

Effect of Participation in Cooperative Societies on the Survival of Small Scale Business Enterprises in Lagos State, Nigeria

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Abstract

Nigeria's economy is dominated by small businesses in agriculture, manufacturing, commerce, industry, and services. Like any other part of the world, small and medium businesses in Nigeria are seen as the backbone of all economies and are key sources of economic growth and development. The study was carried out in Ikeja Local Government Area, Lagos State. The study's main objective was to assess cooperative participation in the survival of small-scale business enterprises in the Ikeja Local Government Area of Lagos State. In all, 144 small-scale business enterprises and 102 cooperative societies were interviewed for the survey. The analysis of socio-economic variables showed that most small-scale business owners were male (72.2%) rather than (27.8%) of the female gender. The majority (66.7%) of the small-scale business owners were in the age range of less than 30 to 49 years, which indicates that most of the small-scale business owners are in their active age. The majority (94.4%) of small-scale business owners obtain their credit from cooperative societies, while only a few (4.2%) indicate banks as their source of credit. Most (98.6%) pay interest on loans obtained, and 77.8 per cent use the loan collected for business purposes only. The loan repayment index has a value of 55.94 per cent. The amount granted to small-scale business owners, the nature of their sales, and their net income are positively significant at 1 per cent and thus influence their profitability. The budgetary analysis revealed that the profitability index is 0.59, the rate of return on investment is 146.6 per cent, and the rate of return on variable cost is 321.1 per cent, while the operating ratio is 27 per cent, indicating that the project is profitable. Therefore, small-scale business enterprises in the study area were found to be profitable. Based on the findings of this study, it is recommended that formal institutions should admonished to provide more loan services for small-scale businesses to help the development of small and medium-scale enterprises. Furthermore, loans offered should be repaid promptly to encourage the cooperative societies to offer more loans to more benefactors, and the government should aid cooperatives since they are the major providers of credit services to the small-scale business owners.

Keywords: Cooperative, Participation, Survival, Enterprise, Small scale

JEL classification: D22, Y21, L31

Introduction

Cooperatives have always promoted small business development through entrepreneurial development, funding, provision of entrepreneurship, promotion of the establishment of small-scale industries, and promotion of small-holder agriculture (Afolabi and Adenle, 2021). Nigerian cooperatives and thrift societies, like cooperatives in other climes, have always played a key role in promoting and developing small businesses (Ademilua, 2017). A business, whether small or big, simple or complex, private or public, etc.,

is created to provide competitive prices (Nwekeaku and Ossai, 2019). However, in a global context, small-scale enterprises (SSE) using size and scale of operation is not easy, but within the fixed coordinates of national boundaries, it might be relatively easier (Oke and Aluko, 2015). Small scale business is an enterprise owned with limited start-up capital, small number of employees, low revenue, and profit margin (Anamege, 2019). The industry has a labour size of 10-49 workers, with a capital base not exceeding ₦2million. Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries (Ayuba and Zubairu). They have been the means through which accelerated economic growth and

rapid industrialization have been achieved (Harris & Gibson, 2006). One of the most common features of SMEs is that they are either sole proprietorships or partnerships (Biney, 2018). Even when registering as Limited Liability Companies, this is merely on paper, as their true ownership structure is one-man or partnership (Rafiat and Ejededawe, 2015). Secondly, most SMEs have labour-intensive production processes, centralized management, and limited access to long-term capital; even their access to short-term financing is limited and sometimes attained at a personal rate of interest and other conditionality (Gerba and Viswanadham, 2016). A small-scale business enterprise, by implication, is therefore defined as any business organization that supplies goods and services or processes and distributes wholesale products and retail products to customers (Sam-Brew, 2011). Awolalu (2001); Tahir et al., (2021) cited the International Labour Organisation's definition of a cooperative as an association that has voluntarily joined together to achieve a common end by forming a democratically controlled organization, making benefits of the undertaking in which the members actively participate. From their antecedents, cooperative societies have contributed to developing small-scale businesses and are themselves small-scale businesses (Imafidon and Itoya, 2014). Cooperatives have always promoted small business development through entrepreneurial development, funding, provision of entrepreneurship, promotion of the establishment of small-scale industries, promotion of small-holder agriculture, etc (Kraus and Litzenberger, 2013).

