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RESEARCH ARTICLE

The Impact of Commercial Banks Loans on the Performance of SMEs: A Case Study of Jalalabad, Afghanistan

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ABSTRACT

Small and medium enterprises are the back bone of economy and play an important role in boasting the economy of any countries. Since SMEs are small and medium businesses many entrepreneurs face the constrain of rising funds to operate their businesses effectively. On the other hand, Banks are financial institution and are the major sources of financing to small and medium enterprises. Difficulty raised for SMEs to have access to short- and long-term loan of banking sectors. current study is design to show the impact of commercial Banks loan on the performance of small and medium enterprises. In which Depended variable is SMEs performance and measured through return on Assets (ROA). While independent variable is bank loans which are measure through two proxies that is Short term loan (STL) and long term loan (LTL). descriptive research design was used by collecting primary data through questionnaire from different SMEs located in Jalalabad Afghanistan. Out of 360 population 189 SMEs were selected for data collection purpose. Data were analysis through Statistical Package for Social Sciences 25. Apart from descriptive statistics, reliability test of questionnaire and person correlation, hypothesis were tested through multiple linear regression model, in which R square indicate that 65 percent of the variation in dependent variables is explain by independent variables, while p value 0.000 shows that at least one of the independent variables has significant impact on dependent variable. The inner model that is regression coefficient both STL and LTL show positive and significant association with ROA that is SMEs performance. Coefficient result are 0.214, 0.216 and p value are 0.001, 0.000 respectively for STL and LTL, suggested that both hypothesis H1 and H2 are Accepted and concluded that commercial bank loans both short and long term has significant and positive impact on small and medium enterprise performance.

ARTICLE INFO

Keywords: *SMEs, Loan, short term loan (STL), Long term loan (LTL), Performance (ROA).*

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Introduction

Small and Medium Enterprises (SMEs) are playing a vital role in the global economy; their significant role is as wise in the economies in the form of employment generation and income, along with the teamster of innovation and growth. More than half of the private sector labor force in the economies employed by the small business enterprises (SBEs). Based on their importance and vital role in all economies, they are playing an essential role for the

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economic recovery from the current economic and financial crisis. As compare to large companies, SBEs are more affected and become vulnerable, when the bank lending is reduced (Beck, 2011) and during economic downturns the credit sources are sooner drying up for small businesses as compare to large companies. Even in the developed nations e.g. in USA and UK small business are key role players in the boosting their economies (Shapira et al 2014) and accounted for a continued substantial amount of GDP and employment. According to the report of World Bank, (2015), The developing countries economy are more reliable and even the largest share of their employment is boosted through the SMEs. Compared to large companies, they are also more likely to face limitations in obtaining loans. In order to remain sustainable these businesses require working capital to operate, grow, and compete in the market. Obtaining bank loans is a major challenge for small and medium-sized enterprises (SMEs) in Afghanistan, and the lack of financial resources for this sector is considered a critical factor affecting their growth. The consequences of limited levels of bank loan to SBEs are being highlighted by Vundru, D. (2019). In general, availability of funds to financial working capital and obtaining bank loan facilities are much rigid and are being charged higher transaction costs in comparison of lager enterprises (Beck et al., 2005). Over 90% of the enterprises are represented by SBEs and also accounted for 50 to 60% of employment. Small and medium-sized enterprises (SMEs) are recognized as creators of effective and productive job creators, and they are considered the fuel for the engine of the national economy and as well as the foundation of large businesses (Abor and Quartey, 2010). Hence, SBEs are considerable as the key engine of a country's economic development. Consequently, the key discussion has been recognized that how economic growth has been fostered by the development of SBEs. Small business enterprises (SBEs) role is vital in every developed or under developed countries. Research studies show that SBEs subsidize about 60% of total formal employment in the manufacturing sector in both developing countries and advanced economies. Besides, the SBEs contribution to employment and job opportunities is even more significant. In manufacturing sector, SBEs contribution is about three quarters of total employment, considering the informal sector of contribution. In order to enhance the performances of SBEs, the primary tools should be considered that is investment in infrastructure, social assistance, training and development and other forms of public assistance. The development of micro-enterprises has expanded in small towns and remote rural areas; however, despite the support provided to these enterprises and the contributions they have made, it appears that the primary obstacles to their growth and advancement are shortages of both equity and debt capital. The major issue for SBEs is the lack of adequate financial resources which may cause the survival of SBEs remain uncertain which may cause SBEs performance investigation through bank loans.

