

## Financing Options on the Growth of Small and Medium Enterprises in Nigeria

<sup>1</sup>Ityav, Doofan Lynda, <sup>2</sup>Udoh, Francis Sylvanus & <sup>3</sup>Sani, Otaru Abdulsalam

<sup>1&3</sup>Department of Business Administration, Nasarawa State University Keffi

<sup>2</sup>Department of Business Administration, NILE University of Nigeria Abuja

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### Abstract

Globally, financial systems are crucial to the growth and development of the economy, especially of small and medium-sized businesses (SMEs). The financial system's level of development has a significant impact on these positions' effectiveness and efficiency, especially when it comes to mediating between the surplus and deficit parts of the economy. The financial sector, which is undoubtedly the one that the government and its agencies supervise and control the most, has put in place funding choices for various economic sectors, including SMEs, to assure its stability. As a result, SMEs start to gradually change their capital structure as they progress through their business lifetime. SMEs begin to have a track record and the capacity to offer collateral during later growth stages as they mature. This helps to increase the company's creditworthiness, which in turn attracts investors who are eager to spend money in the company. The study looks at how financing options affect the expansion of SMEs in Nigeria. SMEs in Nigeria are not expanding to the degree that is anticipated, despite the funding choices (bank financing, equity financing, and micro financing) that are available to them. This study's time span runs from 1995 to 2019. The population of 72,838 SMEs, which served as the sample size for the study's ex-post facto research design. For the secondary data, the study used reports from the Central Bank of Nigeria and SMEDAN. In order to analyze the data, the study used a number of techniques, including descriptive statistics, the augmented Dickey and Fuller test, the unit root test, co-integration, and the Error Correction Model. The study's analysis of the data revealed that equity financing had a negligible impact on the expansion of SMEs in Nigeria, whereas bank and microfinance options had a favorable and considerable impact on that growth. Based on these findings, the study suggests that bank and microfinance monetary authorities continue to adopt more reasonable policy judgments regarding loans provided to the SMEs sector in order to encourage borrowers to engage in profitable endeavors for business expansion, SMEs sales growth, and improvement in added value. Effective equity financing regulations should also focus on the steady growth and development of the Nigerian stock market. In theory, being able to raise money quickly and affordably on the stock market should encourage SMEs to diversify into larger businesses and grow their operations.

**Keywords:** *Bank Financing, Equity Financing, Micro Financing and Growth of SMEs*

*Corresponding Author:* Ityav, Doofan Lynda

### **Background to the Study**

The availability of financing has been cited as a key component in the growth, development, and success of Small and Medium Enterprises (SMEs) all over the world (Ou and Haynes, 2006; Cook, 2001). The expansion of the SMEs sector depends on having access to financing. Funds are needed for the transition from production for subsistence to commercial SMEs. Financing for investments in SMEs is, however, difficult to come by in developing nations, where SMEs provide a living for 86% of rural residents. Less than 1% of commercial loans in Africa goes to the SMEs sector (IFC, 2013).

As a result, several financial choices cater to various needs in the SMEs sector. The financial instruments used to meet each of these needs rely on the degree of sophistication of the financial system in each nation and the lenders' willingness to assume risks in that specific market. The response to financial options also heavily relies on regulation and awareness campaigns. Foreign banks, development banks, governments, and even individuals in need of financial aid offer financial alternatives in addition to local financial institutions.

SMEs gradually modify their capital structure as they progress through their business lifetime (La Rocca, La Rocca, and Cariola, 2011). SMEs begin to have a track record and the capacity to offer collateral during later growth stages as they mature. This helps to increase the company's creditworthiness, which in turn attracts investors who are eager to spend money in the company. As a result, businesses start to replace internal funding sources with external ones, such as venture capitalists, trade credit, bank loans, equity financing, microfinancing, and development financing.

SMEs have been found to employ an increasing percentage of the workforce in most countries recently, and they play a critical part in the economic prosperity of most nations and their residents. Privately held small and medium-sized businesses are expanding quickly over the world, but there are a number of problems that are preventing their growth. According to Da Silva et al. (2009), all small businesses operate under strict liquidity restrictions, making funding a significant issue for them. This is a serious concern for the majority of SMEs.