In Nigeria, most farmers who venture into agriculture as individuals face numerous problems, which range from management deficiencies, inadequate staffing, poor marketing, inflation and the country's defective infrastructure such as power supply and communication, lack of adequate funds, illiteracy among its members, lack of training /educational opportunities whereby the involvement of cooperatives will be of great benefit to them and the nation (Nwankwo et al., 2012). In almost all economics, small businesses are vital for sustained growth; a high failure rate is a huge negative for an economy, especially a developing economy with limited capital (Okpara et al., 2007). Small-scale enterprises have been identified as a means of building a country's economic base because they help solve many socio-political/economic problems like lack of employment however, small-scale enterprises (Mamman and Aminu, 2013). But despite these efforts, the cooperative sector is still faced with several challenges, including lack of adequate funds, illiteracy among its members, and lack of training /educational opportunities, which make it difficult for cooperatives to contribute maximally to business promotion activities (Moss et al., 2015). The main problem is insufficient funding. Although cooperatives are part of small-scale enterprises, this study examined the effect of participation in cooperative societies on the survival of small-scale business enterprises.

The broad objective of this study is to assess the participation of cooperatives in the survival of small-scale business enterprises in the Ikeja Local Government Area of Lagos State. The specific objectives were to: describe the socio-economic characteristics of small-scale business owners in the study area; identify the sources of funds available to small-scale business enterprises and the associated conditions in the study areas; assess the impact of cooperative credit on the profitability of small-scale business enterprise; determine the factors affecting the growth of cooperative-based small-scale business enterprises. Considerable research and positive relationships have been documented between small business development and economic growth in developed countries. However, far less research has been conducted on this relationship in developing countries. Studies in small business development are necessary in countries like Nigeria because of the dissimilarities between developed and developing countries. Understanding the problems facing small business development in African countries is essential because they are significantly different from those facing developed countries. Lack of management experience, poor location, laws and regulations, general economic conditions, as well as critical factors such as poor infrastructure, corruption, low demand for products and services, and poverty are great challenges to small-scale enterprises in Nigeria. Thus, participation in a cooperative society will enhance the chances of SSE operators to secure good access to raw materials and modern equipment. The network of SSEs through cooperative activities will improve the accessibility to information. Cooperative societies offer teamwork that is suitable for the development of SSEs. Therefore, this study will benefit stakeholders, cooperative societies, etc.

Data Sources and Methodology

The study was carried out in Ikeja Local Government area of Lagos State. Lagos State, formerly Nigeria's capital, runs roads to all parts of the country, including Ghana and the Republic of Benin. The state is divided into North and South by lagoons and creeks, which occupy about 787km. The metropolis is bounded in the South by the Atlantic Ocean, in the North by Ogun State, and the East by the Republic of Benin. Ikeja is the capital of Lagos State and the commercial capital. It is a location for various business activities and companies, including many small and medium-scale enterprises. It has the largest concentration of national and international private-sector organizations. It also hosts the famous Computer Village, the hubbub of the country's computer market, and Balogun markets, where different products are sold. The primary data collected for the present study pertained to the year 2019

Primary and secondary sources of data were used. Primary data was obtained from the structured questionnaires on available cooperative societies and business owners in the study area. Secondary data was collected from relevant

journals, literature, and other materials.

Samples were drawn using a stratified random sampling technique. The LGA was stratified into wards/districts based on the existing political wards in the Local Government Area. Samples were drawn from each stratum based on the proportionality factor considering the sample frame collected on small-scale business enterprises and cooperative societies in the study area. In all, 144 small-scale business entrepreneurs were randomly selected from 51 cooperative societies randomly drawn from all the strata based on the proportionality strata below:

$$S = \frac{d}{D} \times n$$

Where:

S = Sample size of small-scale business and cooperative societies drawn from a stratum.

d = Number of small scale businesses and cooperative societies in each stratum based on the available sample frame

D = Total number of small-scale business and cooperative societies in the available sample frame

n = Total number if small-scale business and cooperative societies drawn for the study.

Descriptive and quantitative techniques were used to analyze the data collected from small-scale business owners.

Descriptive statistics of mean, frequency distribution, percentages, and cumulative frequency were used to describe the socio-economic characteristics of small-scale business entrepreneurs and sources of funds and associated conditions. Budgetary analysis and Ordinary Least Square regression were used to determine the profitability and performance of loans, respectively.

