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Research Article

Credit Facility and Performance of Small and Medium Enterprises (SMEs): Evidence from Adamawa State, Nigeria

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Abstract

The need of evaluation of the performance of the small and medium scale enterprises (SMEs) is very significant. This is because SMEs play the role of employment generation; income increase and economic growth at large only if perform well. It based on this; the study examines the role of credit facility on performance of small and medium scale enterprises (SMEs) in Adamawa State. Data for the study were sourced primarily through survey questionnaires. Three hundred and eighty four (384) respondents were used for this study as sample size. The responses were analyzed empirically using multiple regressions; the technique was used to test the research hypotheses, using Statistical Package for Social Science version 23. Findings indicate that, credit facilities play significant role on the performance of small and medium scale enterprises (SMEs) in Adamawa State. Specifically, all the variables of credit facility, namely; short term, medium term and long term loans have significant effect on performance of small and medium scale enterprises (SMEs) in Adamawa State. Therefore, the study arrives at the conclusion that credit facilities play a very significant role on performance of small and medium scale enterprises (SMEs) in Adamawa State. It recommends that government at all levels and policy makers specifically Adamawa state, should ensure, sustain and make provision for short term, medium term and long term loans to individuals who owned and managed SMEs as such loan facilities is very significant in improving the performance of small and medium scale enterprises (SMEs) in Adamawa State.

Keywords: *Credit facility, Performance of SMEs, Short term loan, medium term loan & Long term loan.*

I. INTRODUCTION

Small and medium-sized firms (SMEs) are thought of as the foundation of large corporations and the lifeblood of the country's economy. They are also effective and prolific job producers (Musah, et al., 2018; Adeyelure, et al., 2018). Furthermore, because they are important sources of revenue generation and employment creation, SMEs have been highlighted as accelerators for a country's economic growth (Oke&Aluko, 2015; Musah, 2017). In addition to being a vehicle for creating jobs, SMEs also help to limit rural-urban migration and ensure that resources are used properly.

A hostile and volatile business environment, a lack of access to contemporary technology, inadequate managerial abilities, and a lack of funding are some of the main obstacles impeding the performance of SMEs in Nigeria. Similarly, inadequate funding for hiring qualified personnel and purchasing necessary equipment may be the cause of poor management abilities and restricted access to contemporary technology (Ghani&Rehman, 2023). If SMEs are granted access to financing through trade credit and loan grants, this issue can be resolved. In order for SMEs in Nigeria to thrive, expand, and contribute to the economic development of the country, financial support is crucial. The idea of SMEs is theoretically nebulous since it differs between nations and even within one. It could differ from industry to industry based on the reason the definition is sorted. A company can suddenly require money. A company's activities could be hampered without it. However, actual short-term, intermediate-term, and long-term loan facilities are the simple means for an entrepreneur to obtain a fast loan that they can repay soon. The study made the assumption that one of the lending facility's proxies might successfully address the persistent issues with small and medium-sized businesses' (SMEs') performance in Adamawa state, Nigeria.

Statement Problem/Justification

Nigeria's small and medium-sized businesses (SMEs) face a wide range of issues. According to Akingunola et al. (2018), insufficient capital and unavailability of loan facilities are not the only issues that contribute to small business failures in Nigeria. Other issues include improper record-keeping and bookkeeping, a lack of infrastructure, corruption, and a lack of managerial experience, as well as inadequate training and financial support. Low demand for goods or services, taking out excessive amounts of cash for personal use, and a deficiency in market research are some concerns noted (Ghani &Rehman, 2023).

Due to the fact that financial institutions typically view SMEs as significant loan risks, long-term development institutional funding has been known to be inaccessible to them (Ghani &Rehman, 2023). A significant worry is that new economic projects, especially the expansion of SMEs, are not receiving enough support from deposit money banks, which ought to be the primary financiers of SMEs. Even though SMEs are the largest and play a major role in creating jobs, they have historically had trouble obtaining formal equity and finance (Yahaya&Kolawole, 2022). Thus, the purpose of this study is to investigate the connection between credit facilities and the performance of small and medium-sized businesses in Adamawa state. It also plans to talk about the difficulties in financing SMEs in Adamawa state, Nigeria.

