

SHORT-TERM CREDITS AND ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

This study explores the connection between short-term credits of selected financial instruments and human development in Nigeria within the years 1986 to 2023. More specifically, the study sought to analyze both the short-run and long-run impacts of Bankers' Acceptances (BAAC), Commercial Paper (COPA), Commercial Bank Overdrafts (OVDT), and Term Loans (TEML) on the Human Development Index (HDI) formulated in to two distinct research questions. The Central Bank of Nigeria and World Bank statistical bulletin for various years served as the primary data sources for this research. The study employed descriptive statistics, unit root tests, Johansen co-integration, and the parsimonious error correction model (PECM). The research found that all variables were stationary at first difference and required Johansen co-integration which confirmed the existence of long-run relationships among the variables. PECM demonstrated that both BAAC and OVDT positively and significantly impact HDI, demonstrating that short-term credit facilities are crucial in bolstering human development by supporting welfare-enhancing and income-generating activities. On the contrary, COPA and TEML have an insignificant impact on HDI which reflects a lack of immediate relevant developmental impacts possibly resulting from structural inefficiencies and accessibility barriers. The research concluded that BA and OU overdrafts constitute the key segments of short-term credits that foster economic development in Nigeria. Thus, the study recommended for specific policy initiatives to enhance access to short-term credit while recalibrating long-term lending to focus on human capital-intensive areas to promote inclusive development in Nigeria.

Keywords: Loans, Disbursement, Commercial Banks, Accessibility, Economic Performance.

1.0 Introduction

Access to credit, especially short-term credit, significantly boosts economic growth in an economy like Nigeria. Short-term credit encompasses loans and financial products with a maximum one-year repayment period, often used to finance working capital, inventory, and other operational expenses (Ogunleye & Akanbi, 2023). In Nigeria, the availability of short-term credit is important for the survival and growth of MSMEs, which significantly aid in employment generation, poverty alleviation, and GDP growth (NBS, 2022). The Nigerian economy has seen very low accessibility of credit over the past decades with most credit being held by large firms and government bodies. This credit market inefficiency has blocked comprehensive development and diminished the economic potential of many smaller businesses which heavily depend on short-term credit for routine operations (Ezeaku et al, 2021). In addition to these, high interest rates,

collateral demands, and weak financial infrastructure worsen the credit constraint pose by most players in economy, especially in the informal sector (Adegbite & Macheche, 2022; Sunday & Olulu-Briggs, 2021; Olulu-Briggs & Sunday, 2021).

Recent attempts have been made, such as the Central Bank of Nigeria's (CBN) interventions via the Anchor Borrowers' Programme and the Targeted Credit Facility, to enhance access to short-term credit in agriculture and MSMEs (CBN, 2023). These programs, however, face several challenges, including regulatory restrictions, underdeveloped credit appraisal systems, and inadequate borrower credit history databases, disrupting the flow of credit. Some research indicates a correlation between access to short-term credit and productivity, employment, and income generation (Okonkwo & Ume, 2023).

The economic impact of short-term credit is complex. Short-term credit can boost economic growth by providing businesses the flexibility to maintain liquidity, invest in value-adding processes, and

respond to market changes (Nwachukwu & Odoemena, 2022). On the contrary, high-interest short-term credit can promote financial instability, particularly in low-income sectors, by leading to high debt levels coupled with weak income streams (Aremu & Adedokun, 2023). Hence, promoting economic growth through the availability of credit must be executed alongside measures that maintain long-term financial viability. Furthermore, Nigeria's economic progress as measured by GDP growth, employment opportunities, and reduction of poverty regions, emphasizes the efficient financial resource allocation. Specific research indicates that enhanced financial accessibility, in the form of short-term loans, equates to better business operations and other economic activities ("Obasi & Ijeoma", 2024). Therefore, appropriately designed policies for sustainable development require grasping the mechanisms of short-term credit, its accessibility, and socio-economic ramifications. Overall, the analysis in this research indicates that short-term credit is fundamental for economic growth in Nigeria. Although access to credit has improved from government policies and financial sector innovations, a number of issues still persist. Addressing those challenges is crucial if short-term credit is to serve as a driver of inclusive and sustained economic growth.