The banking sector plays a significant role in supporting this segment, small and medium-sized enterprises (SMEs) face issue in access to bank loans and specifically bank financing is a crucial element in the operations. In many research studies it is modified that the performances of SMEs are highly affected by the banking sectors in term of accessing bank loans, though it is considered the major challenge for small and medium-sized enterprises as compare to large firms especially in developing countries which results the resistance of growth of SMEs.

According to the financial growth cycle paradigm proposed by Berger and Udell (1998) the financial needs and available funding avenues for small and medium-sized enterprises (SMEs) change across the various stages of the company's life cycle. In general, due to the specific characteristics associated with Small Business Enterprises (SBEs) at the startup stage such as information opacity (Berger and Udell (1998)), a lack of business track record, and a high risk of failure these enterprises rely heavily on internal sources of funding during this phase. Providing sufficient resources for small and medium-sized enterprises (SMEs) is crucial, as these enterprises make a significant contribution to Gross Value Added (GVA) and employment. gneiss to extend credit and the demand for investment capital. Internal equity is the preferred primary source of funding for small firms, as they typically follow the "pecking order theory" (Mateev et al., 2013). If these sources are insufficient to meet investment needs, companies seek to secure financial resources from external sources, the most important of which is bank loans (Beck et al., 2005). If a firm is relying on a bank financing, it may cause SBEs vulnerable, in case of unexpected widespread commotion to the world financial system, which may result a credit crisis for SBEs (Berger and Udell, 1998). The recent empirical studies have refined the view, besides of SBEs being considered as a major teamster of innovation and employment, suggesting that the due to financial constraints the future of SBEs might be jeopardized. The SBEs typically faces financial constraints and struggles with difficulties in securing financial resources.

Small and Medium Enterprises (SMEs) are being considered very essential for the economic development in every economy. The experiential evidences have proved that SBEs generate employment, reducing poverty and boost productivity in every country. In Nigeria, in recognition of the role of SMEs in the economic growth process, the government has taken coordinated and serious steps to foster the growth of small and medium-sized enterprises and to strengthen entrepreneurship. In order to promote SMEs, the easy way of accessing financial sources should be facilitated, as it is very clear that financial support is a key factor for growing SMEs.

The absence of a strong and manly SMEs attributive to the disinclination of banks especially commercial banks to provide loans to small businesses has been noted as a major gap in Nigeria's industrial development process in the past years. Financial supports are being provided to SMEs by commercial banks through their intermediation role. In previous researches, researchers have found that the lack of financial support is somehow a threat to the performance of SMEs.

In order to boost the performance of SMEs and make them as a role player in the economy, sufficient funds should be provided to them in term of short and long-term loans (Anastesia et, al 2018). In Nigeria the financial constraint is one of the main reasons for SMEs failure, though, sufficient financing of SMEs is a principal for their survival. In developing countries, the financing strength is the main determinant of small and medium enterprises growth. There is no contradicting, if adequate finance is provided and optimally utilized, the performance of SMEs will be boosted. In case of scarce funds, the SMEs will not be capable of running their operations smoothly. The funding constraints creates obstacles for SMEs and may cause them not contributing in the economic development and growth accordingly. SMEs face the problem of accessing to financial support is the second ranked problem in Nigeria (Onugu, 2005). SMEs often faces problems regarding bank loans due to their perceived risky nature. The annual report analysis in the share of commercial bank loans to small sized industries indicates that this figure dropped from approximately 7.5 percent in 2003 to less than 1 percent in 2006, and declined further to 0.14 percent by 2012 (Sanusi, 2013). This shortfall indicates that commercial banks have little appetite for lending to small and medium-sized enterprises.

