INFLUENCE OF FINANCIAL INCLUSION ON SMALL AND MEDIUM ENTERPRISES GROWTH AND DEVELOPMENT IN NIGERIA

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Abstract

The study examined the influence of financial inclusion dimensions (mobile banking, banking services and banking penetration) on SMEs growth and development in Nigeria. The study comprises on a quantitative survey of 625 Small scale businesses. The data was collected from the business organizations operating in all local governments of Oyo State, Nigeria through a self-administered questionnaire. The study covered bakery, block making fabric making and hairdressing. Linear Regression Analysis was employed to analyse data collected. The result revealed that financial inclusion dimensions (mobile banking, banking services and banking penetration) have positive and significant influence on SMEs growth and development. Subsequently, recommendation was made that government should provide capacity building efforts that could lead to well-managed, sustainably financed SME support mechanisms especially credit guarantees.

Key words: Financial Inclusion, SMEs, Growth and Development, Nigeria

Introduction

Small and medium scale enterprises (SMEs) have played major role in generating employment and advance economic development globally. SMEs are fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. SMEs have historically been the main players in domestic economic activities, especially as providers of employment opportunities, and hence generators of primary or secondary sources of income for many households (Palmarudi and Agussalim, 2013). Ojokuku and Sajuyigbe (2014) confirmed that SMEs has been recognised globally as engine of economy growth and development. Small and medium enterprises are the solution to the problem of slow economic development among developing countries. The contribution of SMEs to Nigeria economy has not been felt. According to Olowe, Moradeyo and Babalola (2013), many SMEs in Nigeria could not reach the growth stage of their life cycle due to lack of access to finance. Financing for SMEs is limited, particularly when compared to commercial debt for large firms and microfinance. SMEs are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint especially in Nigeria. They might not be able to access finance from both money deposit banks and microfinance banks due to high administrative costs, high collateral requirements and lack of experience within financial intermediaries.

Financial inclusion has been identified by researchers (Garang, 2014, Ibeachu, 2010; Onaolapo and Odetayo, 2012; Stephen and Sibert, 2014; Godwin, 2011; Pallavi and Bharti, 2013) as only solution to Small and Medium Enterprises growth and development globally. In Nigeria, Central Bank of Nigeria is in the driving seat of the national effort to achieve financial inclusion. The bank's policy recognises the role of Microfinance in providing services to the SMEs operators who are traditionally excluded from or not well served by the conventional financial institutions.

Sarma (2008) defined financial inclusion as a process that ensures the ease of access, process that ensure the ease of access, availability and usage of that formal financial system for all numbers of an economy. According to the author, ease of access is measured by proxies such as number of bank branches or ATMs per 1,000 population. Khan (2011) contended that financial inclusion when promoted in the wider context of economic inclusion can uplift financial conditions and improve the standard of living of the poor and the disadvantaged. He added that financial inclusion can improve the efficiency of the process of intermediation between savings and investments while facilitating change in the composition of the financial system.

Research Questions

1. To what extent does mobile banking influence SMEs growth and Development in Nigeria?
2. To what extent does usage of banking services influence SMEs growth and Development in Nigeria?
3. To what extent does banking penetration influence SMEs growth and Development in Nigeria?

Objective of the Study

The general objective of this research study is to examine the influence of financial inclusion on SMEs growth and development in Nigeria. The specific objectives are:

1. To examine the influence of mobile banking on SMEs growth and development in Nigeria.
2. To determine the influence of banking services on SMEs growth and development in Nigeria.
3. To examine the influence of banking penetration on SMEs growth and development in Nigeria.

Literature Review

Concept of SMEs

The definition of SMEs varies from country to country. For instance, European Union (EU) defines a small enterprise as one which has a headcount of less than 50 employees and a balance sheet and turnover each of which is not more than 10 million Euros. A medium-size enterprise has headcount of less than 250, and a turnover of not more than 50 million Euros or a balance sheet of not more than 43 million Euros. Value of assets refers to the balance sheet of the enterprises which reflects the overall wealth of the enterprise, whereas turnover or sales simply refers to annual sales volumes minus discounts and sales taxes in a given accounting period. In Great Britain, Small Scale Industries include those with an annual turnover of two million pounds or less and with less than 200 paid employees. This definition makes no reference to capital Investment.