2.0 Literature Review

2.2 Theoretical Framework

Various economic and financial explanations can clarify the connection between short-term credit and economic development. This study applies a multi-theoretical approach, primarily relying on Financial Intermediation Theory and Credit Rationing Theory, along with Endogenous Growth Theory, to thoroughly explain the impact of short-term credit on economic development in Nigeria. These theories together inform the analysis of short-term credit's impact on economic growth comprehensively. Financial Intermediation Theory focuses on the function and activities of banks, Credit Rationing Theory describes the constraints that exist in the credit market, and Endogenous Growth Theory focuses on the access to finance and its developmental impact. These theories provide a basis

to examine the extent to which the economy of Nigeria would benefit from a more generous policy with regard to short-term credit provision.

2.1 Theory of Financial Intermediation

The Financial Intermediation Theory suggests that financial institutions act as intermediaries between the lenders and the borrowers, helping in the proper allocation of capital (Schumpeter, 1911; Gurley & Shaw, 1960). In Nigeria, banks and microfinance institutions offer short-term credit facilities which enable entrepreneurs and firms to finance working capital and other operational needs. This theory highlights the importance of financial institutions in not just the mobilization of savings, but directing them towards productive investment which, in turn, enhances the growth and development of the economy (Levine, 2005). Therefore, it is the financial system that is comprehensive and efficient that such short-term credit can be offered, especially to MSMEs that are the driving forces of employment and innovation in Nigeria.

2.2 Credit Rationing Theory

Stiglitz and Weiss (1981) introduced the Credit Rationing Theory, which suggests that in the presence of asymmetric information, lenders face the possibility of refusing to extend credit—even if borrowers are willing to pay higher rates—because of adverse selection and moral hazard. This theory explains the consistent challenges encountered by numerous small business operators and individuals seeking access to short term credit in Nigeria. Adebayo and Olayemi (2022) note that banks may ration credit due to the lack of payment history or collateral for high-risk borrowers. This creates underinvestment and curtails the extent to which these economic agents may contribute to development objectives.

2.3 Endogenous Growth Theory

The Endogenous Growth Theory focuses on innovation, human capital, financial mechanisms, and other internal factors as the core drivers of sustained economic growth (Romer, 1990). Accessibility of finance, including construction of short-term credit

mechanisms, is an indispensable element of this growth process as it facilitates investment in productivity-enhancing endeavors. In the context of Nigeria, enhanced access to short-term credit is likely to promote entrepreneurial activity and technological innovations, which is vital for sustained economic development (Nwachukwu & Odoemena, 2022). This theory supports government action directed toward the improvement of credit markets to tap into endogenous growth reserves.

2.2 Empirical Review

Utele et al. (2024) applied a stepwise regression analysis to evaluate the microcredit distribution among five branches of agriculture, manufacturing, mining, transport, and real estate to the GDP of Nigeria for the years 1992 to 2022. The comprehensive model captured 91.8% of GDP changes which indicates the importance of microcredit at the sectoral level.

Obasi and Ijeoma (2024) carried out a sectoral analysis of the influence of financing facilities on the economic development of Nigeria. The results suggested that the availability of finance and short-term credit facilities directly improve productivity at all levels, including the entire economy.

Björkegren et al. (2022) evaluated the use of digital credit in Nigeria and its effect on well-being. They found that the availability of digital loans improves an individual's well-being although does not substantially change income or spending.

Ebi and Omoijahe (2021) studied the effects of different economic variables on the Nigerian economy and found that treasury bills and commercial paper affect GDP positively. Aladelusi (2021) also researched the role of various financial market instruments and their correlation with economic growth using data ranging from 1999 to 2019. The results indicated that Treasury bills and market capitalization significantly foster GDP, while government bonds and interest income exert weak positive and negative influence, respectively.

Ogbuji (2021) researched the effect of some money market instruments on the economic development of Nigeria for the years 1981-2016 and concluded that treasury bills and federal government bonds strongly

enhance GDP. In addition, he found that commercial papers positively contribute to GDP and that banker's acceptance negatively impacts it.

