

## Impact of Financial Inclusion on the Growth of SMEs in Jalingo, Taraba State

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### Abstract

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This paper investigated the impact of financial inclusion on the growth of small and medium enterprises in Jalingo, Taraba State, Nigeria. The main objective was to examine how usage of financial services, access to credit, and financial literacy influenced the SMEs growth of registered small and medium enterprises operating within the study area. The research was motivated by the persistent underperformance of small and medium enterprises in several areas of Jalingo. The paper employed a survey research design, using structured questionnaires to collect data from 307 stratified sample of selected registered SMEs. The sample size was determined using the Taro Yamane formula, and the data were analyzed using descriptive statistics, correlation analysis, and Structural Equation Modeling. Findings from the study revealed that usage of financial services had a positive and significant impact on the SMEs growth of small and medium enterprises, indicating that frequent engagement with formal financial tools facilitated improved operational efficiency and customer transactions. Financial literacy also showed a positive and statistically significant influence on SMEs growth, suggesting that financially knowledgeable business owners made better decisions that translated into higher revenue. However, access to credit had a negative but significant impact on SMEs growth, implying that although credit was available, it was either poorly utilized or accessed under unfavourable conditions, possibly leading to debt burdens rather than business expansion. Based on these findings, it was recommended that the Central Bank of Nigeria and Nigeria Inter-Bank Settlement System intensify efforts to extend digital financial infrastructure and agent banking to remote areas to promote financial service usage. The Bank of Industry and Development Bank of Nigeria were advised to revise their credit terms to be more flexible and accessible, particularly for small businesses with limited collateral. In addition, the Small and Medium Enterprises Development Agency of Nigeria, in collaboration with state-level institutions, was encouraged to implement continuous financial education programs tailored to the needs of entrepreneurs. These recommendations aimed to strengthen the financial capacity of small and medium enterprises and ensure that financial inclusion initiatives contribute meaningfully to their growth and sustainability in Taraba State.

**Keywords:** *Financial Inclusion, Small and Medium Enterprises, Access to Credit, Financial Literacy, SMEs Growth*

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### **Background to the Study**

Financial inclusion has emerged as a critical driver of economic development globally, as it seeks to ensure that individuals and businesses, regardless of their income level or geographic location, have access to useful and affordable financial products and services that meet their needs. These services include savings, payments, credit, insurance, and investment facilities delivered in a responsible and sustainable way. According to Charles and Amadi (2024), about 76 percent of adults worldwide now have an account at a bank or regulated institution, up from 51 percent in 2011. This upward trend signifies growing awareness and institutional efforts in bridging the financial divide. However, disparities persist across regions, especially in low- and middle-income economies. In sub-Saharan Africa, for instance, the financial inclusion rate stands at 55 percent, significantly lower than the global average, with access often hindered by factors such as inadequate infrastructure, limited financial literacy, and rigid regulatory frameworks (Demirgüç-Kunt et al., 2022).

In the context of sub-Saharan Africa, financial inclusion plays a pivotal role in improving livelihoods, supporting entrepreneurship, and fostering inclusive growth. The proliferation of mobile money services has particularly transformed access to financial services in the region, with countries like Kenya and Ghana experiencing notable increases in financial inclusion through digital finance innovations. Despite these advances, many parts of Africa, including Nigeria, continue to face persistent challenges. Nigeria, being the most populous country on the continent, represents a paradox in terms of financial inclusion. While it has a large and vibrant financial sector, a significant portion of its population remains outside the formal financial system. According to the Enhancing Financial Innovation and Access (EFInA) Access to Financial Services in Nigeria Survey (2023), about 64 percent of Nigerian adults are financially included, with 45 percent formally served and 19 percent informally served. This still leaves about 36 percent of the adult population financially excluded, particularly in rural areas like Jalingo, Taraba State, where infrastructural and educational challenges are more pronounced.

Small and Medium Enterprises (SMEs) are globally recognized as critical drivers of economic growth, employment generation, and innovation. Ideally, SMEs should serve as the engine of inclusive economic development, fostering industrialization, enhancing market competition, and significantly contributing to national output and productivity. In advanced and emerging economies alike, SMEs are expected to expand their operations, increase their market share, drive job creation, innovate, and generate sustainable profits. According to Damane and Ho (2025), SMEs represent over 90 percent of businesses and account for more than 50 percent of global employment, underlining their indispensable role in achieving macroeconomic stability and social development. In the Nigerian context, SMEs are expected to play a similar transformative role, especially in regions like Jalingo, Taraba State, where the majority of the population depends on small-scale enterprises for their livelihoods.

However, the reality is that SMEs in Nigeria, and particularly in Jalingo, are not experiencing the level of growth necessary to meet these expectations. Although SMEs constitute about 96 percent of businesses and contribute approximately 48 percent to Nigeria's GDP, their growth

performance remains suboptimal (SMEDAN, 2024). In Taraba State, many SMEs remain informal, poorly structured, and financially constrained, leading to stagnation in business expansion, limited market access, minimal employment generation, and low levels of innovation. A significant number of these enterprises struggle to survive beyond their first few years, with the Ibrahim (2024) reporting a business mortality rate of over 60 percent among Nigerian SMEs within their first three years. In Jalingo, the state capital, these challenges are further worsened by infrastructural deficits, low financial awareness, limited access to financial services, and a general lack of institutional support, all of which hamper their growth paths.