Table 1. Distribution of the socio-economic characteristics of small-scale business owners

Variables	Frequency	Percentage	Mean
Gender			
Male	104	72.2	
Female	40	27.8	
Age (years)			
< 30	24	16.7	
30 – 39	16	11.1	35 years
40 – 49	56	38.9	
50 – 59	42	29.2	
> 59	6	4.2	
Marital status			
Single	28	19.4	
Married	100	69.4	
Divorced	16	11.1	
Education level			
Primary school	8	5.6	
Secondary school	28	19.4	
OND	10	6.9	
HND/B.Sc.	94	65.3	
MSc/MBA	4	2.8	
Household size			
1 – 4	122	84.7	
5 – 10	22	15.3	4 household member
Religion			
Christianity	88	61.1	
Islam	56	31.9	
Total	144	100.0	

Source: Field Survey,

Results and Discussion

Socio-economic status (SES) usually refers to economic and social status components that distinguish and characterize people (Oluwasanya *et al.*, 2020). Indicators of SES are meant to reflect access to social and economic resources that may vary over time. Table 1 revealed the socio-economic characteristics of the entrepreneurs. The majority (72.2%) of the respondent were male, while 27.8per cent of the business owners were female. This implies that males engaged in businesses more than their female counterparts in the study area. Age is an important factor that affects the level of productivity and overall coping capacity. It is also believed to influence the level of physical work and the willingness to take risks. The majority, 66.7per cent of the respondents, were within the age range of less than 30 to 49 years, and, 29.2per cent were between 50 and 59 years, only 4.2per cent were above 59 years. This implies that most of the respondents were in their prime and most active years; thus, productivity in the business should be optimum. An individual's marital status is believed to affect his/her behavior, effectiveness, and sometimes responsibility. The majority, 69.4per cent of the respondents were married, 9.4per cent were single, and only 11.1per cent were divorced. This indicates that most of the respondents were married and had family responsibilities.

Education attainment is pertinent; it will enhance their readiness to accept and adopt modern innovations in business practices. The majority, 65.3per cent, of the respondents had HND/B.Sc., 19.4per cent had secondary education, 6.9per cent had OND, and only 2.8per cent had a Master's Degree. This result shows that most of the small-scale business owners were literate, which would be ascribed to the hubbub of business activity in Nigeria, and this high level of education would enhance the efficiency and productivity of the small-scale business owners. The household size of the respondents consisted of the wife/wives, children, and dependents, especially people who feed from the same pot. The majority, 84.7per cent, of the respondents' family size was less than 5, while only 15.3per cent had a household size between 5 and 10, it implies that most of the respondents had an average household size, and this reduced their family expenditure, thus accounting for savings in cooperatives. The majority, 61.1per cent, of the respondents were Christians, while 31.9per cent were Islam. This shows that most of the small-scale business owners were religious.

Sources of Funds to Small Scale Business Enterprise

The information on the sources of credit used by small-scale business owners is important to determine whether this factor was responsible for the business owners' access to credit.

Table 2 shows that the majority, 94.7per cent of the respondents, obtained their credit from cooperatives, 4.2per cent of the small-scale business owners obtained credit from banks, and only 1.4 per cent obtained credit from friends.

This result shows that cooperative societies were the major source of credit to the small-scale business entrepreneurs in the study area.

Table 2: Distribution of small-scale business owners by sources of credit

Credit source	Frequency	Percentage
Banks	6	4.2
Cooperative	136	94.4
Friends	2	1.4
Total	144	100.0

Source: Field Survey,

Purpose of Loan Obtained By Small-Scale Business Entrepreneur

The purpose of loans obtained by small-scale business owners is important to know what the respondents used the loan they collected for and if they could pay back from us. Table 3 showed that the majority, 77.8per cent of the respondents, used their loans for business purposes, while 11.1per cent of the small-scale business entrepreneurs indicated they used them for other purposes. This implies that most respondents obtained loans.

Table 3: Distribution of small-scale business owners by purpose of loan

Purpose of loan	Frequency	Percentage
Business	112	77.8
Personal	16	11.1
Others	16	11.1
Total	144	100.0

Source: Field Survey,

Nature of Loan Obtained by Small-Scale Business Owners

The nature of the loan describes the components of a loan. It states whether the loan is a long-term loan, which is necessary to know how this affects the profitability and repayment of the loan. The result from Table 4 showed that the majority, 98.6per cent, of the respondents pay interest on loans obtained while only a minor fraction, 1.4per cent, do not pay interest on the loan they obtained, which might be among those who sourced for credit from friends.

Table 4: Distribution of small-scale business owners by nature of loan

Nature of loan	Frequency	Percentage
Interest on loan	142	98.6
No interest on the loan	2	1.4
Total	144	100.0

Source: Field Survey,

Nature of Business of Small-Scale Business Owners

The nature of business states the types of business the respondents engaged. It is important to know if the nature of business influences each business owner's profits. Table 5 shows that 47.2per cent of the respondents were into clothing and textile sales, 31.9per cent were into foodstuff sales, and 13.9per cent sold computer accessories. In the study area, only 6.9per cent sold beverages.