Within the timeline of 1981 to 2018, Dameji et al. (2021) found that commercial papers have a strong negative effect on GDP, while certificates of deposits have a weak positive effect. Obi (2021) found that treasury bills, certificates of deposits, and banker's acceptance significantly impact real GDP, with commercial papers having a weak, but still positive, effect.

Akinwale and Obagunwa (2019) applied a Vector Error Correction Model (VECM) to study the impact of bank credit on economic growth in the period from 1981 to 2017. This study concluded that credit in the manufacturing and agricultural sectors had a positive impact on real GDP, while credit in general commerce had an adverse effect.

Akinkunmi (2018) applied a Vector Autoregression (VAR) model to study the relationship between credit to the private sector and economic growth over the period of 1986 to 2016. Results showed that credit extended to the private sector has significant positive impact on the growth of the GDP, indicating that improving the provision of credit would accelerate economic growth.

Ayebaemi and Francis (2018) conducted a study on the relationship between money market instruments and the economic growth of Nigeria. Their findings indicate that certificates of deposit have a positive impact on economic growth in the short term, whereas treasury bills negatively impact in the short term, but have a positive long-term impact.

3.0 Methodology

The study employs "Ex-post facto design." This research is a quasi-experimental study of the effect of a pre-existing independent variable on a dependent variable. An ex post facto (after the fact) design is a type of quasi-experimental research. Such studies lack random assignment; participants are grouped based on some characteristic. Moreover, in this study, the researcher could not manipulate the data because they were gathered from past events—hence, historic in nature. This study adopted secondary time-series data. The data were collected to ensure verifiability

and reproducibility of the underlying study. The data was gathered from diverse reports of reputable institutions. Sources include the Central Bank of Nigeria Statistical Bulletin and the World Bank Report. The study made use of descriptive statistics, unit root test and the Autoregressive Distributed Lag method at 95% confidence interval. The model utilized in the study are presented as;

$$HDI_t = f(BAAC_t, COPA_t, TEMPL_t, OVDT_t) \tag{3.1}$$

$$HDI_t = \beta_0 + \beta_1BAAC_t + \beta_2COPA_t + \beta_3TEMPL_t + \beta_4OVDT_t + \psi_t \tag{3.2}$$

On apriori, $\beta_1-\beta_4 > 0$

Where: HDI = Human development index, COPA = Commercial papers, TEMPL = Term loans, BAAC = Bankers' acceptance, OVDT = Overdraft, β_0 = Constant variable/Intercept, $\beta_1-\beta_4$ = Slope/Coefficient, ψ_t = Error Terms/Stochastic variables, t = time series

4.0 Results and Discussion

4.1 Results

4.1 Descriptive Statistic Result

	HDI	BAAC	COPA	OVDT	TEMPL
Mean	0.435395	23.55912	76.57868	1338.032	102.8437
Median	0.455500	17.78500	9.945000	714.5000	102.8437
Maximum	0.550000	81.83000	822.7000	5345.386	988.5879
Minimum	0.310000	0.010000	0.260000	16.98000	1.602200
Std. Dev.	0.073335	23.26934	165.4561	1441.021	207.6744
Skewness	-0.241741	1.122839	3.129579	1.061124	3.106898
Kurtosis	1.747302	3.419567	13.07804	3.076208	12.77205
Jarque-Bera Probability	2.854764 0.239936	8.263587 0.016054	222.8446 0.000000	7.140454 0.028149	194.3231 0.000000
Sum	16.54500	895.2467	2909.990	50845.25	3908.061
Sum Sq. Dev.	0.198989	20034.09	1012901.	7688204	150760
Observations	38	38	38	38	38

Source: E-view Output 10

Concerning HDI (Human Development Index), the mean is 0.435 and the median is 0.456 shows a slight leftward skew in the distribution confirmed by negative skewness of -0.24. Unsurprisingly, the observed minimum and maximum HDI values are 0.310 and 0.550 respectively, which does indeed suggest that human development is moderately diverse within the given dataset. The standard

deviation, reinforcing the idea of stability in HDI values, is low at 0.073. With a Jarque-Bera test probability of 0.24, we can safely say that the HDI data are normally distributed since the p-value is greater than the conventional 0.05. In the context of BAAC (Bankers' Acceptances), we see that the average significantly exceeds the median at 23.56 and 17.79 respectively; this reinforces the idea that the distribution is slightly right skewed, which is also confirmed by skewness of 1.12. Furthermore, the data is bounded by a minimum of 0.01 and a maximum of 81.83, showing considerable dispersion. Moreover, the relatively high standard deviation of 23.27 supports this claim. On the other hand, the Jarque-Bera statistic suggesting a p-value of 0.016 indicates that the distribution is non-normal; therefore, we can presume that it is being influenced by outliers or some asymmetric trends.