In some researches it is found that SMEs are contributing immensely to the country's Gross Domestic Product (GDP) through generating employment opportunities which result in constitute about 92% of businesses in developing countries (Nwosu et,al 2020). In developing countries SMEs play an important role in sustaining livelihood and economic growth (Al-Abri, Rahim & Hassan, 2018). Similarly, numerous researchers have argued in their studies that if all relevant stakeholders demonstrate a serious commitment to the growth of the small and medium-sized enterprise (SME) sub-sector, the economy will undoubtedly witness significant transformation and affluence. SMEs are viewed as the basis of large corporations that aeere efficient prolific employment creators and considered the fuel for the country's economic engine (Musah, et al., 2018) SMEs are the sources of income generation and job creation and as well as considered as a catalyst for the economic growth of a country (Oke & Aluko, 2015). SMEs also assist to provide efficient means of restraining rural-urban migration and proper resource utilization besides being a tool of employment generation. Some of the major restraints that are in contradiction of the performance of SMEs which are summarized into four categories are; lack of access to modern technology, hostile and turbulent business environment, poor managerial skills and lack of access to finance (FSS 2020, SME sector Report, 2007). The lack of sufficient financial resources to hire skilled workers and acquire relevant technology may be the reason for weak management skills and a lack of access to modern technology. This problem can be resolved by providing small and medium-sized enterprises with access to financial resources through trade credit and loans. Therefore, financial support for small and medium-sized enterprises in Afghanistan is crucial, which enable them to continue their operations, grow, and play a developmental role in the country's economy. Theoretically, the concept of Small and Medium-sized Enterprises (SMEs) lacks a specific and fixed definition, as it varies from one country to another and even within a single country. Depending on the purpose of definition is required, it may vary from one sector to another. Though, some common criteria of definitions are: the number of employees, value of assets and turnover. SMEs are facing numerous problems, considering the inadequate capital and inaccessible loan facilities Akingunola et al. (2018). SMEs are mostly considered higher risky regarding loans by financial institutions, due to which they are accessible to long term developmental institutional loans. A major concern is that the adequate assistance to new economic initiatives, particularly to the expansion of SMEs are not given by the deposit money banks (which should be the major financiers of SMEs). SMEs traditionally face difficulties in procuring formal equity and credit besides their dominance and significance in job creation. Therefore, this research study is undertaken to study the relationship between the performance of small and medium enterprises and banks loans in Afghanistan. It also deliberates the challenges of SMEs regarding financing in Afghanistan, the relationship with banks in both short term loan and long term loan and the role of money deposit banks in SMEs financing. many SMEs Face the problem to avail sufficient financing, to solve this problem current study focus on the impact of commercial banks loan on SMEs performance.

Small and Medium Enterprises (SMEs) are playing an important role in economic development of a country in terms of generating employment, fostering innovation, and contributing significantly to national income. Despite the vital importance of small and medium-sized enterprises (SMEs), many face persistent financial constraints limitations that hinder their ability to expand operations, invest in new technologies, and remain competitive. It is expected that the financing needs of small and medium-sized enterprises specifically those aimed at enhancing production capacity and business operations will be met through the provision of short-term and long-term loans by commercial banks. Nevertheless, due to stringent collateral requirements, high interest rates, insufficient financial documentation, and perceived risks associated with lending accessing bank loans remains a major challenge. Akingunola et al. (2018). Even though, SMEs performance are improved by commercial banks loan intentions through increased working capital, business expansion and investment. Some evidences are existed that many SMEs are struggling with low productivity, poor profitability and high business failure rates. In some cases, the cost of borrowing and unfavorable loan terms may negate the expected benefits derived from the external financial source. In previous research studies mixed findings are reported regarding the relationship SMEs performance and commercial banks loan, specifying various factors affecting banks loan such as; financial management practices, loan accessibility, repayment terms and the business environment Esubalew and Raghurama (2020). hence, it is important to study the impact of commercial banks loan affecting the performances of SMEs in Afghanistan. This study is about to determine the facilities of commercial banks services regarding financial contribution for SMEs growth, profitability and sustainability along with identifying the challenges face by SMEs regarding accessing and utilizing banks loan. The finding of the research study will offer suitable information to policymakers, commercial banks and SMEs owners in order to design attainable strategies for SMEs to ease the access to banks services, which result improve the performances of small and medium-sized business. In the light of problem statement, the objective of the current study is to assess the effect of bank loan financing on financial performance of SMEs in Afghanistan. Relevant literature review of the previous study is discussing bellow.