In Indonesia, they refer to those employing less than 10 full-time workers while to the Japanese and Americans, they refer to those employing between 300 and 500 workers. In the USA, the Small Business Administration (SBA) Size Standard Office is charged with setting the size of SMEs to reflect sectoral differences and to aid policies targeting SMEs. A firm with less than 500 employees is considered a small business (SBA, 2009). In Kenya, a firm that employs between 5 and 50 persons is defined as small, while one that employs 50 to 200 is a medium-sized enterprise. Egypt defined SMEs as having more than 5 and fewer than 50 employees, Vietnam considers SMEs to have between 10 and 300 employees. The World Bank defined SMEs as those enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets. The Inter-American Development Bank, meanwhile, describes SMEs as having a maximum of 100 employees and less than $3 million in revenue.

In Nigeria, According to the Central Bank Nigeria's (CBN) Credit Guidelines, a small Scale Industry is any manufacturing or service enterprise whose annual business turnover does not exceed ₦500,000 ceiling which was imposed on the Agricultural Credit Guarantee Scheme (ACGS) and not more than ₦1 million (one million Naira). SMEDAN (2009) found that SMEs represents 90% of the enterprises in Nigeria and Culkin and Smith (2000) also found that small businesses employ 53% of the private workforce and accounts for 47% of sales and 51% of private sector gross domestic product and also argued that SMEs make up the largest business sector in every world economy. Yet SMEs tend to face significant constraints in accessing credit and other financial services, owing to geographical distance from financial centres, affordability, lack of collateral, poor or nonexistent credit history and other non-price barriers.

Concept of Financial Inclusion

The United Kingdom was one of the first countries to realize the importance of financial inclusion. It published its strategy for financial inclusion that in its report promoting financial inclusion which was published alongside its Pre-Budget of 2014. Definition of financial inclusion by Oruo (2013) is used to operationalized the concept of financial exclusion. It is, therefore, viewed as the ability of some individual to access and use basic financial services. Such services include savings, loans, and insurance in a manner that is reasonably convenient, reliable and flexible in terms of access and design. According to Nwanko and Nwanko (2014), the traditional idea of financial inclusion is the provision of access to and usage of diverse, convenient, affordable financial services. Access to and use of financial services is one of the major drivers of economic growth. Financial Inclusion covers sustainable, relevant, cost-effective and meaningful financial services for the financially underserved population especially rural dwellers. World Bank (2012) described financial inclusion as the range, quality and availability of financial services to the underserved and financially excluded.

According to FATF (2011), financial inclusion is about providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector. It is also, on the other hand, about making a broader range of financial services available to individuals who currently only have access to basic financial products. Centre for Financial Inclusion (2013) also described financial inclusion as a state in which all people who can use financial services have access to a complement of quality financial services, provided at affordable prices, in a convenient manner and with dignity for the clients. Clark (2013) asserted that financial inclusion helps people to diversify or increase income stream in the house, provides liquidity/cash flow;

absorbs shock of adversity by building assets which enables client to cope with loss through consumption smoothing, thus avoiding the sale of productive assets. It increases income when the credit is used for an income-generating activity and that activity generates returns in excess of the loan instalment repayments, while it builds asset when the credit-financed investment does not generate a significant net profit but create an asset since the investment remains with the clients (Nwanko and Nwanko, 2014).

Challenges of Financial Inclusion

The centre for financial inclusion has issued a challenge to the world to achieve full financial inclusion around the globe, namely, to help realize its vision of a financial inclusive world in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices in a convenient manner and with dignity for the client.

According to Pallavi and Bharti (2013), major reasons for Financial Exclusion are;

1) High cost: Providing and utilizing financial services is not available free of cost for both the service provider and service utilizer. (i) Cost for service provider: Setting up of branches in rural areas are generally not advantageous due to high cost and low business (ii) Cost for service utilizer: It has been observed that poor living in rural area are reluctant to utilize these services due to high cost example, minimum balance requirements in saving account, fixed charges in credit cards and debit cards, loan processing charges etc.

2) Non price barriers: Access to formal financial sources requires documents of proof regarding person’s identity, postal address, income etc. poor people generally do not have these documents and thus are excluded from financial services.