In accordance with this, SMEs have access to a variety of funding options for their financial needs. Personal financial resources, bank financing (loans), microfinance funds, venture capital funds, leasing, equity financing, and development financing are a few examples. Some SMEs receive capital from individual savings, unregulated lending programs, moneylenders and savings collectors, revolving savings and credit groups, and family members (USAID, 2005).

Financing, however, continues to be one of the major managerial issues that Nigerian company businesses face today. For the SMEs, the availability of finances and the cost of raising them have continued to be problems, restricting the in-capitalization requirements and causing the businesses to fail too soon (Aruwa, 2009). Currently, SMEs account for 90% of businesses in the industrial sector of Nigeria (Aruwa, 2009). Despite their dominance, they only contribute 1% of GDP, as opposed to SMEs in nations like India, Thailand, and Indonesia, who contribute approximately 40%. (HPAC, 2002).

In order to level the playing field for SMEs across all aspects of the business environment, and particularly in the area of access to finance, there are calls for a renewed policy focus. However, SMEs continue to face stricter financing requirements and higher interest rates when compared to large businesses when seeking bank financing, equity financing, and micro financing, and find themselves even more at a disadvantage when attracting alternative sources of finance. In light of these concerns, the study aims to empirically examine these problems in order to determine how financing options affect the expansion of SMEs in Nigeria.

The main objective of this study was to examine the effect of financing options on the growth of SMEs in Nigeria. Other specific objectives are: to determine the effect of bank financing on the growth of SMEs in Nigeria; to determine the effect of equity financing on the growth of SMEs in Nigeria; and to determine the effect of micro-financing on the growth of SMEs in Nigeria

In line with the objectives of the study the following hypotheses are stated in a null form, they are:

- Ho<sub>1</sub>:** Bank Financing has no significant effect on the growth of SMEs in Nigeria
- Ho<sub>2</sub>:** Equity Financing has no significant effect on the growth of SMEs in Nigeria
- Ho<sub>3</sub>:** Micro Financing has no significant effect on the growth of SMEs in Nigeria

Previous research has examined the impact of financing alternatives on the financial performance of SMEs in Nanyuki town, Kenya. An example of this is Ndemi (2018). The impact of official funding, private financing, informal financing, and government funds on the financial performance of SMEs was examined in the study. For more objectivity, the financial performance of SMEs was assessed in terms of liquidity and profitability. Aruwa (2009), also looked at the financing possibilities available to SMEs in Nigeria. In his research, 20 SMEs in 6 chosen SMEs industries in Kaduna and Abuja, as well as a random sample of official and informal financial sources, were examined. He discovered that there are many funding choices available for SMEs, but despite government initiatives, getting access to these funds has proven challenging. None of these studies, however, included all SMEs in Nigeria. Both studies employed primary data, but none used bank, equity, or microfinance as proxies for the independent variable financing options in either study. By investigating the impact of financing alternatives on the expansion of SMEs in Nigeria from 1995 to 2019, this study covers the research vacuum.

### **Concept of Financing Options**

Businesses, whether new or old, require capital to grow and expand, but owners may lack the cash on hand to make these investments. When this happens, business owners look to finance sources to borrow money to grow their enterprises. Since there isn't a financing scheme that works for everyone, business owners must decide which kind of financing is ideal for their organization (Sheahan, 2020). Accordingly, there are no clear-cut definition on financing options, therefore, we the authors describe financing options as essentially the various forms of funding that SMEs operators can select from, given by financial institutions, based on the

options that best serve both the SMEs operator and the financial institution at the time of the transaction.

### **Bank Financing**

When financial institutions offer credit facilities for business purposes, purchases, or investments, they are referred to as providing "bank financing" (Akinyi, 2014). Bank loans and trade credit are the two main types of funding available to SMEs in developing nations (Organization for Economic Cooperation and Development, 2006). Commercial banks are the main source of bank financing for new SMEs, according to Rungani (2009). Commercial banks provide a wide range of services to new SMEs, either directly or via subsidiaries they own entirely or in part. All facets of the financial industry are covered by these services, including overdraft options, term loans, trade bill financing, factoring, leasing, export and import financing, and even government loan guarantee programs. Commercial banks have developed relationships with SMEs and their owners, which puts them and their staff in a better position to learn about SMEs. Additionally, commercial banks have vast branch networks that new SMEs, especially those in outlying areas, can use.