Small and medium-sized Enterprises (SMEs) are the collection of various organization concerns all over the world engaged in different exercises utilizing high technology with financial activities from rural enterprises and small-scale to modern industrial association (Oke & Aluko, 2015). The definitions of small and medium-sized Enterprises (SMEs) are different in several forms by various authors. United Nation (UN) and Organization for Economic Cooperation and Development (OECD) recommended a general criteria followed by SMEs using a number of employees and a turnover asset base. In order to achieve the objectives and set goals of organizations, the management of small business enterprises takes measures concerning the use of human and non-human resources effectively and efficiently.

The relationship between the performance of SMEs and banks loan is strong, and the major barrier for the development of SMEs is lack of access to bank loans and capital, which prevent them from obtaining main resources through which they become more productive and competitive such as technology, financial support and others (Devi et al, 2015). The performance of SMEs will be improved by the support of micro finance credit in the area of accounting financial management and entrepreneurship that comply with national accounting standards, requirements and best practices (UNCTAD 2002). In some cases, the cost of borrowing and unfavorable loan terms can negate the expected benefits of external financing. Enterprises capable of graduating beyond the small and medium-sized category can be considered entrepreneurial, whereas businesses that merely sustain a family and show no potential for growth are not (Okpara and Wynn, 2007). The relationship between credit and expansion of business is clearly established, thus supporting the need for credit for entrepreneurial activity, small enterprises often operate on short term cycle and that is why there is need for short-term loan in small amounts for SMEs in order to run their businesses, they require sufficient amount of capital constantly and on time. (Kuzilwa, 2005). One of the primary major issues in SMEs for any entrepreneur is finance. The availability of sufficient financial resources at the right time and at a reasonable cost is both a need and an aspiration for every entrepreneur including small-scale industry owners. (Devi et al, 2015). An attempt was made to determine the impact of debt financing on the performance of small and medium-sized enterprises in Ghana. The study results indicated that capital obtained through debt whether long-term or short-term has a negative impact on financial performance. If small and medium-sized enterprises conduct fundamental assessments to improve their financial performance, it necessitates capacity building in company management and the strengthening of financial record-keeping systems; the outcome of these measures should be reduced loan processing times and lower borrowing costs. Accessing financial services at reasonable rates and on fair terms has been a major challenge for small and medium-sized enterprises in many developing countries. However, in Vietnam, this issue has not yet received much attention. The impact of access to financial resources on the production capacity of small and medium-sized enterprises (SMEs) in Vietnam's manufacturing sector was examined in this study. Empirical results indicate that companies with access to bank loans can achieve significant progress (Giang, et al, 2019). It is crucial to the performance of small and medium-sized enterprises to pursuit the financial services accessible to businesses at affordable costs (Esubalew & Raghurama, 2020). Bank loan are structured according to the type of loan that are approved and disbursed at varying interest rates. Various studies have found that the volume of loans granted to enterprises has a significant impact on improving the performance of small and medium-sized enterprises (SMEs). The impact of financial options on the growth of small and medium enterprises (SMEs) was studied by Adeyemo and Olateju (2022) in Nigeria. The research design was a survey. The study population consisted of business owners in the Ibadan South-East Local Government Area of Oyo State. A sample size of 120 business owners was selected for the study. The study utilized a questionnaire as the instrument for data collection. The collected data were analyzed using descriptive statistics and multiple regression analysis. The findings revealed that the financial options available to SMEs include personal savings, cooperative societies, loans, and microfinance, among others. The study also found that the growth of Small and Medium-sized Enterprises (SMEs) are significantly positive affected by personal savings in Nigeria. Furthermore, the results indicated that challenges related to SME growth such as a lack of funding, government policies, and erratic power supply have significantly affected SME development. One of the study's limitations is its failure to specify the size of the study population; this could potentially affect the selected sample size and the study's results. The effect of microfinance institutions on the organizational performance of SMEs was studied by Auka (2023) in Nakuru town. The specific objectives of this study are: to determine the impact of micro-loans on the organizational performance of Small and Medium-sized Enterprises (SMEs) ; to determine the impact of training programs provided by microfinance institutions on the organizational performance of SMEs; and to determine the impact of micro-savings on the organizational performance of SMEs. A descriptive research design was employed in this study. The study population consisted of 300 registered hotels and restaurants in Nakuru City, with a sample size of 25 small and medium-sized enterprises and data collected through structured questionnaires which were reviewed, edited, and analyzed to ensure data accuracy. A stratified sampling technique was used for the study and the reliability of the research instruments was established using the Cronbach's alpha procedure. Additionally, Data analysis was conducted using SPSS software along with the utilization for multiple regression model. The results of this study indicate that all the research variables are positively correlated with organizational performance. However, a limitation of the study is that the sample size of 25 individuals is insufficient and may affect the research findings.