World Bank (2012) also argued that more than half of the world’s poor adults don’t have a bank account, leaving them vulnerable to loss, theft and exploitation. Bureaucracy, travel distance and cost are some of the identified barriers to access banking and other financial services by more than half of the world’s population, particularly those living in rural area. In the same vein, Ibeachu, (2010) cited in Onaolapo and Odetayo, (2012), established six types of financial exclusion: (i) Physical access exclusion: This, they stated, is brought about by the closure of local banks or building societies and lack of reliable transport to reach alternatives. (ii)Access exclusion: This type of access is restricted through risk assessment, with people being denied a product or service as they are perceived to be high risks.(iii) Condition exclusion: This is when conditions are attached to products or services thereby making them inaccessible to some. (iv) Price exclusion: This occurs when products are available but at a price that is unaffordable. (v) Marketing exclusion, where sales and marketing activity is targeted on some groups, or areas, at the expense of others. (vi) Self exclusion, when individuals do not seek financial products and services for reasons including fear of failure, fear of temptation or lack of awareness.

Empirical Review

Garang (2014) examined the role of financial sector development in expanding access to finance by SMEs in Kenya. The result showed that financial inclusion has significant influence on SMEs growth and development. Hariharan and Marktanner (2012) concluded that financial inclusion is a huge prerequisite for economic growth and development based on its ability to enhance capital creation, financial sector savings and intermediation and by implication investment. Nwanko and Nwanko (2014) also examined the sustainability of financial inclusion to rural dwellers in Nigeria using descriptive study and content analysis. The study observed that the sustainability of financial inclusion to rural dwellers in Nigeria remains the mainstream for economic growth in any country.

Jaising (2013) examined financial inclusion in Ghana. Through regressions on the human development index juxtaposed with selected indicators of financial inclusion, it is able to establish that financial inclusion in the formal sector is significantly correlated with overall human development, justifying the need for financial inclusion in Ghana. Ghosh (2013) studied microfinance and the challenge of financial inclusion for development by examining the experience of India. Result established that microfinance institutions faced challenges of among their customers leading to an increase in the level of non- performing loans. Oruo (2013) also studied the relationship between financial inclusion and economic growth. Result showed that economic growth in Kenya is strongly related with financial inclusion and Kenya through financial inclusion.

Waihenya (2012) investigated the relationship between agent banking and financial inclusion in Kenya. The study utilized descriptive survey research method. The study investigated agent banking in Kenya with emphasis on the factors contributing to financial exclusion, both natural barriers such as rough terrains and man-made barriers such as high charges on financial services and limited access due to limited bank branches. The study found out that agent banking is continuously improving and growing and as it grows, the level of financial inclusion is also growing proportionately. Ndege (2012) did a study on the relationship between financial sector deepening and economic growth in Kenya and established a positive relationship between financial sector deepening and economic growth in Kenya. Ibeachu (2010) also did a comparative analysis of financial inclusion using a case study of Nigeria and the United Kingdom. In his study he used a deductive approach, to measure the financial inclusion, accessibility and the quality of bank service in Nigeria by analyzing responses from the survey questionnaires administered. From his findings he concluded that financial inclusion was more market driven in terms of consumer behavior and customer satisfaction when offering financial services. Based on the above review, it is therefore hypothesized that:

H0l: Mobile banking has no significant influence on SMEs growth and development in Nigeria.

H0ll: Banking services has no significant influence on SMEs growth and development in Nigeria.

H0lll: Banking penetration has no significant influence on SMEs growth and development in Nigeria.

Model Specification

Model is on the impact of financial inclusion (FI) on the SMEs growth and development

Financial inclusion is measured by mobile banking, Banking services (ATMs, POS, Credit/ Debit Cards, etc) and banking penetration (number of branches).

Therefore, SMEs Growth and Development = F (X_1, X_2, X_3)

SMEs Growth and Development = $\beta0 + \beta1\ X_1 + \beta1\ X_2 + \beta1\ X_3 + Ui$

where;

the a priori expectation is $\beta_1, \ldots \beta_3 > 0$

X_1 = Mobile banking,; X_2 = Banking services; X_3 = Banking penetration.

U = Disturbance Term

β = Intercept

β_1- β_3 = Coefficient of the independent variables.