### **Equity Financing**

Selling firm shares to the general public, institutional investors, or financial institutions is a way for a company to raise new cash. Due to their ownership stake in the company, those who purchase shares are referred to as shareholders of the company (Allen, 2019). Selling a company's shares in return for cash is a way for an organization to raise money to meet its liquidity needs. The stake's split will depend on how much of the business the promoter owns. It is important to note that, in contrast to many other methods of business financing, equity financing is frequently best suited for start-ups and young enterprises, as they are less likely to qualify for traditional financing due to their weak credit histories and short business histories.

### **Micro Financing**

Even though it is a little more sophisticated, microfinance, sometimes referred to as inclusive finance, remains a subset of the unregulated financial system. It is also known as microfinance and has expanded significantly during the past ten years. The objective is to "increase access for low-income and vulnerable populations to responsible and affordable financial goods and services" (Principles for Responsible Investment, 2013). It covers remittances and payments, credit, insurance, savings, and even guarantees to access financing. Particularly prevalent in poor nations is microfinance. A wide range of assets are now accepted as collateral by specialized banks or divisions within financial institutions, who also offer minor loans and savings services. The tight ties to the community and subsequent comprehension of the risk profile of clients are a strength of microfinance institutions.

### **Concept of Small and Medium Enterprises**

A medium-scale enterprise is any business with operating assets less than N200 million and less than 300 employees, according to the Federal Ministry of Industries. A small-scale business, on the other hand, is one with less than 100 employees and total assets of less than N50 million. Annual revenue will not be taken into account when defining a SME. An SSE is

one whose total assets are less than N10 million, according to the National Economic Reconstruction Fund (NERFUND), although neither its annual turnover nor the number of employees are mentioned. These and other definitions from the Central Bank of Nigeria, the National Association of Small Scale Industries, and the National Association of Small and Medium Enterprises (CBN). The Small and Medium Industry Equity Investment Scheme (SMIEIS) defined a small or medium-sized business as any establishment with a maximum asset base of N500 million, excluding land and working capital, and with no fewer than 10 or more than 300 employees (Eniola, Entebang and Sakariyau, 2015)

### **Empirical Review**

The impact of financing alternatives on the financial performance of SMEs in Nanyuki town, Kenya, is examined by Ndemi (2018). The study specifically evaluated how formal funding, private financing, informal financing, and government money affected the financial performance of SMEs. For more objectivity, the financial performance of SMEs was assessed in terms of liquidity and profitability. The SMEs and their owners in the town made up the target population. The study focused on 765 SMEs in the town of Nanyuki. Stratified sampling was used to choose the sample. Eighty-eight respondents were chosen as the sample. Information was gathered via questionnaires that were distributed using the fall and choose techniques. With the use of SPSS software version 21, data were investigated using regression analysis and descriptive statistics. A textual discussion and tables, graphs, and charts were used to present the facts. Both ordinary least squares regression and correlation analysis were used to examine the nature and impact of the connections between the variables. The survey discovered that SMEs had inadequate liquidity conditions, with current ratios and quick ratios that were, respectively, 1.47:11 and 0.55:1 below the generally accepted levels. The SMEs' profitability was likewise generally modest, with an average return on assets of 6.67%. The findings of the regression analysis show that the financial performance of SMEs was significantly impacted by the financing options. The results of the Pearson correlation study further indicated a favorable correlation between the financial performance of SMEs and all funding solutions evaluated.

Finance possibilities for Nigerian small- and medium-sized businesses are examined by Aruwa (2009). Introducing and pursuing policies like concessionary financing to support and boost the growth of SMEs in Nigeria is one of these sectoral strategies. This study looked at 20 SMEs in 6 chosen small and medium-sized industries in Kaduna and Abuja, as well as a random sample of formal and informal financial sources. We discovered that there are many funding choices available for SMEs, but despite government initiatives, getting access to these funds has proved challenging. The unregulated informal finance institutions finance SMEs significantly more than the formal sources do, and the informal sources account for more than half of the SMEs' mix funding. However, the SMIEIS fund lacks conventional guidelines for money disbursement.