Over the years, several policy measures have been introduced by both federal and state governments to support SME development. These include financial interventions such as the Central Bank of Nigeria's MSME Development Fund, government-backed credit schemes like the NIRSAL Microfinance Bank loans, capacity-building programs, tax incentives, and financial literacy campaigns. The aim of these interventions has been to increase access to finance, improve operational capacities, and stimulate the growth and competitiveness of SMEs across the country. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) has also implemented various initiatives targeted at facilitating business registration, improving managerial skills, and easing access to markets.

Despite these efforts, the growth of SMEs in regions like Jalingo remains disappointingly low. According to the World Bank (2024), only 17 percent of SMEs in Nigeria have access to formal credit, while over 70 percent remain financially underserved. This lack of access to finance continues to restrict their ability to expand, innovate, or hire additional employees. Moreover, only 28 percent of SME operators in Nigeria are considered financially literate (Abdullahi & Fakunmoju, 2023), limiting their ability to make informed decisions and manage business risks effectively. In Jalingo, anecdotal evidence suggests that many entrepreneurs operate without basic knowledge of record-keeping, cost management, or digital finance. Consequently, despite the implementation of several policy strategies, the growth indicators of SMEs in the area, such as profitability, employment capacity, and market penetration, remain below national and regional benchmarks.

The continued stagnation of SME growth in Jalingo has far-reaching implications. Enterprises that fail to expand cannot significantly contribute to job creation or economic diversification. They remain locked in subsistence operations, unable to scale their production or adopt innovations. This, in turn, limits their potential to contribute to household income growth, regional development, and overall poverty reduction. On a broader scale, the underperformance of SMEs reduces the effectiveness of national development plans and weakens the economy's resilience to shocks. For a region like Jalingo, where economic opportunities are already limited, the failure of SMEs to thrive worsens unemployment, social inequality, and rural-urban migration. Given the globally acknowledged role of SMEs in catalyzing real economic growth, their continued underperformance in Jalingo raises serious concerns (Ismail et al., 2025).

The relationship between financial inclusion and SME growth is increasingly gaining scholarly attention, as financial inclusion is seen not merely as an economic necessity but as a key enabler of entrepreneurial development. Financial inclusion could facilitate SME growth by providing access to vital resources, improving financial decision-making, and reducing vulnerabilities. Thus, given that financial inclusion is a critical enabler of entrepreneurial development, resource allocation, and inclusive economic growth, it is imperative to examine how key dimensions of financial inclusion, specifically usage of financial services, access to credit, and financial literacy, have influenced the growth performance of small and medium enterprises in Nigeria. Therefore, it is in the interest of this study to conduct an analysis of how these components of financial inclusion have impacted the growth of SMEs, particularly in terms of business expansion, employment generation, innovation, market share, sales growth, and profitability in Jalingo, Taraba State.

The seminar provided answers to the following questions:

- i. What impact does usage of financial services have on the growth of SMEs in Jalingo, Taraba State?
- ii. How has access to credit influenced the growth of SMEs in Jalingo, Taraba State?
- iii. To what extent does financial literacy impact on the growth of SMEs in Jalingo, Taraba State?

## **Literature Review**

### **Financial Inclusion**

Financial inclusion has been widely conceptualized by scholars as a mechanism through which individuals and businesses gain access to affordable and appropriate financial services that meet their needs. These services often include savings, credit, insurance, and payment systems provided through formal financial institutions. According to Demirgüç-Kunt et al. (2022), financial inclusion referred to the process of ensuring that people and businesses could access and effectively use a wide range of financial products and services delivered responsibly and sustainably. It was considered a catalyst for poverty reduction, entrepreneurship development, and overall economic growth. Sahay et al. (2023) also emphasized that financial inclusion involved more than just access; it encompassed regular usage, awareness, and the ability to make sound financial decisions. The concept has evolved to highlight not only the availability of financial services but also their accessibility, affordability, and relevance to underserved populations, including small and medium enterprises.

Usage of financial services, one of the core dimensions of financial inclusion, has been described as the frequency and manner in which individuals or businesses engaged with financial products such as bank accounts, mobile money platforms, insurance, and digital payment systems. As noted by Allen and Uematsu (2023), usage went beyond mere ownership of financial accounts and included how effectively these accounts were used to manage resources, make payments, save, or invest. For SMEs, effective usage of financial services could lead to improved liquidity management, better cash flow planning, and reduced reliance on informal financial channels. Regular engagement with financial products also facilitated participation in the formal economy, improved business transparency, and allowed for more predictable financial planning.

Access to credit, another significant indicator of financial inclusion, referred to the ease with which individuals and enterprises could obtain loans or financing from formal financial institutions. According to Aboje and Ijaiya (2022), access to credit represented the availability and willingness of financial institutions to extend credit facilities to various categories of borrowers, especially those considered high-risk or lacking traditional forms of collateral. For SMEs, this dimension of financial inclusion was particularly crucial, as lack of access to formal credit often hindered their capacity to expand operations, invest in equipment, or meet working capital needs. Okoye et al. (2023) highlighted that improved access to credit had been linked to business expansion, increased employment, and higher productivity, especially in regions where SMEs formed the backbone of local economies.

Financial literacy, the third major proxy of financial inclusion, was defined by several scholars as the ability to understand and effectively use various financial skills, including budgeting, investing, and financial planning. EFInA (2023) described financial literacy as a foundational element of financial inclusion, noting that many individuals remained excluded not due to lack of access, but because they lacked the knowledge and confidence to engage with financial systems. For SME operators, financial literacy was particularly important as it influenced their capacity to evaluate credit offers, manage debt responsibly, and make informed financial decisions that affected their business growth. As stated by Ugoani (2023), financially literate entrepreneurs were better equipped to understand interest rates, repayment conditions, and financial risks, which in turn made them more capable of sustaining and growing their businesses.