Table 5: Distribution of respondents by nature of business

Farm size (hectares)	Frequency	Percentage
Clothing	46	31.9
Beverages	10	6.9
Computer accessories	20	13.9
Clothing and textiles	68	47.2
Total	144	100.0

Source: Field Survey,

Repayment Period of Cooperative Societies

Various repayment period allowed by cooperative societies in their loan offered. The time available for respondents to pay back the loan they obtained is revealed in Table 6. Result showed that 98.0per cent of the cooperative societies offered both long term and short term loan while only 2.0per cent offer short term loans only.

Table 6: Distribution of cooperative societies by repayment period

Repayment period	Frequency	Percentage
Long term and short term	141	98.0
Short term only	3	2.0
Total	144	100.0

Source: Field Survey,

Benefactors of Loan Offered By Cooperative Societies

Table 7: Distribution of cooperative societies by those offered loans

Benefactors of loan offered	Frequency	Percentage
Small scale business	88	61.1
Building project	4	2.7
Educational purpose	4	2.7
Farming and livestock	36	25
Business, building and farming	6	4.2
Business, building, farming and education	6	4.2
Total	144	100

Source: Field Survey,

This shows the ones who benefit the loans offered the by cooperative societies. It is important so as to know who cooperatives give out loans to and how it affected the repayment rate. Table 7 revealed that majority 61.70per cent of the cooperative societies offered loan for business purpose only, 25per cent offered loan for farming and livestock only, 2.7per cent offered loan for building project, another 2.7per cent offered loan for educational purpose, while 4.2per cent offered loan for business, building, farming and education.

Loan Repayment

This showed that rate of repayment of loan collected from cooperative societies by business entrepreneur is revealed in Table 8. It measured the loan repayment rate, the loan default index, borrower's repayment rate and borrower's default ratio. The loan repayment index has a value of 55.94per cent indicated that the cooperative societies collected more than 50per cent of the loans offered in due time while the loan default index which is 20.8per cent indicated that about twenty percent of the loans offered were not collected back in due time. Also the borrower's repayment rate indicated that about 40per cent of the borrowers repaid loan obtained while only 11.5per cent defaulted. This implies that most of the loans offered by cooperative societies were collected back but some borrowers still defaulted. Thus, would not encourage the cooperative societies to increase their loan provisions and also to heighten the requirements needed to obtain loans.

Table 8: Distribution of the Loan repayment index of cooperative societies and business owners

	Mean
Partial repayment by borrowers	
Number of borrowers	7.1240
Amount requested	80486.11
Amount granted	76597.22
Amount expected to be paid	126281.25
Amount unpaid	21375.00
Amount collected	104906.25
Full Repayment by borrowers	
Number of borrowers	6.3842
Amount requested	569215.69
Amount granted	543137.25
Amount expected to be paid	641666.67
Amount collected	638741.18
Total amount of outstanding loan	3889.74
Loan Repayment Index (LRI)	55.94
Loan Default Index (LDI)	20.00
Borrowers Repayment Rate (BRR)	44.02
Borrowers Default Ratio (BDR)	11.50

Source: Field Survey,

Budgetary analysis

The result of the budgetary analysis for an average business owner in the study area was presented in the Table 9. The total revenue was ₦872429.27. The cost analysis showed that the cost of stock constituted the largest percentage (67.6%) of the variable cost and the fixed asset constituted the largest (87.4%) of the fixed cost. The gross margin and net income per business per year were ₦637854.56 and ₦518760.85 respectively. The profitability index, the rate of return on investment, the rate of return on variable cost, operating ratio and benefit cost ratio of the small scale business enterprise were also presented shown in Table 9. The profitability index was 0.59 which implies that for every ₦1 sales, 59k was earned while the rate of return on investment and variable cost were 146.6 and 321.1 per cent signifying that about ₦1.46 and ₦3.21 accrued to the small scale business owners from every ₦1 invested in small scale business owners and on every ₦1 on variable cost respectively. The operating ratio indicated that the total variable cost was about 27 per cent of the total revenue. In summary, all the profitability indices showed that the small scale business owners made profit in the study area.

Factors Determining Profitability Index of Businesses

0.203. This indicates as the amount granted increases, the profitability index of the business increases. Nature of sales is likewise significant and positive at 1 per cent with a value of 0.245 which implies that the nature of sales (whether regular, periodical or once in a while) affects the profitability index i.e. as the consistency of sale increases, the profit derived increases. Furthermore, net income is positively significant at 1 per cent with a value of 0.350. This implies that as the net income generated increases, the profitability of the business increases. However, the remaining independent variable like number of workers, worth of investment, interest rate, level of education, household size, cooperative membership, age, repayment period and average sales per day are not significant and thus they do not influence profitability index of the business.