Aim and Objectives of the Study

The major aim and objective of this study is to examine the relationship between credit facility and the performance of SMEs in Adamawa state.

Specific Objectives

However, the specific objectives of the study are as follows:

i) To examine the association between short term loan facilities and performance of small and medium enterprises (SMEs) in Adamawa State, Nigeria.
ii) To investigate the relationship between intermediate term loan facilities and performance of small and medium enterprises (SMEs) in Adamawa State, Nigeria.
iii) To investigate the relationship between long term loan facilities and performance of small and medium enterprises (SMEs) in Adamawa State, Nigeria.

II. LITERATURE REVIEW

Literature is primarily employed in a research for in-depth review of concepts related to the study. For the purpose of this study concepts like SMEs performance, credit facility, short term, medium term and long term loans were thoroughly reviewed.

Performance of Small and Medium Scale Enterprises

In order for small and medium-sized enterprises (SMEs) to validate their decisions, performance measurement is essential. The performance of SMEs is a key focus of the current business cycle in Nigeria, where the unemployment rate is steadily rising. The necessity to establish the facts about SMEs firms in Adamawa state stems from their requirement to be highly orientated in terms of learning, given the nature of their activities and their significance in the national economy, employment creation, and advancement of modern inventiveness.

There is no accepted definition for Small and Medium Scale Enterprises (SME's). Racheal and Uju (2018) pointed out that the standards used to categorize an enterprise as small, medium, or large differ depending on whether the nation is developed or developing. For instance, a tiny business in one nation might be a major enterprise in another. According to the Small and Medium Industries Equity Investment Scheme (SMIEIS), small and medium-sized enterprises (SME) in Nigeria are those that employ between 10 and 300 people and have a total capital employed of not less than ₦1.5 million but not more than ₦200 million, including working capital but excluding the cost of land (Ghani&Rehman, 2023). According to Manzoor et al. (2019), they are companies or enterprises that develop from the entrepreneurial endeavors of individuals. A company's size could be shown as small, medium or enormous.

Credit Facility

With a term credit, borrowers receive a fixed amount of money up front in return for particular loan conditions. Term credits are often intended for small, well-established companies with solid financial records (Nelson et al., 2020). The borrower consents to a specific repayment schedule with a fixed or variable interest rate in exchange for a predetermined quantity of cash. Significant down payments on term loans may be necessary in order to lower the loan's overall cost and monthly amounts. Small enterprises who require capital to buy machinery, a new facility for their manufacturing operations, or any other fixed assets to maintain their operations are frequently given credits. Some companies take out monthly loans to cover their operating expenses.

Numerous banks have created term loan programs expressly to assist businesses in this manner. Company owners apply for term loans by contacting their lender, just like they would for any other type of credit arrangement. Statements and other financial documentation proving their creditworthiness must be provided (Ghani&Rehman, 2023). Accepted borrowers receive an advance payment in full and must repay the loan over a certain length of time, typically on a monthly or quarterly basis. Term loans have a predetermined maturity date and either a fixed or variable interest rate.

Short-term loans

Short-term credit lines and loans typically, companies that are not eligible for a line of credit are provided these kinds of term loans. Usually lasting less than a year, but they can also apply to loans as short as eighteen months (Yahaya & Kolawole, 2022). A business loan that can be used to finance short-term needs is called a short-term loan. Before the term of the loan expires, you repay the principal and interest. The loan term for a short-term loan is typically three to five years. Ghani and Rehman (2023) claim that short-term lending has become more well-known globally due to its ability to reduce poverty and strengthen marginalized communities via enterprise support. It is typified by its supply of financial services to low-income individuals and small companies. Nonetheless, there is still much to learn and discuss about how microfinance affects consumers' mental health. Short-term lending facilities have thus emerged as a popular financial choice for numerous customers in need of immediate cash. These loans' ease of use, meanwhile, may conceal the possibility that they could worsen mental health issues and financial stress.