In view of the above conceptual clarifications, financial inclusion in this study is defined as the extent to which SMEs in Jalingo, Taraba State, are able to access, utilize, and benefit from formal financial services through three key dimensions: usage of financial services, access to credit, and financial literacy. This working definition captures the multidimensional nature of financial inclusion and its relevance to the growth and performance of small and medium enterprises in a developing economy context.

### **Small and Medium Enterprises (SMEs) Growth**

Small and Medium Enterprises (SMEs) growth has been widely recognized in academic and policy literature as a fundamental driver of economic diversification, employment generation, and poverty reduction, especially in developing economies. Conceptually, the growth of SMEs refers to the expansion and improvement in various performance indicators of these enterprises over time. Scholars have adopted different dimensions to measure SME growth, with emphasis on both financial and non-financial indicators.

According to Ayyagari, Beck, and Demirgüç-Kunt (2022), SME growth encompasses increases in firm size, revenues, workforce, asset base, market presence, and innovation capabilities. These indicators collectively reflect the ability of an enterprise to evolve, remain competitive, and contribute meaningfully to the economy. Growth is not only about survival or longevity but also about progressive improvements in business performance and capacity to scale (Charles & Amadi, 2024).

In light of these conceptual clarifications, SME growth in this study is defined as the observable improvement and advancement of small and medium enterprises in Jalingo, Taraba State, measured through key indicators such as business expansion, market share, employment generation, innovation, and sales growth. These indicators collectively reflect the operational and strategic progress of SMEs and their contribution to the broader goals of economic development and poverty alleviation.

### **Theoretical Underpinning**

The theoretical underpinning for this study is the Financial Intermediation Theory, which provides a foundational framework for understanding the relationship between financial systems and economic development, particularly the growth of small and medium enterprises (SMEs). The Financial Intermediation Theory posits that financial institutions, such as banks, microfinance institutions, and other formal financial service providers, play a critical role in channeling funds from surplus units (savers) to deficit units (borrowers), thereby facilitating investment, resource allocation, and economic activity. As highlighted by Levine (2023), financial intermediaries reduce transaction costs, manage risk, and overcome information asymmetries, thus enabling efficient capital allocation and promoting entrepreneurship, innovation, and enterprise growth.

According to the theory, when financial intermediation is effective, it promotes access to credit, encourages regular use of financial services, and improves financial literacy among economic agents. These functions are especially relevant for SMEs, which often face significant barriers in accessing financial resources through direct capital markets. By mobilizing savings and making funds available to SMEs through structured lending processes, financial intermediaries stimulate business expansion, employment creation, and innovation. Scholars like Greenwood and Jovanovic (2022) argued that financial intermediation not only facilitates efficient investment but also fosters economic growth by supporting the financing needs of emerging enterprises, particularly in underserved and rural areas where formal capital markets are underdeveloped.

The relevance of this theory to the current study lies in its explanation of how financial inclusion, driven by the operations of financial intermediaries, influences the growth of SMEs. The dimensions of financial inclusion, usage of financial services, access to credit, and financial literacy, are all processes that depend heavily on the functions of financial intermediaries. For instance, access to credit is primarily mediated by banks and microfinance institutions that assess creditworthiness and manage lending risks. Usage of financial services, such as savings, payments, and insurance, is facilitated by the availability and accessibility of financial infrastructure, which is a direct outcome of financial intermediation. Similarly, financial literacy is often enhanced through initiatives led by financial institutions to educate clients, promote responsible borrowing, and encourage better financial decision-making.

### **Empirical Review**

Empirical studies on the relationship between financial inclusion and the growth of small and medium enterprises (SMEs) have attracted considerable scholarly attention, especially as

policymakers globally seek strategies to enhance economic participation and reduce poverty. Researchers have explored this connection across different contexts, employing diverse methodologies, data sources, and measurement techniques.

Ismail et al. (2025) conducted a study titled *Analysis of the Impact of Financial Inclusion on Small and Medium Enterprises (SMEs) in Nigeria*, with a particular focus on rural areas within the Federal Capital Territory (FCT), Abuja. The study utilized logistic regression analysis to examine how financial inclusion influences SME performance, productivity, and sustainability. Based on data from SMEs in rural communities, the findings revealed that financial services had a statistically significant positive effect on all three outcomes. The odds ratio for SME performance was 1.379, for productivity 1.59, and for sustainability 0.65, all significant at the 5% level. These results indicate that access to financial services significantly improves the chances of business success, operational efficiency, and long-term viability for rural SMEs. While the study contributed valuable insights, especially by focusing on underserved rural contexts, it did not disaggregate financial inclusion into specific proxies such as usage of financial services, access to credit, or financial literacy. This limited the ability to identify which specific aspects of financial inclusion were most influential in driving the reported outcomes. Moreover, the use of logistic regression was appropriate for modeling categorical outcomes, but a broader model, such as structural equation modeling, could have better captured the interrelationships among the variables. Additionally, the study could have been strengthened with a more diversified geographical scope or inclusion of urban-rural comparisons to contextualize the findings within the broader Nigerian SME scope.