Bassey et al. (2014) examined the impact of bank lending and macroeconomic policy on the growth of small-scale enterprises in Nigeria using a time-series data obtained from the Central Bank of Nigeria for the period 1992–2011. Data analysis was conducted using the "Ordinary Least Squares" (OLS) regression technique. The empirical findings also revealed that credit provision by commercial banks and industrial capacity utilization had a significant positive impact on the growth of small enterprises. Another study was conducted by Afolabi (2013) examined the growth effect of Small and Medium Enterprises (SMEs) Financing in Nigeria. This study highlighted the scarcity of quantitative and empirical research in this area and examined the impact of Small and Medium-sized Enterprise (SME) financing on economic growth in Nigeria between 1980 and 2010. This study employed the Ordinary Least Squares (OLS) method to estimate a multiple regression model. The results indicated that SME output (proxied by the wholesale and retail trade sector's contribution to GDP), commercial bank loans to SMEs, and the Naira-to-US Dollar exchange rate have a positive impact on real GDP (the proxy for economic development), whereas the lending rate exerts a negative influence on economic growth. Based on t-statistics used for partial significance testing, SME output and commercial bank loans to SMEs were identified as significant factors driving Nigeria's economic growth at the 5% significance level. The impact of banking loans on the growth of small and medium enterprises (SMEs) was examined in Nigeria. The primary objective of this study was to examine whether or not bank sector loans in Nigeria have a significant impact on the growth of small and medium-sized enterprises. This study utilized annual data spanning the years 1985 to 2010; descriptive statistics, a correlation matrix, and an error correction model were employed to test the formulated hypotheses. The findings indicate that banking sector loans in Nigeria significantly impact the growth of small and medium-sized enterprises (SMEs), as these loans positively influence key macroeconomic growth indicators such as inflation, exchange rates, and commercial lending. Another research study was conducted by Ilegbinosa and Jumbo (2015) where the relationship between small and medium-sized enterprises and Nigeria's economic growth was empirically examined for the period from 1970 to 2012. In this study, primary data were collected through surveys of 84 small and medium-sized enterprises (SMEs), while statistical records spanning the years 1975–2012 were utilized as secondary data. Ordinary Least Squares (OLS), co-integration, and the Error Correction Model (ECM) were employed to analyze and estimate the collected data. The variables included in the study were Gross Domestic Product (GDP) as the dependent variable, and the independent variables are the availability of financial resources for SMEs, interest rates, and inflation rates. The results of the study indicated that the availability of financial resources for small and medium-sized enterprises (SMEs) is positively correlated with economic growth, whereas interest rates and inflation (rising prices) have negative and positive effects on economic growth, respectively. Ubesie et al. (2017) conducted a research study in which the impact of deposit money banks' loan on small and medium scale enterprises (SMEs) was examined in Nigeria. This study employs an *ex-post facto* research design, utilizing secondary data obtained from the Central Bank of Nigeria's (CBN) 2015 statistical bulletin and the National Bureau of Statistics (NBS) for the period between 1986 and 2015. For data analysis, the ordinary least squares regression method was used, after conducting a stationarity test on the variables. The result of the research shows that loans granted by deposit money banks in Nigeria to small and medium-sized enterprises do not have any significant impact on the growth of these enterprises. Once again, the results show that credit extended to the private sector by deposit money banks in Nigeria has a significant impact on the growth of small and medium-sized enterprises. It is also shown in the result of the study that bank interest rate has a serious significant effect on small and medium scale enterprises in Nigeria. in which a comparative analysis has been done of financing for small and medium-sized enterprises (SMEs) in Nigeria. It employs the Net Present Value (NPV) technique to determine whether conventional interest-based bank financing is more profitable than Islamic Mudharabah financing for the growth and innovation of SMEs. The result of the study is based on the difference between the present value of receivables and the discounted value of payables from 2000 to 2017 indicate that the Islamic banking Mudharabah model yields a positive and high Net Present Value (NPV); consequently, it is far superior and more beneficial for enterprise growth and innovation compared to interest-based financing.

