 \cdot (n \sum Y^2 - (\sum Y)^2)}}$$

Where:

r = correlation coefficient

n = number of respondents

X and Y = variables of consideration

Degree of freedom (d.f) = n-2

## ANALYSES AND DISCUSSION OF FINDINGS.

### Test of Hypotheses

#### Hypothesis one

H<sub>0</sub>: Deposit money banks credit does not relate significantly with the growth of SMEs in Yakurr Local Government Area of Cross River State, Nigeria.

H<sub>1</sub>: Deposit money banks credit relate significantly with the growth of SMEs in Yakurr Local Government Area of Cross River State, Nigeria.

To test this hypothesis, the Pearson product moment correlation analytical technique was used. The result is presented in table 1

**Table 1**

Pearson product moment correlation analyses of the relationship between deposit money bank credit and the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

Variables	$\sum X$	$\sum X^2$	$\sum XY$	r-Cal
Deposit money bank credit	1679	18347	19291	7.1
Growth of SMEs	1793	20805		

\*P < 0.05, d. f = 156, critical r = 1.96

Source: Researchers' field Survey, December, 2014

The result in table 4.1 showed that the calculated r-value was found to be greater than the critical r-value of 1.96 needed for significance at 0.05 levels with 156 degree of freedom. With this result, the null hypothesis was rejected. It therefore means that deposit money banks credit relate significantly with the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

### Hypothesis two

H<sub>0</sub>: Multiple taxations have no significant relationship with the growth of SMEs in Yakurr Local Government Area in Cross River State, Nigeria.

H<sub>0</sub>: Multiple taxations have a significant relationship with the growth of SMEs in Yakurr Local Government Area in Cross River State, Nigeria.

To test this hypothesis, the Pearson product moment correlation analytical technique was used. The result is presented in table 2

**Table 2**

Pearson product moment correlation analyses of the relationship between multiple taxations and the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

Variables	$\sum X$	$\sum X^2$	$\sum XY$	r-Cal
Multiple taxations	1636	17430	18804	7.3
Growth of SMEs	1793	20805		

\*P < 0.05, d. f = 156, critical r = 1.96

Source: Researchers' field Survey, December, 2014

The result in table 4.2 revealed that the calculated r-value of 7.3 was greater than the critical r-value of 1.96 needed for significance at 0.05 levels with 156 degree of freedom. With this result, the null hypothesis was rejected. This implies that multiple taxation have a significant effect on the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

### Hypothesis three

H<sub>0</sub>: Government policies do not relate with the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

H<sub>0</sub>: Government policies relate significantly with the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.



To test this hypothesis, the Pearson product moment correlation analytical technique was used. The result is presented in table 3

**Table 3**

Pearson product moment correlation analyses of the relationship between Government policies summersaults and the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

Variables	$\sum X$	$\sum X^2$	$\sum XY$	r-Cal
Government policies summersault	1594	16538	18280	6.4
Growth of SMEs	1793	20805		

\*P < 0.05, d. f = 156, critical r = 1.96

Source: Researchers' field Survey, December, 2014

The result in table 4.3 revealed that the calculated r-value of 6.4 was greater than the critical r-value of 1.96 needed for significance at 0.05 levels with 156 degree of freedom. With this result, the null hypothesis was rejected. This implies that government policies summersaults have a significant effect on the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

## Discussion of findings

The result of hypothesis one showed that there exist a positive relationship between deposit money banks credit and the growth of SMEs in Yakurr Local Government Area in Cross River State in Nigeria. This finding is in agreement with Akeem (2004) who studied banking sector and the development of SMEs in Osun State, Nigeria. Using correlation analysis, the study revealed a positive relationship between the provision of credit facilities by commercial banks and the development of SMEs. This finding is also supported by Olutunla & Obamuyi (2008), who in their study revealed a significant relationship between loan size and the profitability of SMEs in Nigeria.

Finding arising from hypothesis two revealed that multiple corporate taxations affected significantly the growth of SMEs in Yakurr Local Government Area in Cross River State in Nigeria. Supporting this finding is Mba & Cletus (2014) who examined the challenges and prospect of SMEs in Port Harcourt city, Nigeria. Using the Z-test on a population of 120 SMEs, the study revealed that multiple taxation, lack of managerial skills, inadequate social infrastructure and poor financing were the major challenges faced by SMEs in Nigeria. This finding has also received the support of Abubakar & Yahya (2013) who in their study disclosed that high corporate taxes were responsible for the non attainment of the full potentials of SMEs in Nigeria.

Hypothesis three results proved that government policy summersault inhibited SMEs from attaining the desired growth potential in Yakurr Local Government Area, Cross River State, Nigeria. This finding has enjoyed the backing of Emmanuel & Daniya (2012) who used the deductive approach to investigate the role of government and other financial institution in the development of SMEs. The study unfolded that poor implementation of government policies, erratic financing of schemes initiated by government and other administrative bottlenecks have hindered the economic potentials of SMEs in Nigeria from being fully harnessed.

## SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

### Summary of findings

The role of deposit money banks in the growth of SMEs has been examined empirically. The reviewed literatures reviewed that funding is a life wire that keeps firms whether Small, Medium or Large growing. Literatures revealed that banks have not been able to meet up with their obligations of providing cheap credit facilities to SMEs as over 70% of funding to SMEs were said to be provided by the informal lending institutions.

Three hypotheses were formulated with the specific aim of determining the effect of deposit money banks credit, multiple taxations and government policies summersault on the growth of SMEs in Yakurr Local Government Area. These hypotheses were then tested. Findings obtained from data analyses were then summarized below:

- (i) Deposit money banks credit significantly relate with the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.
- (ii) Multiple corporate taxations have a significant effect on the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.



- (iii) Government policies summersault has a significant effect on the growth of SMEs in Yakurr Local Government Area, Cross River State, Nigeria.

## Conclusion

For any business to attain its full potentials, the role of financial institutions and finances, the government and tax cannot be over emphasized. These were the objectives pursued by this study. To achieve these objectives, data were collected from banks staff and SMEs operators and analysed. Findings resulting from data analyses strongly revealed a significant effect of deposit money banks credit, multiple taxation and government policies on the growth of SMEs.

Relying on these findings, the study concludes that lack of access to deposit money banks credit facilities, government policies summersault and multiple corporate taxations are key factors to actualising the growth potentials of SMEs in Yakurr Local Government Area, Cross River State and Nigeria.

## Recommendations

It has been established based on the data analysis and the test of hypotheses that deposit money banks credit, multiple taxation and government policies influence SMEs growth. Relying on this, the following recommendations have been proffered to enhance the growth of SMEs if adopted.

- (i) There is needed for the CBN to mandate deposit money banks to set aside a certain percentage of their loanable funds for on lending to SMEs and to set up an enforcement team to ensure compliance by the banks.
- (ii) There is need to strengthen the SMEs credit guarantee schemes to effectively guarantee of deposit money banks loans to SMEs against default.
- (iii) There is need to eliminate the multiple tax system that is operational in Cross River State and Nigeria and to reduce the high tax burden on SMEs in Nigeria as this serve as a drainage to SMEs profit and has increased the mortality rate of this sub-sector.
- (iv) The government should strengthen its policy framework on SMEs and avoid ineffective and erratic policy framework. The need to set up machinery that will monitor policy abuse by government officials and agencies becomes very essential if the full potentials of SMEs must be achieved in Nigeria.

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