Both trials are comparable to the one being investigated right now. The researchers used both formal and informal financing methods for the expansion of SMEs in their individual investigations, which led to the utilization of primary data. However, they omitted to identify the study's time frame, or from which year to which.

For the objective of offering a critical evaluation of the requirement and significance of capital structure, Akeem, Edwin, Kiyanjui, and Adisa (2014) evaluate the impact of equity financing on firm's performance through a case study of manufacturing enterprises in Nigeria from 2003 to 2012. The impact of various important variables, including Returns on Asset (ROA), Returns on Equity (ROE), Total Debt to Total Asset (TD), and Total Debt to Equity Ratio (DE), on business performance was examined using descriptive and regression research techniques. Data generated from ten (10) manufacturing companies were used as secondary data. According to our research, total debt and the debt to equity ratio have a negative correlation with company performance. The identities of the 10 manufacturing firms employed in the study, as well as whether they covered all of Nigeria or just a certain region, were not stated in the report. Above all, the study was successful because it considered the data required for a study of this kind.

## **Theoretical Framework**

### **Supply Lending Theory**

The supply loan theory, which was put forth by Schumpeter in 1911 and places emphasis on the function of banks as financial intermediaries in aiding technical innovation, is the theory that is deemed suitable for this study. Banks are able and effective to get comprehensive information about businesses at a reduced cost since they are well-developed institutions in assembling savings from surplus units, analyzing successful investment projects, monitoring managers, and enabling transactions. The allocation of resources and the rise of productivity may be impacted by the financial intermediaries' low information costs (Boyd and Prescott, 1986; Greenwood and Jovanovic, 1990). Therefore, the institutions serve as financial mediators in society to distribute savings to profitable businesses. According to the Schumpeterian theory, the development of financial intermediaries has a direct impact on fostering technical advancement and productivity growth, which in turn fuels increases in total production. But according to the viewpoint, the growth of financial intermediaries does not necessarily affect saving rates; rather, they serve as channels for allocating savings.

An alternate perspective places more emphasis on how financial development influences economic growth by causing faster capital accumulation or technological advancements. This point of view was advanced by Shaw, McKinnon, and Goldsmith in 1973. (1973). This paradigm states that the growth of financial intermediaries reduces market friction, which encourages domestic saving rates and draws in foreign money or investment. As a result, the process will boost growth and capital accumulation. Of course, the first channel suggests that improved financial intermediaries distribute savings more effectively, whereas the second claims that enhanced financial intermediaries may draw in capital, both domestic and foreign, and increase savings, thereby boosting both capital accumulation and growth. Hence, the theory supports this study in the sense that SMEs can borrow from the financial institutions savings to grow their businesses thereby contributing to the GDP of the economy positively

### **Methodology**

The ex post facto research design was used in the study. This was the case because the research subject's events were already complete. Studies aimed at determining the cause-effect

relationship between the independent and dependent variables can also use this approach (Onwumere, Onodugo, and Ibe, 2013). The totality of Nigeria's registered SMEs make up the study's population. A joint survey by SMEDAN and NBS (2017) estimates that there are 72,838 SMEs, and this number also serves as the sample size. Bank financing, equity financing, and microfinancing are the types of options utilized to evaluate the impact of financing options, and SME contributions to GDP from 1995 to 2019 are used as a proxy for SME growth. The Schumpeter led growth hypothesis and the supply lending finance theory serve as the theoretical foundation of the model. The Autoregressive Distributive Lag (ARDL) and Error Correction Model (ECM) were used to analyze the annualized time series data, and the Johansen co-integration technique was used to test for a long-run effect between the series. In other words, the fundamental premise is that all variables are integrated to one of two possible orders (1).