Berger and Udell (1998) projected the financial growth theory for small businesses where the businesses grow, become more experienced and impervious by information through financial needs and financing options change. They also proposed that companies be positioned along a continuum based on size, age, and information; within this spectrum, small or young companies or those with less transparent operations are situated toward the left, indicating that they must initially rely on internal financing, trade credit, or "angel finance." Based on financial growth model projections aligned with the company's expansion, the firm will have access to venture capital as a source of medium-term equity and to medium-term loans as a source of medium-term debt. In the final stage of the growth process, as companies mature and acquire significant experience and information, they are expected to gain access to public equity or long-term debt. Furthermore, this theory clarifies that different financing strategies are required at various stages of a company's growth cycle (Abdulsaleh et al., 2013). Overall, given the realities characterizing small businesses in the districts—such as business management practices (Berger and Udell, 1998) Absence of business history (Cassar, 2004). At this stage, small businesses rely heavily on internal financial resources for their growth. Base on the above literature following hypothesis are created to test the significant of commercial Banks loan on SMEs performance.

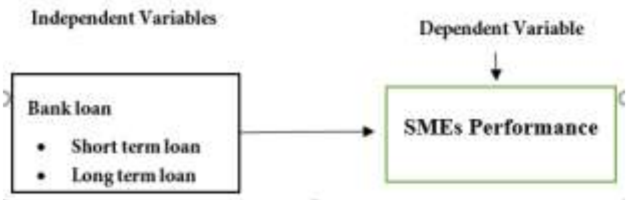
Hypothesis;

H0: Bank loan financing has no significant effect on financial performance of SMEs in Afghanistan.

H1: Bank short term loan financing has significant effect on financial performance of SMEs in Afghanistan.

H2: Bank Long term loan financing has significant effect on financial performance of SMEs in Afghanistan.

Conceptual Framework



Methods and Materials

Every research study must have a clear research Design the current research is based on Descriptive research design. These kind of design used to collect primary or secondary data from sample size rather than population and then generalize the result on a whole population. The study used purposive sampling technique by targeting 189 SMEs from different sectors located in Jalalabad Afghanistan out of 360 populations by suing Yamane 1973 formula. Primary data technique was used by designing five Likert scale questionnaire which were distributed to the owner of the SMEs for data collection purpose. Collected data was assembled, sorted, edited, classified and coded.to analysis data Statistical Package for Social Sciences (SPSS version 25) were used. Descriptive statistics were tested where mean median and standard deviation were calculated. To show the relationship among variables pearson correlation test were conducted. To show the smoothness and validity of questionnaire Cronbach's alpha were tested. Further multiple linear regression analysis was conducted to test the relationship between dependent and independent variables from which a regression equation was drawn, significant and the hypothesis of the study at the 0.05 (5%) significant level. R2 was used to measure the extent of the goodness of fit of a regression model.

Research Model

SMEs performance (ROA) = $\beta 0 + \beta 1(STL) + \beta 2\ (LTL) + \varepsilon$

Where:

ROA = return on assets proxy for SMEs performance

β1STL = first proxy of independent variable that is short term loan

β2 LTL = Second proxy of independent variable that is Long term loan

Findings

Descriptive Statistics

Table 1

Variable	*N*	*M*	*SD*
STL	189	0.235	0.058
LTL	189	0.049	0.072
ROA	189	0.646	0.535

As per as descriptive statistics as concern for current study total 189 SMEs data were collected the mean value of all SMEs for short term loan is 0.235 and standard deviation is 0.058. while long term loan of SMEs has average value of 0.049 and standard deviation is 0.072. ROA which is proxy for SMEs performance has mean average value 0.646 and standard deviation is 0.535.

Reliability test

Table 2

Variable	Number of Items	Cronbach's α
STL	3	.748
LTL	3	.752
ROA	3	.792

To test the reliability of questionnaire data Cronbach's Alpha was tested and the value of all three variables was above the common threshold that is 0.70. in above table 0.748. 0.752, and 0.792 was Cronbach's Alpha value respectively for STL, LTL and ROA. Indicating that there is no problem and the questionnaire fulfill at least the minimum acceptance criteria.