It can pay for urgent costs such as those associated with operations, growth, and working capital needs, among others. There are two types of short-term loans: secured and unsecured. When it comes to unsecured loans, the lender may decide to authorize the loan based on the financial records and operating years of your company. To qualify for a secured loan, you must provide a security deposit of some kind. Collateral-free lending choices, ease of application, flexibility for the end user, and prompt repayment are the main advantages of short-term loans (Ghani & Rehman, 2023).

Medium term loan

Loans and credit with intermediate terms these loans are often repaid in monthly payments from a company's cash flow over a one to three year period. In a similar vein, a medium term designates a duration of more than a year but less than five years (Yahaya & Kolawole, 2022). As an illustration: Leases, sale-and-leaseback agreements, and hire purchase are a few instances of external medium-term financing. Amount: The sums of money involved in medium-term financing are comparatively greater.

Long-term loans

Long-term credits or loans the terms of these loans range from three to 25 years. They demand payments from profits or cash flow on a monthly or quarterly basis, using the company's assets as security (Nelson et al., 2020). They can further impose restrictions on the company's ability to take on additional debt, dividends, or principals' compensation, as well as the amount of profit that must be set aside expressly for loan repayment. Comparably, a long-term loan is a kind of credit that is returned to a lender over a lengthy period of time—between three and thirty years. Long-term loans might be for anything from a car to a house, a personal loan for schooling, etc.

Empirical Review and Hypotheses Development

This section provides and empirical review and hypotheses development of the study under short term loan, medium term loan and long term loan on the performance of small and medium scale enterprises. It therefore hypothesizes the followings:

Ho_1: Short term loan has no significant relationship with the performance of small and medium scale enterprises (SMEs) in Adamawa State.

Bach and Bui (2021) examine the role of access to informal short-term borrowings of small and medium enterprises (SMEs) and their performance in a credit-rationing period. The study used a unique data set on Vietnamese private manufacturing SMEs for the period of credit distress 2011–2014. The study found that informal short term borrowings help enhance SMEs' sales and investment performance and outweigh trade credit in predicting firms' investments. This finding conveyed important policy implications on the macro-management of informal short-term finance in order to improve the performance of SMEs. Rajamani (2021) studies the impact of debt financing on the firm performance of SMEs in India. Panel data analysis is applied to study the association among debt and SMEs firm performance using three financial measures: return on assets (ROA), return on equity (ROE), and gross profit margin (GPM). The sample includes 164 non-financial Indian small and medium enterprises listed in the Bombay stock exchange—Small and medium enterprises (BSE-SME) platform from 2014 to 2018. The results of the study demonstrate that short-term debt has an adverse effect on the efficiency of small and medium enterprises. The study reveals that decisions on short term debts have little impact on SMEs' financial results.

Ho2: Medium term loan has no significant relationship with the performance of small and medium scale enterprises (SMEs) in Adamawa State.

Badi and Ishengoma(2021) investigate the effects of access to debt finance on the performance of SMEs in Tanzania. Data for the study was collected from SMEs which were being served by Private Agricultural Sector Support (PASS) to get credit facilities from formal financial institutions. The study collected data from 115 respondents, out of 152 respondents who were provided questionnaires. The collected data were analyzed quantitatively through Standard Multiple Regression to test the hypothesis. The results indicate that access to debt finance influences the profitability of SMEs. Also, it was revealed further that the effects were greater for ROA compared to GPM and ROE. This implied that access to debt finance increases the profitability of SMEs relative to total assets. Therefore, access to debt finance is an important ingredient for SMEs' growth and performance. Ngovenda et al., (2022) examine the effect of debt financing on the performance of selected small and medium enterprises in Makurdi Metropolis, Benue State, Nigeria. The study specifically examined the effect of long-term debt, short-term debt on performance of SMEs in Makurdi Metropolis. A survey research design was adopted for the study. The study used primary data collected from 110 SMEs within Makurdi Metropolis. Data collected through self-administered questionnaire were analysed using descriptive statistics and multiple regressions with the aid of the Statistical Package for Social Sciences (SPSS 23). The study found long-term debt and short-term debt has a significant effect on the performance of selected SMEs in Makurdi Metropolis, Benue State, Nigeria. Therefore, policy support for financial institutions should emphasize so as to improve the performance of SMEs.