### Model Specification

The econometric model used in this study to assess the impact of financing options on the growth of SMEs in Nigeria was developed in accordance with the theoretical framework and Ityav's study (2021). It is necessary to do pre-tests or (pre-estimation diagnostics tests) for unit roots on these series in order to identify the proper transformation that will make the data stable (Gospodinov, 2013). Different tests, such as the Dickey-Fuller exam, the Augmented Dickey-Fuller test, the Sarghan Bhangra Dubbin Watson (SBDW), and the Phillips-Perron test, among others, can be employed. In this study, the Augmented Dickey-Fuller test was employed.

We assume a random walk model (RWM) in order to get the unit root properties:

$$Y_t = \rho Y_{t-1} + v_t \quad -1 \leq \rho \leq 1 \quad \text{-----(1)}$$

Where:  $Y_t$  is a vector of the variables specified in the model. In the equation (1) above, we simply regress  $Y_t$  on its one-period lagged value  $Y_{t-1}$  and find out if estimated  $\rho$  is statistically equal to 1; if the latter condition is satisfied, then  $Y_t$  is stationary. For ease of estimation of the equation above using OLS, it is hereby transformed as follows:

$$\Delta Y_t = \delta Y_{t-1} + v_t \quad \text{-----(2)}$$

Where:

$\delta = (\rho - 1)$  and  $\Delta$  represents the first difference operator. We proceed to estimate equation above and test the null hypothesis that  $\delta = 0$ , and the alternative hypothesis that  $\delta < 0$ , if  $\delta = 0$ , then  $\rho = 1$ ; this implies the existence of a unit root and suggests that the series is non-stationary.

Thus, the model for this study was specified as:

$$GSME_s = f(BF, EDF, MF) \quad \text{-----(3)}$$

Where;

GSMEs= Growth of Small and Medium Enterprises (Contribution to GDP)

BF = Bank Financing  
 EF = Equity Financing  
 MF = Micro Financing

The conditional (limited) ARDL steady-state model is created by incorporating our influence of financing alternatives on SMEs growth relationship into the unrestricted ARDL model framework (which was achieved by using OLS methods to estimate the general ARDL model). It has the following form:

$$\Delta GSME_t = \alpha_0 + \sum_{i=1}^m \alpha_1^i \Delta BF_{t-i} + \sum_{j=0}^n \alpha_2^j \Delta EDF_{t-j} + \sum_{k=0}^o \alpha_3^k \Delta MF_{t-k} + \lambda_1 BF_{t-1} + \lambda_2 EDF_{t-1} + \lambda_3 MF_{t-1} + \varepsilon_t \text{ -----(4)}$$

$\alpha_0$  = Intercept or drift operator

$\alpha_1 - \alpha_3$  = coefficients of short run dynamics

$\lambda_1 - \lambda_3$  = Long run multipliers

$\Delta$  = First difference operator

$k$  = Respective specific optimum lags orders of the variables entering ARDL-ECM

$\varepsilon_t$  = Error term

$t$  = time

The study would then move forward and use an unlimited error correction model to assess the long-run influence and the short-run dynamics. Once a co-integration relationship between the variables is established. The short run dynamics of the error correction model (ECM), a dynamic system, are affected by the current state's departure from its long run relationship. ECM is a class of multiple time series models that explicitly estimates how quickly the dependent variable returns to equilibrium following a change in the independent variables.

Following position of Menike (2015), the relationship between financing options and small and medium enterprises growth is specified as:

$$\Delta GSME_t = \alpha_0 + \sum_{i=1}^m \alpha_1^i \Delta BF_{t-i} + \sum_{j=0}^n \alpha_2^j \Delta EDF_{t-j} + \sum_{k=0}^o \alpha_3^k \Delta MF_{t-k} + \delta_{ect_{t-1}} + \varepsilon_t \text{ -----(5)}$$

## Results and Analysis

### Unit Root Test

A stochastic pattern that can be removed by differentiation typically describes time series data. As a result, the unit root test determines whether the series of data utilized in the model is stationary or non-stationary. This is being done to determine whether there is a fictitious or absurd connection between financing alternatives and the expansion of SMEs in Nigeria. In order to evaluate and confirm the series unit root property and model stability, the study utilized or implemented Augmented Dickey-Fuller (ADF) approaches, as shown in table 1.

