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FINANCIAL INNOVATION, INCLUSION, AND SME FINANCING IN NIGERIA: EVIDENCE FROM AN EMPIRICAL INVESTIGATION

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Abstract: Driven by the pressing need to tackle the financing hurdles that Small and Medium-scale Enterprises (SMEs) face in Nigeria, this study delves into the impact of financial innovation and inclusion on SME financing. We adopted a mixed-methods approach, combining quantitative and qualitative analyses to gain a deeper understanding. Our analysis drew on secondary data, from the Central Bank of Nigeria's Statistical Bulletin (2022). We examined the relationships between SME financing and various financial innovation variables, including Automated Teller Machines (ATMs), Point of Sales (POS) terminals, Mobile Payments (MP), and Loans from Rural Branches of Commercial Banks (LRBCB). Our findings, based on the Autoregressive Distributed Lag (ARDL) model, reveal that ATMs, MP, and LRBCB have a positive and significant impact on SME financing, while POS terminals have a positive but insignificant impact in the short run, becoming significant in the long run. Overall, our study demonstrates that financial innovation and inclusion have a significant impact on SME financing in Nigeria. We recommend that policymakers and financial institutions expand ATM networks and promote POS technology integration in SMEs, while also enhancing digital financial literacy through targeted initiatives.

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1. INTRODUCTION

Small and medium-scale enterprises(SMEs) have continued to receive renewed interest from different national governments and international bodies such as the World Bank and the International Monetary Fund (IMF), as a veritable tool for promoting income distribution employment and economic growth in various nations. (IMF,2023). Recent quality studies have validated previous studies that had empirically established a strong relationship between a growing SME sector and economic growth in different countries (Adegboye & Iweriebor, 2015; Osano & Languitone, 2015). According to recent data released by the World Bank, 90% of business entities and an estimated 50% of jobs globally were directly related to SMEs, with the result that 40% of gross domestic product (GDP) in emerging economies, including Nigeria, is attributable to the business activities in SMEs sector (World Bank, 2021). It is not surprising that many governments, especially emerging countries, are making frantic attempts to support the expansion of SMEs as a viable avenue to drive economic growth and development in their diverse nations. (Beck & Cull, 2014; Wellalage & Fernande,2019).

By definition, Small and medium enterprises (SMEs) are business entities whose assets, revenue and operational scope fall below certain limits or thresholds set forth by national governments and authorities. Their classification is normally based on the number of employees, values of fixed assets, production and technologies capacities, cash flow and management characteristics of individual firms. In Nigeria, SMEs are defined by the Central Bank of Nigeria (CBN) as any business outfit with operational revenue of less than 100 million naira and with staff strength not exceeding 300 employees (PwC's MSME Survey, 2020). A significant majority of business entities around the world are regarded as SMEs (Kim & Nguyen, 2021). Despite the significant role SMEs play in driving growth, they are often faced with a myriad of challenges (Andries *et al.*, 2018). Lack of financial innovations and restricted credit availability are a couple of these issues facing SMEs, especially in Nigeria. These challenges can put firms under strain and impair their performance in