Ho3: Long term loan has no significant relationship with the performance of small and medium scale enterprises (SMEs) in Adamawa State.

Githaiga and Kabiru (2015) investigate the effects of debt financing on the financial performance of SMEs. The objectives of the study were to determine the effects of long-term loans and short-term loans on SMEs financial performance. The study target 4122 SMEs in Eldoret town. Stratified sampling technique was used to select a sample size of 50 SME firms in Eldoret Town. The study collected quantitative secondary data from SMEs' financial statements for three consecutive years (2011-2013). The reliability and validity of the data collection instrument was done using Cronbach Alpha. Multiple Regression analysis was used to test study hypothesis. The results revealed that both short term loans and long term loans had significant impact on financial performance of SMEs. The study concluded that long term and short term loans increase financial performance of SMEs. Manyanga et al., (2025) establish the effect of debt financing (short-term debt, long-term debt, and trade credit) on the financial performance of SMEs in Zimbabwe. The study adopted a positivism philosophy and a cross sectional survey design. Quantitative data were gathered from 210 SMEs using a structured questionnaire with Likert-type responses. The findings show that debt financing (short-term debt, long-term debt, and trade credit) positively influences the financial performance in emerging markets. This study contributes to studies that prove a significant relationship between debt financing and financial performance in sectors other than SMEs. Thus, SMEs are advised to use debt financing to improve their financial performance.

Study Area

Adamawa state is a state in the North-East geopolitical zone of Nigeria, bordered by Borno to the northwest, Gombe to the west for 95 km, and Taraba to the southwest for about 366 km, while its eastern border forms part of the national border with Cameroon across the Atlantica Mountains for about 712 km. It takes its name from the historic emirate of Adamawa, with the emirate's old capital of Yola, serving as the capital city of Adamawa state. The state is one of the most heterogeneous in Nigeria, with over 100 indigenous ethnic groups. It was formed in 1991, when the former Gongola state was divided into Adamawa and Taraba states.Since it was carved out of the old GongolaState in 1991 by the General Ibrahim Badamsi Babangida military regime, Adamawa State has had 10 men, both military and civilian, controlling the levers of power, who played crucial roles in transforming the state into what it is today.

Adamawa State (also known as the Land of beauty) was created on 27th August 1991 alongside Taraba State from defunct Gongola State with Yola as its Capital. It is located in the North-East of Nigeria. It seats on a land area of 36, 917 square kilometers making it one the largest States in Nigeria placing it at 8th just behind Zamfara at 7th. It is bordered to the Northwest by Borno State, Gombe State to the West and Taraba State to the Southwest. It also shares international borders with Cameroon to the East. The State has 3 Senatorial Districts, 8 Federal Constituencies and 21 Local Government Areas, namely; Demsa, Fufore, Ganye, Girei, Gombi, Guyuk, Hong, Jada, Lamurde, Madagali, Maiha, Mayo-Belwa, Michika, Mubi North, Mubi South, Numan, Shelleng, Song, Toungo, Yola North, Yola South.

III. METHODOLOGY

The methodology is necessary in order to provide detail explanation on methods employed while conducting this study. Although there a lot of methods utilized for the study, however, the major one were address under sample and measurement for easy and clear comprehension.