As we have seen, COPA (Commercial Paper) exhibits extreme positive skewness and leptokurtic distribution as evidenced by the skewness of 3.13 and the kurtosis of 13.08. Not only does it have a mean value of 76.58, but also the median value being 9.95 indicates that there are large outlier values which drastically reduce the median and thus suggests that the value of outliers is particularly excessive. The standard deviation of COPA is also remarkably high at 165.46 which is a maximum value of 822.70, which is vastly greater than the minimum value of 0.26. The Jarque-Bera probability of 0.000 is quite significant and reinforces the claim that there is deviation from normality, especially due to some extreme values. In the same manner, OVDT (Commercial Bank Overdraft) also demonstrates a mean of 1338.03 and a median of 714.38 which indicates a right skew to the distribution, justified by skewness of 1.06. ODVT also maintains a considerably large spread, with a minimum of 16.98 and a maximum of 5345.38 along with a high standard deviation of 1441.02. A kurtosis value of 3.08 is moderate for peakness suggesting that the peak is not that high or low relative to the tails. COPA's findings exhibit a p value under Jarque-Bera Test of 0.028 which confirms non-normality, but does reveal that the changes are not as extreme as those in the case of COPA.

Finally, TEML (Term Loans) demonstrates non-normal distribution with the skewness of 3.11 and kurtosis of 12.17, suggesting a long right tail and heavy tails. Mean value is 102.84 while median is 21.28, further confirming the effect of outliers. Standard deviation is 207.67 with the values between 1.60 and 988.59. Jarque-Bera probability is 0.000 verifying the result of significant deviation from normal distribution. As noted, while HDI remains relatively stable, the financial variables COPA and TEML point towards significant deviations from normality, exhibiting pronounced volatility as well as the presence of outliers in Nigeria’s economy. These observations have critical implications for policy formulation and economic simulations.

Table 4.2 Unit Root Result

Variables	Level Data			First differenced			Conclusion
	ADF Test Statistics	T-Critical value at 5%	P-value	ADF Test Statistics	T-Critical value at 5%	P-value	
HDI	-0.766829	2.945842	0.8164	-10.72846	2.945842	0.000	I(1)
BAA C	-2.101774	2.943427	0.2452	-6.781609	2.945842	0.000	I(1)
COP A	-2.232625	2.943427	0.1987	-5.504815	2.945842	0.001	I(1)
OVD T	2.265480	2.943427	0.999	3.170436	2.945842	0.302	I(1)
TEM L	-2.006764	2.948404	0.2827	-8.896777	2.948404	0.000	I(1)

Source: E-views 10.0 Output

Table 4.2 reveals that all the variables employed in the study were stationary at first difference I(1). This is because their p-values at each level are smaller than the 5% significance level established for this investigation. As a result, the study applies the Johansen co-integration test to verify for the presence of long-run form in the study.

Table 4.3 Johansen Co-integration Result

Series: HDI BAAC COPA OVDT TEML
 Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)				
Hypothesize d	No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value Prob.**
None *	0	0.859803	108.5457	69.81889 0.0000
At most 1	1	0.457798	37.81630	47.85613 0.3101
At most 2	2	0.254596	15.78009	29.79707 0.7277
At most 3	3	0.117775	5.202269	15.49471 0.7870
At most 4	4	0.019017	0.691189	3.841466 0.4058

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesize d	No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value Prob.**
None *	0	0.859803	70.72937	33.87687 0.0000
At most 1	1	0.457798	22.03621	27.58434 0.2185
At most 2	2	0.254596	10.57782	21.13162 0.6892
At most 3	3	0.117775	4.511080	14.26460 0.8018
At most 4	4	0.019017	0.691189	3.841466 0.4058

Source: E-view Output, 25

The results presented above indicate the presence of one co-integrating equation. This suggests that the proxies for short-term bank credits (BAAC, TEML, COPA, and OVDT) identified in this study are significantly associated with the human development index in the long term. The trace and max-eigen tests indicate the presence of one co-integrating equations among the examined variables. This signifies the existence of long-term relationships or equilibrium associations among these variables that are statistically significant. Having shown the existence of a long-run relationship among the research series, we now continue to estimate the parsimonious error correction model.