4.6 Pearson's correlation

Table 3

Variable	STL	LTL	ROA
1. STL	1	.801**	.902**
2. LTL	.801**	1	.725**
3. ROA	.902**	.725**	1

To check the relationship among the variables of current study Pearson correlation was conducted the relationship between STL and LTL is 0.801 that show positive and a significant relationship at 0.05 level of significance. While the relationship between STL and ROA is 0.902 also show positive and significant relationship between these two variables. and finally, the relationship between LTL and ROA is 0.725 also show positive association among these two variables and are statistically significant at 5 level of significance.

Multiple linear Regression Analysis

Model Summary

Table 4

	R	*R*²	Adjusted *R*²	*F*	*p*	Durbin–Watson
	.506	.650	.646	.865	.000	2.144

To test the hypothesis and the relationship among the variables of the current study Multiple linear regression analysis was conducted. Above model summary R value is 0.506 and R Square is 0.650 indicated that at least 65% of the predictor variables include in current study that is STL and LTL explained the Endogenous variable that is ROA. And remaining 35% is due to other factors that is not include in current model. P value is 0.000 show significant result and suggest that H0 is rejected that is "*Bank loan financing has no significant effect on financial performance of SMEs in Afghanistan*". And suggested that at least one of the exogenous variables in the model has a significant effect on SMEs performance.to support the validity of the regression model the Durbin- Watson 2.144 closed to the ideal threshold value of 2 and are in-between the acceptable value of 1.5 and 2.5 suggest no significant autocorrelation among the residuals.

Regression Coefficients

Table 5

ROA	*B*	*t*	*p*
Constant	1.057	3.290	.055
STL	.214	.290	.001
LTL	.216	.280	.000

STL has coefficients is 0.214 and p value has 0.001 indicate that one unit increased in STL short term liability will bring 0.214 positive change in ROA. And the result is statistically significant at 0.05 of significant level. LTL has coefficient of 0.216 and p value of 0.000 suggested that Long term liability and SMEs performance has positive relationship with each other and indicate that one unit increased in LTL will bring 0.216 unit change in ROA. And the result is statistically significant at 0.05 level of significance.

Result and Discussion

The effect of bank loan financing on the financial performance of Small and Medium Enterprises (SMEs) in Afghanistan was the primary objective of this study to examine by investigating the influence of both short-term loans (STL) and long-term loans (LTL) on Return on Assets (ROA). The study addresses the obstinate financing challenges faced by SMEs in Afghanistan though their contribution is significant in the economic development of the country in the form of employment generation, income creation, innovation and economic growth. The data for this study was collected from 189 SMEs in Jalalabad using structured questionnaires. For the analysis of data, the SPSS software 25th version was used. The data reliability analysis confirmed the internal consistency and reliability of the research instruments since the Cronbach's Alpha coefficients for short-term loans was (0.748), long-term loans was (0.752), and the financial performances (ROA) (0.792) were all above the recommended threshold of 0.70, indicating that the questionnaire items consistently measured the intended constructs (Hair et al., 2019). The descriptive statistics of the study discovered that SMEs are more likely dependent on short term bank loans (Mean = 0.235; SD = 0.058) as compare to long term loans (Mean = 0.049; SD = 0.072), describing that most of the small enterprises prefer bank financing at the startup of their businesses as a working capital in contrast of long term investment. During the study period the average ROA of 0.646 also indicate that the sampled SMEs recorded moderate financial performance. Besides, a strong positive relationship among the study variable was demonstrated. The correlation between short-term loans and financial performance ($r = 0.902$, $p < 0.05$) shows that SMEs are higher profitable with the greater access to short-term bank financing, while the positive correlation between long-term loans and financial performance ($r = 0.725$, $p < 0.05$) indicates that SMEs are more productive when they are supported through long term banks loans. The association between short-term and long-term loans is positively strong ($r = 0.801$, $p < 0.05$) which indicates that when SMEs are provided the facilities of accessing on bank financing, are becoming capable of accessing more banks financing in the form institutional loans. The result of the study supports the previous empirical studies, which described that SMEs with access to banks financial support and loans enable them to operate effectively and improve productivity along with capabilities of competitiveness which finally results in the sustainable growth (Beck et al., 2005; Giang et al., 2019; Esubalew & Raghurama, 2020). The findings of the study was further strengthened by multiple regression analysis, which shows that a substantial proportion of variations in SME financial performance was explained jointly by independent variables, especially the coefficient of the determination ($R^2 = 0.650$) describes that the changes in Return on Assets are explained by short-term and long-term bank loans are 65%, while the variation is attributable to other factors not included in the model are 35%. The overall regression model was statistically significant ($p = 0.000$), describing that the financial performance of SMEs is effected significantly by the bank loan financing in Afghanistan. The regression model is reliable based on the result of Durbin-Watson statistic of 2.144, where the residuals are independent and free from autocorrelation, and may increase the confidence level in the estimated result. The result of coefficient also described that both explanatory variables have statistically significant and positive effects on the performance of SMEs. The short term loans coefficient ($\beta = 0.214$, $p = 0.001$) described that Return on Assets may increase correspondently due to short term financing, which means that SMEs are being enabled through adequate working capital to purchase inventories, pay suppliers promptly, meet operational expenses, improve liquidity, and increase profitability. The findings agree with the research of Devi (2015), who founded that for the efficient operation and expansion of SMEs, access to timely and affordable working capital is essential. (Cassar, 2004), also established the similar result where he mentioned that SMEs expansion and growth is mostly reliable on access to bank credits. Giang et al. (2019), also found in their research study that those small businesses, who access to bank credits, are demonstrated significantly higher productivity than those without access to finance.