Damane and Ho (2025) examined the effects of financial inclusion of small and medium-sized enterprises on financial stability across 11 sub-Saharan African countries between 2005 and 2019. The study employed a fixed effects model with Driscoll and Kraay standard errors and a panel quantile regression approach to account for heterogeneity in financial systems. Financial inclusion was measured by the number of SME depositors with commercial banks, while financial stability was captured through banking sector indicators. The findings revealed that SME financial inclusion had a negative effect on financial stability, and this adverse impact intensified at higher levels of stability. This supported the excessive financial inclusion theory, suggesting that rapid SME integration into the financial system without adequate regulation can elevate systemic risk. However, the study's focus on SME deposits excluded critical proxies such as credit access and financial literacy, limiting its ability to capture the multidimensional nature of financial inclusion and its microeconomic implications.

Ibrahim (2024) investigated the effect of financial inclusion on the performance of micro, small, and medium enterprises in North-Central Nigeria, focusing on access to financial services and financial literacy as key dimensions. The study adopted a survey research design and collected primary data to assess how financial inclusion influences MSME outcomes such as profit growth, employee expansion, and production capacity. Findings showed that financial inclusion had a positive effect on MSME performance, with access to financial services facilitating operational growth and financial literacy contributing to better decision-

making and resource management. The study provided strong evidence that improved access to finance and financial education enhanced business profitability, employment, and production output. However, the study did not incorporate other important proxies such as usage of financial services or evaluate regional variations across the North-Central zone. Also, while the research design was appropriate, the study could have benefited from a more robust econometric model to assess causality and control for other influencing factors.

Charles and Amadi (2024) investigated the impact of financial inclusion on the growth and development of small and medium enterprises in Lagos State, Nigeria. The study adopted a quantitative research design, guided by a positivist philosophy and deductive approach, using structured surveys administered to 204 SME owners. The authors focused on three dimensions: accessibility of financial services, the effect of such services on growth and development, and the acceptance of financial technologies. Findings showed that while SMEs had broad access to traditional services like savings accounts and electronic payments, they faced challenges accessing specialized services such as venture capital and long-term credit. Financial inclusion was found to positively influence SME growth, especially through services like insurance and digital payments, which enhanced operational efficiency. However, the study did not isolate core financial inclusion proxies such as credit access or financial literacy, which limits comparability. Moreover, the cross-sectional design restricted insight into long-term growth effects.

Abdullahi and Fakunmoju (2023) examined the relationship between financial inclusion and the contribution of small and medium enterprises to sustainable economic growth in Nigeria. The study covered a long-term period from 1970 to 2015 and utilized time series data, analyzed using the Ordinary Least Squares (OLS) technique. The research explored how financial inclusion impacts SMEs' output in relation to broader economic growth, emphasizing financial access as a tool for poverty reduction and enterprise sustainability. The findings revealed a positive but statistically insignificant relationship between financial inclusion and sustainable economic growth at the 5% significance level. While financial inclusion was shown to hold potential for enhancing SME productivity, the insignificant result suggests that structural and systemic constraints may have hindered its full impact during the study period. The study did not disaggregate financial inclusion into key dimensions such as usage of financial services, credit access, or financial literacy, which limits the understanding of the mechanisms through which financial inclusion affects SME outcomes. Additionally, the use of aggregate national data over a long historical period may have masked recent improvements or regional variations in financial inclusion efforts.

In a broader study covering North-Central Nigeria, Bello and Danjuma (2023) examined the relationship between financial inclusion and employment generation in SMEs. The authors used a mixed-methods approach, combining survey data from 500 SMEs with qualitative interviews, and analyzed the findings using a logistic regression model. Results showed that access to formal credit was the most influential factor in increasing workforce size, especially in manufacturing and agro-processing SMEs. Financial literacy and consistent use of formal banking services also played complementary roles in improving employee retention and

productivity. However, the study's heavy focus on employment outcomes meant that other growth indicators, such as innovation or market share, were underexplored.

In a study conducted by Muriithi and Wanjiru (2023) in Kenya, the impact of financial inclusion on SME performance was examined using a survey-based approach and multivariate regression analysis. The authors found that access to credit significantly influenced business expansion and innovation, while usage of financial services positively affected sales growth and operational efficiency. Financial literacy, although positively correlated with profitability, had a weaker impact compared to the other variables. However, the study focused solely on urban SMEs in Nairobi, excluding rural enterprises which often face different financial challenges. Additionally, the cross-sectional design limited the ability to observe long-term effects and causal inferences.

Another study by Zhang and Wang (2022) in China investigated the effects of digital financial inclusion on the growth of rural SMEs using panel data from 2015 to 2021 and fixed effects regression models. The study reported that digital usage of financial services improved market penetration and sales growth, especially in agriculture-based SMEs. Access to microcredit was found to boost employment creation, while financial literacy programs had a strong influence on innovation. Despite its robust econometric approach, the research concentrated primarily on digital finance without accounting for traditional banking services, thus providing only a partial view of financial inclusion. The geographical focus on rural enterprises also limited the generalizability of findings to urban settings.

In South Africa, Dlamini and Ncube (2022) assessed how financial inclusion drivers affected SME development in Gauteng Province. The study employed structural equation modeling (SEM) based on data collected from 400 SMEs. Findings indicated that both access to credit and financial literacy had significant positive effects on employment generation and sales performance. Usage of financial services was linked to improved record-keeping and reduced transaction costs. However, the study used perceptual rather than financial performance data, which might not accurately reflect actual SME growth outcomes. The sample was also concentrated in one province, which limited the scope of policy recommendations.