**Table 1:** Summary of Unit Root Test Results

Variable	ADF Test Statistics				
	Levels	Critical Value	First Difference	Critical Value	Order of Integration
SME	-2.963321	-3.552973	-4.586079*	-4.296729	I(1)
BF	-2.092293	-3.552973	-4.562280*	-4.273277	I(1)
EF	-2.752598	-3.552973	-5.446107*	-4.273277	I(1)
MF	-3.390392	-3.209642***	-5.289009	-3.568379	I(0)

Note: The tests include intercept with trend; \* and \*\*\* implies significant at 1% and 10%

Source: Authors Computation, 2021 (Eviews-10)

Only MF was discovered to be stationary at levels, which means that it was discovered to be integrated at order zero I(0) and at 5% levels of significance, according to table 1. However, at first difference, which is integrated at order one and at 5% level of significance, it was discovered that SME, BF, and EF were all stationary. Their ADF test statistics at this order of integration were greater than the crucial test statistics at 5% significant levels, which were -4.296729, -4.562280, and -5.446107, respectively. It was safe for the study to use the ARDL bound test approach to validate or test for the presence of co-integration because all the variables were discovered to be stationary at various orders.

### Co-integration Results

Table 2 presents the result of ARDL bounds test for Co-integration for the model using the recommended lag by AIC.

**Table 2:** Bound Test-Co-integration Results

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	4.999778	10%	2.37	3.20
k	3	5%	2.79	3.67
		1%	3.65	4.66

Source: Authors Computation, 2021 (Eviews-10)

Table 2's co-integration test results show that the F-statistic value of 4.999778 is greater than the lower (I(0)) and upper bound (I(1)) critical values of 2.79 and 3.67, respectively, at the 5% significance level. There is a long-run equilibrium link between financing alternatives and SMEs output growth between 1995 and 2019, which implies that the variables are co-integrated. As a result, at the 5% level of significance, the null hypothesis that there is no long-term association is rejected.

### Test of Hypotheses

#### Bank, Equity and Micro Financing and Growth of SMEs

**Table 3:** ARDL Regression Result

Dependent Variable: D(SME)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SME(-1))	4.855505	1.160841	4.182748	0.0249
D(SME(-2))	3.342948	0.845193	3.95525	0.0288
D(SME(-3))	1.014412	0.421803	2.404945	0.0954
D(BF)	132.4433	46.61327	2.841321	0.0656
D(BF(-1))	122.5352	37.60181	3.258758	0.0472
D(EF)	254.8446	203.236	1.253935	0.2987
D(EF(-1))	-3283.85	820.5359	-4.00208	0.028
D(EF(-2))	-1385.15	479.4559	-2.88901	0.0631
D(EF(-3))	-389.542	360.2032	-1.08145	0.3587
D(MF)	-12.095	4.697933	-2.57454	0.0822
D(MF(-1))	1.515331	2.596118	0.583691	0.6004
D(MF(-2))	-15.3295	5.477136	-2.79882	0.0679
D(MF(-3))	-15.0435	5.855275	-2.56923	0.0825
ECT(-1)**	-0.57074	0.118161	-4.83019	0.0169
R-squared	0.917073	Mean dependent var		364373.6
Adjusted R-squared	0.763065	S.D. dependent var		3332786
F-statistic	5.7679	Akaike info criterion		31.67127
Prob(F-statistic)	0.00316	Schwarz criterion		32.36762
Durbin-Watson stat	2.441164	Hannan-Quinn criter.		31.82239

**Source:** Authors Computation, 2021 (Eviews-10)

The dynamic model's ability to quickly respond to reestablish equilibrium after a disruption is represented by the ECT (-1). The predicted ECT (-1) coefficient, which equals -0.57074, points to a rapid rate of return to the long-run equilibrium. At the 5% level of significance, the coefficient is strongly significant and correctly signed. Another indication that a solid long-term link exists is this extremely important error correction term. According to the outcome, SMEs' output deviates from long-run equilibrium values by roughly 57.07 percent on average per year. That is to say, roughly 57.07% or more of the disequilibria caused by the shock of the previous year converge to the long-run equilibrium in the current year.