Table 4.4 Parsimonious ECM Result

Dependent Variable: D(HDI)
 Method: Least Squares

Variable	Coefficient	Std. Error	t-Statistic	P
D(BAAC)	0.000827	0.000348	2.374201	0.
D(COPA)	2.40E-05	4.37E-05	0.550418	0.
D(OVDT)	3.95E-05	3.37E-06	11.69968	0.
D(TEML)	-9.23E-06	2.64E-05	-0.349295	0.
ECM(-1)	-0.562872	0.164120	-3.429636	0.
C	0.362681	0.007660	47.34952	0.

R-squared	0.881124	Mean dependent var	0.
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Adjusted R-squared	0.861951	S.D. dependent var	0.071206
S.E. of regression	0.026479	Akaike info criterion	-4.277525
Sum squared resid	0.021735	Schwarz criterion	-4.016305
Log likelihood	85.13440	Hannan-Quinn criter.	-4.185439
F-statistic	45.95529	Durbin-Watson stat	1.993939
Prob(F-statistic)	0.000000		

confirmed as significant (p-value = 0.0000) confirming the statistical validity of the model. There is no significant autocorrelation in the residuals as indicated by the approximate 1.99 Durbin-Watson statistic, which adds credibility to the estimates provided.

To summarize the results, it underscores the importance of short-term credit instruments, especially bank overdrafts and bankers' acceptances in relation to the improvement of human development indicators in Nigeria. On the other hand, commercial paper and term loans seem to exert no direct influence for the time being, perhaps because of some structural or access-related constraints.

4.2 Discussion of Findings

There exists a positive and significant relationship between bankers' acceptance and HDI. So, this means that an increase in bankers' acceptance will positively and significantly impact the human development index (HDI) of Nigeria. The positive and significant relation of bankers' acceptance (BAAC) and Human Development Index (HDI) is explained due to the contribution that short-term credit facilities extend toward financing trade and commercial activities, more so, by small and medium enterprises (SMEs). Bankers' acceptances serve as a dependable financing source for both domestic and international business. It improves liquidity while lowering costs of transactions (Casu et al., 2015). With this enhanced financial capacity, businesses are able to expand, get more employees, and increase income generation, thus reduce poverty which are among the primary components of HDI. In addition, the circulation of such financial instruments supports economic activities that indirectly impact the health, education, and income, which are the three main determinants of HDI (UNDP, 2023).

There is a positive correlation between bank overdraft facilities and human development index (HDI). This indicates that an increase in the usage of bank overdraft facilities will greatly enhance the human development index in Nigeria. The positive impact of commercial bank overdraft loans on human development reflects the vital role that short-term credit plays in addressing liquidity constraints for

Source: E-view Output, 25

Among the independent variables, D(OVDT) or changes in Commercial Bank Overdrafts has an exceptionally significant and positive coefficient of 3.95E-05, t-statistic of 11.70 and p-value of 0.0000. This means that increases in bank overdrafts in the short-run greatly enhance the HDI. The economic explanation is that short-term credit via overdrafts may enable welfare-enhancing actions through consumption smoothing or financing of vital services which fosters human development. D(BAAC) also indicates a noteworthy increase in the short-run impact on HDI alongside a notable coefficient of 0.000827 and a p-value of 0.0240. This indicates that movement in bankers' acceptances is beneficial to human development, perhaps because they facilitate trade and business financing in the short-run, which in turn supports employment and income streams. In contrast, D(COPA) and D(TEML) do not demonstrate statistical significance. With p-values of 0.5860 and 0.7292, respectively these findings suggest that, within the short time frame, amendments in commercial paper and term loans do not impact HDI. Perhaps this is due to the longer maturity structures of these loans or due to limited availability of these loans among those who directly influence HDI outcomes.