A study by Campos and Ortega (2022) in Colombia analyzed the relationship between financial inclusion and SME productivity using national enterprise survey data and logistic regression techniques. They found that SMEs with better access to formal credit institutions were more likely to increase their market share and invest in product innovation. Regular usage of financial services enhanced operational efficiency, while financial literacy programs provided by banks led to better resource management and cost control. Nonetheless, the study narrowly defined financial literacy as attendance at training sessions, which may not fully capture broader financial competence. The exclusion of informal enterprises also constrained the comprehensiveness of the findings.

A 2022 study by Meyer and Kuhn in Germany assessed how financial literacy influenced SME innovation in the manufacturing sector. Utilizing data from the German SME Panel and

applying structural equation modeling (SEM), the researchers observed that firms with higher financial competence levels were more likely to invest in product development and technological upgrades. While the study did not directly focus on access to credit or service usage, it highlighted how internal financial capability shapes strategic growth decisions. Its limitation lay in its narrow focus on medium-sized enterprises and formal sectors, which excluded microenterprises and informal SMEs where financial literacy may have different implications.

Another study by Ogunyemi and Adebayo (2022) assessed how financial inclusion influences sales growth and innovation among SMEs in Lagos State. The study used a structured questionnaire administered to 300 SME owners and analyzed the data using ordinary least squares (OLS) regression. The findings showed that usage of financial services, particularly digital banking and mobile payments, significantly boosted daily sales volume and improved transactional efficiency. Additionally, SMEs with higher financial literacy were more likely to invest in product innovation. While the study offered practical insights, it relied solely on cross-sectional data, limiting the ability to understand causality or track changes over time.

Onu and Okonkwo (2021) explored the effects of financial innovation and financial inclusion on the development of micro, small, and medium enterprises (MSMEs) in Nigeria. The study covered the period between 2010 and 2019, relying on secondary data obtained from the National Bureau of Statistics and Central Bank of Nigeria statistical bulletins. The researchers applied a multiple regression model using the Ordinary Least Squares (OLS) technique, and included interest rate as a control variable. Stationarity was tested using the Augmented Dickey-Fuller (ADF) test, while normality was verified using the Jarque-Bera statistic. The results revealed that financial innovation had a negative and statistically insignificant effect on MSME development, while financial inclusion had a positive but also insignificant impact. These findings suggest that despite efforts to expand access to finance and promote digital solutions, their actual influence on MSME growth remained limited during the study period. This may reflect structural issues such as weak adoption of technology, lack of credit absorption capacity, or the informal nature of many MSMEs. Although the study integrated both innovation and inclusion in its model, it did not decompose financial inclusion into proxies like credit access, usage of financial services, or financial literacy, thereby missing an opportunity to examine their individual impacts. The reliance on macro-level data also limited insights into firm-level dynamics and behavior across diverse sectors.

### **Methodology**

In line with the nature and objectives of this study, a survey research design was employed to examine the impact of financial inclusion on the growth of SMEs in Jalingo, Taraba State. This design was appropriate because it allowed for the systematic collection of data directly from SME operators, capturing their experiences, perceptions, and interactions with financial services. Through structured questionnaires, quantitative data were gathered on key variables such as usage of financial services, access to credit, financial literacy, and SMEs growth. The survey design also enabled the researcher to analyze relationships among variables within a

real-world setting, providing empirical insights into how financial inclusion affects SME growth in the local context.

The target population for this study consisted of registered SMEs in Jalingo, Taraba State, totaling 1,328 businesses, as reported by the Taraba State Board of Internal Revenue. These SMEs operate across various sectors, including trade, services, agro-processing, and small-scale manufacturing, reflecting the economic diversity within the region. The focus on registered SMEs ensured that the study captured formally recognized businesses that comply with local regulatory frameworks, thereby providing structured and reliable data. The choice of Jalingo as the study area was strategic, given its status as the administrative and commercial hub of Taraba State, with a growing SME sector that contributes significantly to local employment and income generation. Concentrating on this population allowed the study to assess the impact of financial inclusion on SME growth, offering valuable insights into the financial drivers shaping business development in a dynamic, yet underserved, regional economy.

A stratified random sampling technique was employed in this study to ensure a comprehensive and representative selection of respondents from the population of registered small and medium enterprises in Jalingo, Taraba State. This method was particularly suitable due to the diverse nature of SMEs in the area, which vary by sector, size, and operational structure. The initial step involved categorizing the total population of 1,328 registered SMEs into distinct strata based on their business sectors, such as trade, services, agriculture, and manufacturing. This stratification helped to ensure that each sector was proportionately represented in the sample, thereby capturing the unique financial inclusion experiences across different types of enterprises.

Using the Taro Yamane formula, the sample size was determined as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where,

- $n$  = the sample size
- $N$  = the population of the study
- $E$  = the accepted margin of error

Therefore, 
$$n = \frac{1,328}{1 + 1,328(0.025)^2} = 307$$

**Note:** Attrition rate of 20% (that's 61 extra) was done to increase the sample size in cases of unreturned questionnaire, thus bring the sample total to 368.

The study utilized a carefully structured questionnaire as the primary instrument for data collection. To ensure that the responses reflected the broader experiences of the SME population in Jalingo, Taraba State, participants were selected using a simple random

sampling technique. The questionnaire was designed with closed-ended questions, enabling efficient and consistent data collection across the sample. It was tailored to capture variables directly aligned with the study's objectives, particularly focusing on the dimensions of financial inclusion, usage of financial services, access to credit, and financial literacy, and their influence on SME growth.