Samples

The study employed primary data and adopted survey and cross sectional research design. Survey and cross sectional research designs allow the study obtain the data from the first hand source or respondents at a single point in time (Thomas, 2023). The sample of the study comprised three hundred and eighty four (384) individuals who owned and managed SMEs, and benefited from credit facilities in Adamawa state. Purposive sampling was used in selecting the required three hundred and eighty four (384) sample size. Purposive sampling allowed the study to purposively select the only individuals who owned and managed SMEs, and benefited from credit facilities in the state. A multiple linear regression model was used to determine the effect of each explanatory variable in determining the performance of SMEs in Adamawa state. The analysis was done through the aid of Statistical Package of Social Sciences (SPSS) version 23. It was done in order to measure the variance between the observed (The actual field results) and the expected (the hypotheses) with a view to arriving at a deduction to validate (reject or confirmed) research hypotheses. The regression model that was used is given below:

$Y = \alpha + \beta_i x_i + e_i$

Where:

Y = Dependent variable (Performance of SMEs)

α = Constant (Intercept)

β_i = Coefficient of independent variables (i = 1, 2, and 3)

X_i = Independent variables (i = 1, 2 and 3)

X_1 = Short term loan

X_2 = Medium term loan

X_3 = Long term loan

E_i = Error term

Measurement

The dependent variable for this study was customer performance of Small and Medium Enterprises (SMEs) in Adamawa state, Nigeria as used by (Ngovenda *et al.*, 2022; Manyanga *et al.*, 2025 :). The independent variables for this study was credit facilities, which was categorized into two, short term, medium and long term loans as used by (Githaiga & Kabiru 2015; Ngovenda *et al.*, 2022; Manyanga *et al.*, 2025 :).

IV. RESULT AND DISCUSSIONS

This section presents the result of data analysis and test of hypotheses formulated earlier in the beginning of this study. Descriptive statistics table and the summary of regression result table were presented and analysed. The policy implications and recommendation were drawn thereafter from the findings of the study.

Table 1

Model Summary

Model	R value	R Square	Adjusted R Square	Std. Error of the Estimate
1	.557	.505	.503	.01407

Source: SPPS Version 23 Computation, 2025

The table 1 above is regression model summary that provides detail and sufficient information about the characteristics of the study model. The independent variables in the study are short term, medium term and long term loans. They are the key variable to consider in the study, because of its ability to predict the dependent variable. The relevant and necessary elements or items of this table for interpretation are; r value, r square and adjusted r square. R-value represents the correlation between the dependent and independent variable. If r value is greater than 0.4 is considered as fair and good, (Jain and Chetty, 2019). In respect to this study the r value is 0.557, which is very fair and good.

R-square depicts the total variation for the dependent variable that could be explained by the independent variables. If r square value is greater than 0.5, implies that the model is effective enough to determine the relationship between the independent and dependent variable (Bruin, 2006: Jain and Chetty, 2019). However, Ozili (2023) suggests that a low r-square model is not necessarily bad. This is because the goal of most social science research modelling is not to predict human behaviour. Rather, the goal is often to assess whether specific predictors have a significant effect on the dependent variable. Therefore, a low r-square of at least 0.1 is acceptable on the condition that some or most of the predictors are statistically significant. In this study, the r square value is .505, which is acceptable, statistically significant, effective and very good to study. Adjusted r-square displays the generalization of the results in the model, which is the variation of the sample results from the population in multiple regressions. It is required to have a difference between r-square and adjusted r-square minimum. In this study, the adjusted r square value is .503, which is not far off from .505, so it is good as suggested by (Jain and Chetty, 2019). Therefore, the model summary table is statistically very good to proceed with the study.

Table 2:

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	256.643	1	256.643	302.963	.000[b]
	Residual	26.742	365	.073		
	Total	283.384	366			

Source: SPPS Version 23 Computation, 2025

The ANOVA table 2 is design to determine whether the model is significant enough to determine the outcome of the study. The elements of the table, which are relevant for interpretation, are: p-value and f ratio. Thus, for social and management sciences the p-value should be significant if it is less than or equal to 0.05 (Jain and Chetty, 2019). So, with regard to this study the p-value is significant with 0.000. Therefore, this means that the result of this study is very significant. Moreover, any study that has the p value of the ANOVA table below the tolerable significance level, thus there is a possibility of rejecting the null hypothesis. F-ratio represents an improvement in the prediction of the variable by fitting the model after considering the inaccuracy present in the model. If f- ratio value is greater than 1, it implies that the model is very strong, robust and efficient (Jain and Chetty, 2019). Based on the above table, the f - ratio value is 302.963, which is very efficient, robust and good.