Conclusion and Policy Implications

The results of the analysis of socio-economic variables showed that most of the small scale business owners were male (72.2%) rather than (27.8%) of the female gender. Majority (66.7%) of the small scale business owners were

Table 9: Distribution of the cost and return structure of cooperative based small-scale agribusiness

Characteristics	Amount (₦)	Percentage
Revenue	872429.27	
Variable Cost		
Materials/packaging	64120.00	27.3
Electricity	2375.00	1.0
Security	1900.00	0.8
Labour	7714.00	3.3
Stock	158485.71	67.6
Total variable cost (TVC)	234574.71	
Fixed Cost		
Assets	104093.17	87.4
Rent	15000.00	12.6
Total Fixed Cost (TFC)	119093.17	
Total Cost (TVC + TFC)	353668.42	
Gross margin (TR – TVC)	637854.56	
Net Income (GM – TFC)	518760.85	
Benefit cost ratio (TR/TC)	2.47	
Profitability Analysis		Value
Profitability Index (PI)=NI/TR		0.59
Rate of return on investment=(NI/TC)×100		146.6
Rate of return on variable cost (TR-TFC/TVC×100)		321.1
Operating Ratio (TVC/TR)		0.27

Note: One Indian rupee = 18.97 Nigerian Naira

Table 10: Distribution of the factors determining profitability index of businesses

Variables	Coefficients	t-value
Amount of loan obtained (X_1)	0.203*	2.167
Nature of business (X_2)	0.245*	2.985
Number of workers (X_3)	-0.028	0.394
Worth of investment (X_4)	-0.168	-1.72
Interest rate (X_5)	0.029	0.372
Level of education (X_6)	-0.110	-1.272
Household size (X_7)	0.126	1.208
Net income (X_8)	0.350*	3.393
Access to cooperative (X_9)	-0.020	-0.277
Age (X_{10})	-0.102	-0.727
Repayment period (X_{11})	0.160	1.306
Average sales per day (X_{12})	0.014	0.093

Source: Field Survey.

in the age range of less than 30 to 49 years, which indicated that most of the small scale business owners were in their active age. Majority 75per cent of the small scale business entrepreneurs had tertiary education. Most of the small scale business owners (69.4%) were married while (11.1%) were single. Majority 94.4per cent of small scale business owners obtained their credit from cooperative societies while only a few 4.2 per cent indicated banks as their source of credit. Majority 98.6per cent paid interest on loans obtained and 77.8per cent uses the loan collected for business purposes only, repayment index had a value of 55.94per cent indicated that the cooperative societies do collect more than 50per cent of the loans offered in due time while the loan defaulted index of 20.8per cent indicated that about twenty percent of the loans offered were not collected back in due time. Also the borrower's repayment rate indicated that about 40 per cent of the borrowers repaid loan obtained while only 11.5per cent defaulted. Amount granted to the small scale business owners, nature of sales of the small scale enterprise and net income of the small scale enterprise was positively significant at 1per cent and thus influence the profitability of the small scale business enterprises. The budgetary analysis revealed that the revenue generated from the average business enterprise in the study area is ₦872429.27 while cost of stock constitutes the largest percentage (67.6%) of the variable cost. Fixed asset constitutes the largest (87.4%) of the fixed cost. The profitability index is 0.59, rate of return on investment is 146.6per cent and rate of return on variable cost is 321.1per cent while, operating ratio is 27 per cent indicated that the project is profitable. Therefore, small scale business enterprise in the study area was profitable.

The study revealed that the small-scale business owners in the study area were between 30 to 49 years of age, with a high level of education, which affected their production. Most

small-scale business owners are their active age, and most use the loan collected for business purposes only. Evidence also shows that small-scale business owners obtained credit mostly from cooperative societies and little from formal institutions. The results indicated that most of the loans offered by cooperative societies were collected back, but some borrowers defaulted. Thus, it would not encourage the cooperative societies to increase their loan provisions. Based on the profitability index, rate of return on investment, and rate of return on variable cost, the small-scale business owners are making a profit in the study area.

Formal institutions should be admonished to provide more loan services for the small scale businesses to help the development of small and medium-scale enterprises and the nation at large. The government should aid cooperatives since they are the major providers of credit services to small-scale business owners. More studies should be conducted in the area of micro-credit schemes as a way to generate poverty alleviation measures for the public. The government should intervene in the high requirement by banks to provide loan services for small-scale business owners so that more funds would be made available for business transactions. Loans offered should be repaid promptly to encourage the cooperative societies to offer more loans to more benefactors.

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