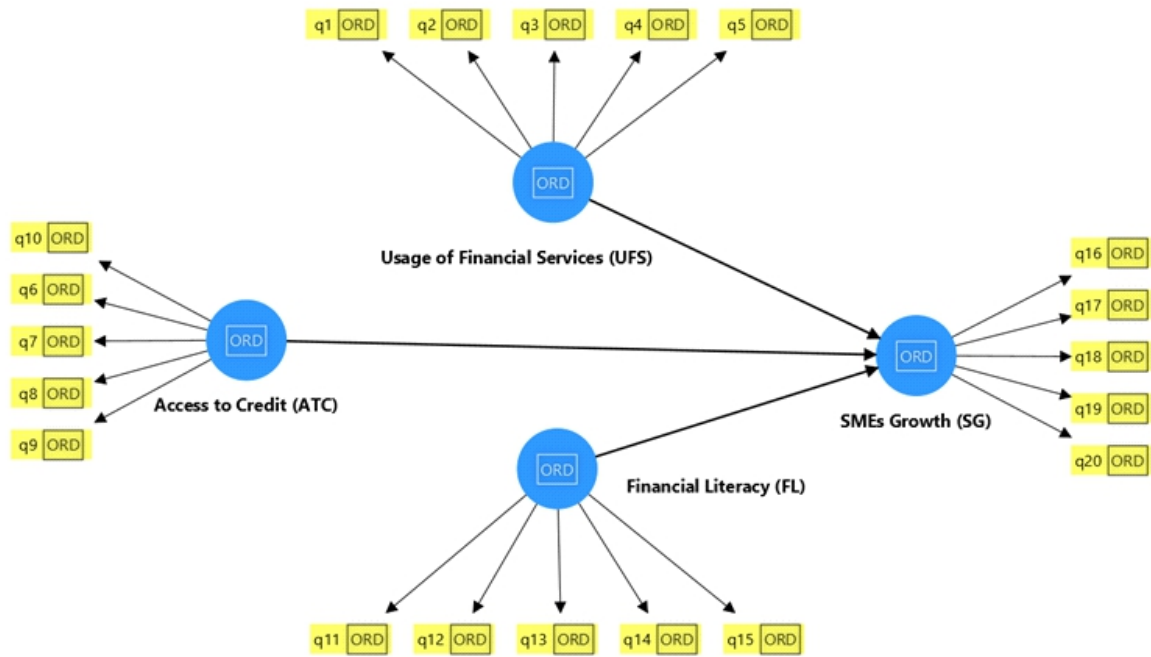
The responses to the questionnaire were measured using interval scales based on a five-point Likert scale format, with response options ranging from "strongly agree" to "strongly disagree," numerically coded from 5 to 1. This format allowed respondents to indicate the extent of their agreement with various statements relating to their financial practices and business growth experiences. The use of the Likert scale facilitated the generation of quantifiable data that could be statistically analysed to provide meaningful insights into how financial inclusion affects the growth and performance of SMEs in the study area.

In the analytical phase of this study, a combination of descriptive and inferential statistical techniques was employed to explore the relationship between financial inclusion and SME growth in Jalingo, Taraba State. Descriptive statistics, including mean, standard deviation, skewness, minimum and maximum values, and the Jarque-Bera normality test, were used to assess the distribution and general characteristics of the dataset. These provided initial insights into data behaviour and suitability for further analysis.

To examine preliminary associations among variables, a Pearson correlation analysis was conducted, offering insight into the linear relationships between the financial inclusion proxies, usage of financial services, access to credit, and financial literacy, and SME growth indicators such as business expansion, innovation, and employment generation.

The main analysis was carried out using Structural Equation Modeling (SEM) through the SmartPLS software. SEM was suitable for this study because it enabled the simultaneous assessment of multiple dependent and independent variables, capturing both direct and indirect effects. Model fit and reliability were evaluated using statistical indices such as the Standardized Root Mean Square Residual (SRMR), squared Euclidean distance ( $d_{ULS}$ ), and geodesic distance ( $d_G$ ), which assessed how well the proposed model aligned with the observed data. Furthermore, the interpretation of results relied on analyzing path coefficients, p-values, and R-squared values, which collectively indicated the strength, significance, and explanatory power of the relationships within the model. This analytical approach supported a comprehensive understanding of how financial inclusion components influence SME growth outcomes in the study area.

The formulated model specifications were utilized for the study, which are presented as follows:



**Figure 1.**

**Source:** Researcher's Computation Using Smart-PLS 4.0 (2025)

## Results and Discussion

### Descriptive Statistics

Descriptive statistics offer a foundational understanding of a dataset by summarizing its key features, including measures of central tendency, dispersion, and distribution. In this study, descriptive statistics were employed to examine the characteristics of the major variables: SME SMEs Growth (SG), Usage of Financial Services (UFS), Access to Credit (ATC), and Financial Literacy (FL). The results, presented in Table 1, provide insights into the overall trends, variability, and normality of the data gathered from 307 SME respondents in Jalingo, Taraba State.

**Table 1:** Summary Statistics

	Mean	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob.	Observations
SG	4.033526	0.760175	-0.0061	3.001533	2.390375	0.115068	307
UFS	4.130730	0.916384	-0.58239	2.888617	22.64750	0.000012	307
ATC	4.270529	0.826862	-0.31001	2.563461	9.511184	0.008603	307
FL	4.119154	0.814119	-0.00747	3.008552	2.100107	0.110567	307

**Source:** Researcher's Computation (2025)

From Table 1, SMEs Growth (SG), recorded a mean score of 4.03 and a standard deviation of 0.76. This high mean suggests that a majority of SMEs in the sample experienced positive SMEs growth. The low standard deviation indicates minimal variability in responses, implying consistent experiences across respondents. The skewness value of -0.0061 indicates

a nearly symmetrical distribution, while the kurtosis of 3.00 falls close to the normal distribution benchmark. The Jarque-Bera statistic of 2.39 with a probability of 0.115 shows that SG is normally distributed, affirming the reliability of this measure in further analyses.