The coefficient of determination (R-square) shows that the model's prediction was reasonably accurate. It revealed that BF, EF, and MF together were responsible for 91.70 percent of changes in SMEs' output, whereas the error term was able to explain for 8.30 percent of unaccounted variations. The F-statistic, which is used to assess the overall significance of the regression model, also demonstrated the relevance of the findings. This was represented by the F-statistic value of 5.7678, which is significant at the 5% level, and the probability value that goes along with it, which is 0.00315. The Durbin Watson (DW) statistic of 2.44 from the model also showed that the variables do not exhibit any autocorrelation. This demonstrated that the estimations were objective and trustworthy for making policy choices.

### **Discussion of Findings**

The study's findings demonstrated that the first null hypothesis; bank financing has a favorable, significant influence on SMEs' (Small and Medium Enterprises) growth in Nigeria. Additionally, it demonstrates how crucial and crucial credit facility allocation is to the development of SMEs in Nigeria. This result is consistent with that of Ndemi (2018), who looked into how financing alternatives affected the financial performance of SMEs in Nanyuki town, Kenya, and discovered a positive relationship between the two variables. The supply lending theory, put forth by Schumpeter in 1911 and focusing on the function of banks as financial intermediaries in aiding technical innovation, serves as the theoretical foundation for this study. Banks are able and efficient to gather comprehensive information about businesses at a lower cost and provide businesses with loans because they are well-developed institutions in assembling savings from surplus units, evaluating lucrative investment projects, monitoring managers, and facilitating transactions.

According to the second null hypothesis, the growth of SMEs in Nigeria is not significantly impacted by equity funding. The failure of SMEs to obtain long-term funding to fund long-term projects is the meaning of this negligible effect. This leads to asset and liability mismatches and reduces the working capital of several expanding SMEs. The results of this study are consistent with those of Akeem et al. (2014) who investigated the impact of equity financing on firm performance using a case study of Nigerian manufacturing companies and discovered a negative and insignificant relationship between the independent and dependent variables. The results, however, were consistent with the pecking order theory, which proposed that businesses should employ internally generated cash rather than borrow money, which is expensive and harms their performance.

The third null hypothesis concluded that micro-financing significantly and positively affects the growth of SMEs in Nigeria. This has the implication that microfinance institutions in Nigeria have in fact played a significant role in the financial industry, having a significant impact on people, businesses, other financial institutions, the government, and the economy as a whole through the financial services they provide and the roles they play in the economy. This is consistent with Idowu's (2018) research, which found that access to loans has aided the expansion of SMEs in Nigeria. Access to financial institutions also improves Nigerian entrepreneurs' capacity to launch new businesses, spurring the country's economic expansion. Access to financing improves risk-copying techniques, allowing consumption smoothing over time, and further raises SMEs' risk-bearing capacities. The supply lending theory, put forth by Schumpeter in 1911 and focusing on the function of banks as financial intermediaries in aiding technical innovation, serves as the theoretical foundation for this study. Banks are able and efficient to gather comprehensive information about businesses at a lower cost and provide businesses with loans because they are well-developed institutions in assembling savings from surplus units, evaluating lucrative investment projects, monitoring managers, and facilitating transactions.

### **Conclusions and Recommendations**

Based on its findings, the study came to the conclusion that financing options (bank financing, equity financing, and microfinancing) are all employed to support the financial operations of

SMEs and promote economic industrialization. The study's conclusion is that bank and microfinance choices have a beneficial effect on the growth of SMEs in Nigeria. While equity finance hinders the growth of SMEs in Nigeria. Based on these findings and conclusions, the study recommends that bank and microfinance monetary authorities continue to adopt more reasonable policy judgments regarding loans provided to the SMEs sector in order to encourage borrowers to engage in lucrative endeavors for business expansion, SMEs sales growth, and improvement in added value. Effective equity financing regulations should also focus on the steady growth and development of the Nigerian stock market. In theory, being able to raise money quickly and affordably on the stock market should encourage SMEs to diversify into larger businesses and grow their operations.

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