The ECM(-1) coefficient is negative and significantly so, as it was reported at -0.562872 with a p-value of 0.0017. This suggests a very strong and stable long-run relationship among the variables. The negative and significant relationship of the ECM term is a standard result within ECM theory, which demonstrates convergence to equilibrium. This suggests that short-term imbalances are settled at a rate of 56.2% in the long term. Stated differently, short-term imbalances are resolved in the long-term at a rate of 56.2%. The model fit remains strong with an R-squared value of 0.8811 suggesting that about 88.1% of the variation in the changes of HDI is explained by the included variables. The F-statistic is

businesses and individuals. Overdrafts are more accessible than long-term loan facilities; therefore, they serve as important financial instruments for overcoming cash flow obstacles or urgent requirement (Nwankwo & Osho, 2010). On a personal level, overdrafts assist in paying for healthcare and educational emergencies, directly impacting HDI. For small and medium enterprises, overdrafts are a source of working capital employed in sustaining the business operations, meeting payroll, and investment in productivity enhancement, which tends to create new jobs and increase household incomes (Adusei, 2013; Olulu-Briggs, 2020). All these factors promote better human development and living standards.

The link between HDI and commercial paper has both weak and positive correlation. This means that although the use of commercial papers does spur economic productivity as measured by human development index (HDI) in Nigeria, the impact is marginal. Even though the coefficient for commercial paper (COPA) was positive, the insignificance of the commercial paper variable suggests that in the case of Nigeria, the contribution of commercial paper on HDI, although theoretically plausible, is practically very remote. As documented by Saunders & Allen (2020), commercial paper is a financing tool used primarily by major companies. They do not tend to favor smaller businesses, or individuals who, along with their families, represent a much larger share of the population. Consequently, the trickle-down effect of commercial paper on the economy and on the HDI's constituents of health, education and income is likely to be very small. Moreover, the impact of these instruments on the outcome of human development is mitigated by the relative underdeveloped financial system of the country (Beck, Demirgüç-Kunt, & Levine, 2007).

A negative and insignificant correlation exists between term loans and HDI. This suggests that in Nigeria, bank term loans impede the human development index, although the impact is not considerable. The several structural and institutional problems within Nigeria's financial system may cause the lack of correlation between term loans (TEML) and HDI. Term loans are usually granted for long-

range investment projects. These projects take several years before they start yielding returns. The gains from such loans will not be apparent in the short-run HDI improvement. Moreover, the Nigerian financial system suffers from high interest rates, poor credit allocation, loan defaults, discrimination against marginalized groups, and accessibility, which Obamuyi (2007) argues makes term loans less effective in improving the human well-being. These loans are often directed towards capital-intensive industries which do not foster widespread, immediate improvements in educational, healthcare, or income, meaning their impact on HDI is severely restricted.

5.0 Conclusion and Recommendations

5.1 Conclusion

This research explored the impact of short-term bank loans on the economy of Nigeria from 1986 to 2023. For the purposes of this research, we employed descriptive and unit root analysis as well as Johansen co-integration and parsimonious error correction techniques, all at 5% level of significance. The findings of the research determined that the two forms of short term credits which have significant impacts on economic development are bankers' acceptances and bank overdrafts.

5.2 Recommendations

1. The Central Bank of Nigeria should expand its awareness program and availability of banker's acceptances among small and medium enterprises. This can be done by introducing and providing advanced technical awareness programs to rural and semi-urban areas on how SMEs can harness this tool would significantly improve its developmental benefits.
2. The Central Bank of Nigeria should encourage regulated micro-overdrafts targeted to low-income earners. This can be achieved by designing policies that encourage micro-overdraft products targeted to the marginalized with simple terms, low-interest rates, easy payback schedules, coupled with financial education to avoid exploitative debts.

3. The Nigerian Exchange Group should enhance the secondary markets along with the investor education frameworks to enhance the utilization of commercial papers. By incentivizing wider trading, improving the ratings of issuers, and educating potential investor and corporate participants, it would be possible for commercial papers to serve as tools which could facilitate funding that has wider developmental impact.

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