Usage of Financial Services (UFS) had a slightly higher mean of 4.13, indicating strong usage levels among SMEs. However, its standard deviation of 0.92 suggests a broader spread of responses compared to SG. The negative skewness value of -0.582 implies a mild leftward skew, indicating that more SMEs reported higher usage levels than lower ones. The kurtosis value of 2.89 suggests a distribution close to normal, but the Jarque-Bera statistic of 22.65 and its low p-value (0.000012) indicate a significant departure from normality. This non-normality may be due to some outliers or a concentration of very high responses, reflecting differing levels of integration with formal financial services among SMEs.

The results for Access to Credit (ATC) revealed the highest mean among the independent variables at 4.27, suggesting that, on average, SMEs in Jalingo reported strong access to credit facilities. The standard deviation of 0.83 points to moderate variation in responses. With a skewness of -0.310 and kurtosis of 2.56, the distribution of this variable is slightly left-skewed and platykurtic (flatter than a normal curve). The Jarque-Bera test yielded a value of 9.51 and a p-value of 0.0086, indicating that the distribution of ATC deviates significantly from normality. This result may reflect differing credit experiences among SMEs, potentially influenced by collateral requirements, credit history, or banking relationships.

Financial Literacy (FL) had a mean of 4.12 and a standard deviation of 0.81, showing that respondents generally perceived themselves as financially literate. The minimal skewness (-0.0075) and a kurtosis value of 3.01 point to a near-normal distribution. The Jarque-Bera statistic of 2.10 and the accompanying p-value of 0.110 indicate no significant deviation from normality, suggesting that financial literacy responses were symmetrically distributed and suitable for parametric statistical tests.

### **Correlation Analysis**

Correlation analysis and multicollinearity diagnostics are essential preliminary steps in understanding the strength and direction of relationships between variables in a regression model. In this study, pairwise correlation was conducted to explore the relationship between the independent variables, Usage of Financial Services (UFS), Access to Credit (ATC), and Financial Literacy (FL), and the dependent variable, SMEs Growth (SG). Additionally, Variance Inflation Factor (VIF) values were used to assess multicollinearity, which occurs when independent variables are highly correlated with one another, potentially distorting the accuracy of regression estimates. The decision rule for VIF states that values above 5 indicate a potential multicollinearity problem, while values below 5 are generally acceptable.

**Table 2:** Pairwise Correlation and Multicollinearity Results

	SG	UFS	ATC	FL		
SG	1 -----				Centered VIF	
UFS	0.6118 (0.0000)	1 -----				1.45896
ATC	-0.5083 (0.0000)	0.6862 (0.0000)	1 -----			2.85252
FL	0.7024 (0.0000)	0.5424 (0.0000)	0.4131 (0.0000)	1 -----		1.65862

**Source:** Researcher's Computation Using Smart-PLS 4.0 (2025)

The correlation results showed that Usage of Financial Services (UFS) had a moderately strong and positive relationship with SMEs Growth (SG), with a correlation coefficient of 0.6118 and a p-value of 0.0000, indicating statistical significance. This suggests that SMEs with higher levels of engagement in formal financial services, such as savings, digital payments, or banking, tended to report better SMEs performance. Access to Credit (ATC), however, exhibited a negative correlation with SMEs Growth, with a coefficient of -0.5083 and a p-value of 0.0000. While this result is statistically significant, the inverse relationship is somewhat counterintuitive. It may suggest that SMEs with more access to credit might not necessarily be utilizing those funds efficiently or could be experiencing repayment challenges, leading to slower SMEs growth.

Financial Literacy (FL) recorded the strongest positive correlation with SMEs Growth, at 0.7024, with a p-value of 0.0000, indicating a highly significant and substantial relationship. This highlights the critical role that financial literacy plays in SME growth, particularly in enhancing the capacity of business owners to make informed decisions, manage financial risks, and optimize resource allocation. Regarding multicollinearity, the VIF values for all independent variables were well below the critical threshold of 5. Specifically, UFS had a VIF of 1.45896, ATC had the highest at 2.85252, and FL had 1.65862. These results suggest that there is no multicollinearity among the variables. The absence of multicollinearity reinforces the reliability of subsequent inferential analysis, such as regression and structural equation modeling, in estimating the unique effects of each financial inclusion dimension on SME growth.

### SEM Regression Results

The SEM result revealed the influence of key indicators of financial inclusion, Usage of Financial Services (UFS), Access to Credit (ATC), and Financial Literacy (FL), on SMEs Growth (SG) among SMEs in Jalingo, Taraba State. The structural model was evaluated using path coefficients (beta values), standard deviations, and p-values, which together indicate the strength, direction, and statistical significance of the relationships between the constructs. These outputs provide a comprehensive understanding of how each dimension of financial inclusion contributes to SME growth, as presented in Table 3 and illustrated in Figure 1.