Methodology

The study comprises on a quantitative survey of 625 Small scale businesses. The data was collected from the business organizations operating in all local governments of Oyo State, Nigeria through a self-administered questionnaire. The study covered bakery, block making fabric making and hairdressing. In the study, SME referred to the firms employed between 2 to 10 employees. The instrument used in this study was a close-ended questionnaire designed by the researchers. Linear Regression Analysis was employed to analyse data collected.

Result and Discussion

Table 1: Model summary of mobile banking and SMEs growth and development

Model	R	R^2	Adjusted R^2	Std error of the estimate	
1	0.536	0.283	0.287	0.55185	
Explanatory variable	**B**	**Std error**	**T – value**	**P- value**	**Remarks**
Constant	2.304	0.506	4.556	0.000	
Mobile banking	0.490	0.112	4.395**	0.000	S

S= significant; **= Significant at 1% level

Source: Data analysis, 2014

Table 1 shows that mobile banking (β = 0.490; t = 4.395**; P<.01) has positive and significant influence on SMEs growth and development. The result also revealed that mobile banking (R^2 = 0.283) has 28.5% decisive influence on SMEs growth and development. This implies that mobile banking system is definitely ideal for the remote areas given that it is an easily accessible, cheaper, more convenient and faster means of sending and receiving money. The result is consistent with Stephen and Sibert (2014) and Jenkins (2008) that the use of mobile banking has advantages of reducing the risk of dealing with cash and provides wide coverage through the use of a communications infrastructure that is used by millions of people. The risks that are common when using cash are loss due to theft, and for those that remit cash through third parties such as friends or bus drivers, there are chances of the cash not reaching the intended beneficiary.

Table 2: Model summary of banking services and SMEs growth and development

Model	R	R^2	Adjusted R^2	Std error of the estimate	
2	0.850	0.722	0.716	0.34444	
Explanatory variable	**B**	**Std error**	**T – value**	**P- value**	**Remarks**
Constant	O.703	0.343	2.047	0.046	
Banking services	0.871	0.078	11.171**	0.000	S

S= significant; **= Significant at 1% level

Source: Data analysis, 2014

Table 2 shows that banking services such as ATMs, Credit and Debit Cards, Point of Sales Terminal (KYC) (β = 0.871; t = 11.3171**; P<.01) have positive and significant influence on SMEs growth and development. The result also indicated that banking services (R^2 = 0.722) has 72.2% decisive influence on SMEs growth and development. This implies that banking services (Automated Teller Machines (ATMs), Point of Sale Terminals (POS) and Deposit Machines) has strong influence on SMEs to have access to finance which will allow SMEs operators to carry out banking transactions beyond banking hours.

Table 3: Model summary of banking penetration and SMEs growth and development

Model	**R**	**R^2**	**Adjusted R^2**	**Std error of the estimate**	
3	0.798	0.636	0.629	0.39415	
Explanatory variable	**B**	**Std error**	**T – value**	**P- value**	**Remarks**
Constant	0.747	0.413	1.807	0.077	
Banking penetration	0.841	0.092	9.163**	0.000	S

S= significant; **= Significant at 1% level

Source: Data analysis, 2014

Table 3 shows that banking penetration (β = 0.841; t = 9.163**; P<.01) has positive and significant influence on SMEs growth and development. The result also showed that banking penetration (R^2 =0.636) has 63.6% decisive influence on SMEs growth and development. This implies that banking penetration (increase of branches in rural area, opening account with low or nil minimum, and making printed material used by retail customers in their own languages) has strong influence on SMEs to have access to finance. The study collaborated the study of Waihenya (2012) and Ibeachu (2010) that the lower the charges on financial services, easy opening account with low or nil minimum and increase in number of bank branches have positive influence on SMEs operators to have access to finance.

Conclusion and Recommendation

The study examined the influence of financial inclusion dimensions (mobile banking, banking services and banking penetration) on SMEs growth and development in Nigeria. The result revealed that financial inclusion dimensions (mobile banking, banking services and banking penetration) have positive and significant influence on SMEs growth and development. It can be concluded that availability of

Automated Teller Machines (ATMs), Point of Sale Terminals (POS) and Deposit Machines as well as increase of bank branches in rural area will go a long way in SMEs growth and development in Nigeria. The paper therefore, recommended that government should provide capacity building efforts that could lead to well-managed, sustainably financed SME support mechanisms especially credit guarantees.

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