The first alternative hypothesis (H_1), which states that SMEs performance is significantly affected by banks short term loan in Afghanistan, is accepted, while its corresponding null hypothesis is rejected, because the probability value (0.001) is lower than the 5 percent significance level. Though, the coefficient of long term loans ($\beta = 0.216$, $p = 0.000$) modifies that SMEs financial performance is positively influenced by long-term bank financing. Which means that those SMEs, which access to long-term bank financing, are effective in competiveness and long term profitability through obtaining machinery, invest in technology, expand production capacity, improve infrastructure, and undertake other strategic investments. The Beck et al. (2005), study was also supported by these findings, where they found that long-term bank finance contributes significantly to enterprise growth and similarly all Bassey et al. (2014), and Afolabi (2013), concluded that SMEs performance and growth is significantly affected by long-term bank financing.

The second alternative hypothesis (H_2), states that long-term bank loan financing has a significant effect on SME financial performance is accepted, because its probability value (0.000) is below the 0.05 level of significance. Based on the overall hypothesis of the study, the regression model produced a statistically significant probability value of 0.000, described that SME financial performance is significantly affected by bank loan financing as a whole, where the null hypothesis (H_0) which shows that SMEs financial performance is not being significantly affected by bank loan financing in Afghanistan, is rejected, due to sufficient statistical evidence exists to conclude that SMEs performance is positively affected by bank financing contribution.

Conclusion

The finding of the study support the Financing Growth Theory developed by Berger and Udell (1998), in which it is stated that in order to expand operations, reduce financial constraints, and improve overall business performance of enterprises, require different sources of finance as they progress through various stages of growth and that improved access to external finance. Similarly, the findings of the study are similar to the findings of Ilegbinosa and Jumbo (2015) study, where they found that SMEs growth has one of the greatest obstacles which is financial constraints. Beck et al. (2005), also found that SME development are limited by inadequate access to bank credit more severely than it affects large firms. The findings of the study provide strong empirical evidence that the financial performance of SMEs are significantly enhanced by both short-term and long-term bank loan financing in Afghanistan. SMEs are more capable of increasing profitability, improving operational efficiency, expanding business activities, investing in productive assets, and sustaining long-term growth with improved access to commercial bank financing. The study concludes that one of the most effective strategies for strengthening enterprise performance, promoting employment creation, stimulating private sector development, and accelerating sustainable economic growth in Afghanistan, is improving SMEs' access to affordable bank credit.

Recommendations

- The commercial banks provide both short-term and long-term loan financing to SMEs by flexible lending conditions.
- The owner of SMEs should utilize the borrowed bank loans in an effective and efficient manner in order to improve business overall activities including financial performances to increase profitability.
- Government and governmental agencies especially policymakers should develop policies through which SMEs are supported financially and ease their access to financial support programs.
- Financial advisory services should be provided by financial institutions to help SMEs manage borrowed funds efficiently, and loan applications procedures should have simplified by those institutions.

- The other factors such as firm size, firm age, management experience, and macroeconomic conditions should be included by future researcher to explain the remaining variation in SMEs' financial performance.

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