Table 3:

Coefficients Table

Model	B	Std. Error	Beta	T	Sig.
Constant	5.117	.827		5.602	.000
STL	.329	.092	.214	2.318	.001
MTL	.391	.079	.233	3.954	.000
LTL	.360	.084	.224	3.223	.000

Source: SPPS Version 23 Computation, 2025

The table 3 shows the strength of the relationship, that is the significance of the variable in the model and magnitude with which it impacts on the dependent variable. This analysis helps in performing the hypothesis testing for a study. The only value that is very important for interpretation is sig. or p value. The value should be below the tolerable level of significance for the study, that is below or equal to 0.05 (Jain and Chetty, 2019). That is if sig. or p value is < 0.05, the null hypothesis is rejected. However, if sig. or p value is > 0.05, then the null hypothesis is failed to be rejected. Thus, if a null hypothesis is rejected, it means there is an impact. However, if a null hypothesis is failed to be rejected, it means there is no impact.

Base on this, the above table 3 depicts that short term loans display a p-value of .001 at five percent level of significance. This means that p value has not supports the null hypothesis because it does not exceeds 5 percent (Torres—Reyna, 2007). Therefore, the study rejects the null hypothesis one (1) which states that there is no significant relationship between short term loans and performance of the SMEs in Adamawa state (p value < 0.05). This implies that short term loan has significant relationship with the performance of the SMEs in Adamawa state. This finding is similar to that of Bach and Bui (2021); Rajamani (2021) Ngovenda *et al.,* (2022).

Similarly, medium term loan depicts a p-value of .000 at five percent level of significance. This implies that p value has not supports the null hypothesis because it does not exceeds 5 percent (Torres—Reyna, 2007). Therefore, the study reject the null hypothesis two (2) which states that there is no significant relationship between medium term loans and performance of the SMEs in Adamawa state (p value < 0.05). This indicates that medium term loan has significant relationship with the performance of the SMEs in Adamawa state. This finding is consistent with that of Badi and Ishengoma(2021); Ngovenda *et al.*, (2022).

Lastly, long term loan depicts a p-value of .000 at five percent level of significance. This also implies that p value has not supports the null hypothesis because it does not exceeds 5 percent (Torres—Reyna, 2007). Therefore, the study reject the null hypothesis two (2) which states that there is no significant relationship between long term loans and performance of the SMEs in Adamawa state (p value < 0.05). This suggests that long term loan has significant relationship with the performance of the SMEs in Adamawa state. This finding is tally with that of Githaiga and Kabiru (2015); Manyanga et al., (2025).

V. CONCLUSION AND RECOMMENDATIONS

The study has made an effort to examine the role of credit facility on performance of SMEs in Adamawa state. In the light of the findings, the study comes to the conclusion that credit facility plays significant role on performance of SMEs in Adamawa state. Therefore, the following recommendations were made base on the conclusions of the study:

I. Government at all levels with emphasizes to Adamawa state government should provide and make short term loan facility accessible and available to individual who owned and managed SMEs in the state as such facility is very significant in improving the performance of SMEs.
II. Government at all levels with reference to Adamawa state government should ensure, provides and maintain medium term loan facility to be easy to access and available to individual who owned and managed SMEs in the state as such facility is very significant in improving the performance of SMEs.
III. Government at all levels with special consideration to Adamawa state government should ensure, sustain the provision of long term loan facility to be easy to access and prompt release to individual who owned and managed SMEs in the state as such facility is very significant in improving the performance of SMEs

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