**Table 3: SEM Regression Output**

<b>Dependent Variable: SG</b>				
<b>Path</b>		<b>Path Coefficients</b>		
<b>Model</b>	<b>Beta</b>	<b>Standard deviation (STDEV)</b>	<b>T statistics ( O/STDEV )</b>	<b>p-value</b>
UFS -> SG	0.447	0.070	6.350	0.000
ATC -> SG	-0.320	0.161	1.984	0.047
FL -> SG	0.231	0.075	3.077	0.002
<b>Goodness of fit</b>				
<b>R-square</b>	<b>Adjusted-R-square</b>		<b>f-stat</b>	
0.611	0.599		9.265 (0.000)	
<b>Model Fit Result</b>				
<b>Model fit indices</b>		<b>Estimated model</b>		
SRMR		0.0054		
d_ULS		0.0016		
d_G		0.0027		

**Source:** Researcher's Computation Using Smart-PLS 4.0 (2025)

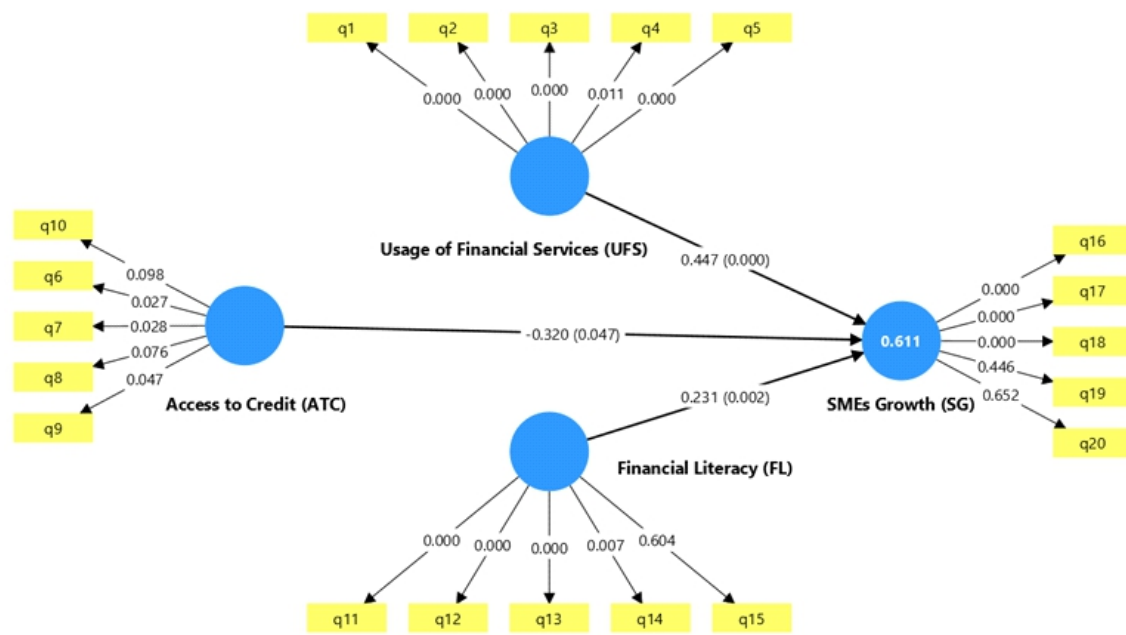
From Table 1, the analysis showed a strong and statistically significant positive relationship between Usage of Financial Services (UFS) and SMEs Growth, with a beta value of 0.447, a t-statistic of 6.35, and a p-value of 0.000. This indicates that SMEs that frequently engage with financial services, such as digital banking, savings, mobile money, and payment platforms, tend to report higher SMEs performance. This finding reinforces earlier descriptive and correlation analyses, confirming that regular interaction with formal financial systems improves liquidity management, customer trust, and operational efficiency, which are critical drivers of revenue growth.

Access to Credit (ATC), however, showed a negative and statistically significant relationship with SMEs Growth, with a beta coefficient of -0.32, a t-statistic of 1.984, and a p-value of 0.047. This result suggests that, contrary to expectations, increased access to credit does not necessarily translate to better growth for SMEs in Jalingo. One possible explanation could be that SMEs obtain credit primarily for survival or to cover operational deficits rather than for productive investment. Additionally, burdensome loan terms, high interest rates, or mismanagement of borrowed funds might contribute to this inverse relationship, echoing concerns raised during the correlation analysis.

For Financial Literacy (FL), the SEM result revealed a positive and significant impact on SMEs Growth, with a beta value of 0.231, a t-statistic of 3.077, and a p-value of 0.002. This confirms that financially literate SME owners are more capable of making sound business decisions, optimizing resource allocation, and leveraging financial services effectively, all of which contribute to improved SMEs performance. This finding aligns with both theoretical expectations and earlier empirical results, highlighting the importance of capacity-building interventions in enhancing SME competitiveness.

The R-square value of 0.611 indicates that 61.1% of the variation in SMEs growth is explained by the three financial inclusion components. This reflects a strong explanatory power, suggesting that financial inclusion is a key determinant of SMEs performance in the study area. The Adjusted R-square value of 0.599, which adjusts for the number of predictors in the model, confirms that the model remains robust even after accounting for potential overfitting.

Furthermore, the F-statistic of 9.265 with a p-value of 0.000 confirms the overall statistical significance of the model. This result indicates that the independent variables, when considered together, have a meaningful and significant impact on SMEs growth.



**Figure 2.**

**Source:** Researcher's Computation Using Smart-PLS 4.0 (2025)

To further assess the adequacy of the structural model, model fit indices in Table 3 were examined. These indices provide insights into how well the theoretical model aligns with the observed data. The key indicators used in this study were the Standardized Root Mean Square Residual (SRMR), squared Euclidean distance (d\_ ULS), and geodesic distance (d\_ G), all of which are commonly applied in Partial Least Squares Structural Equation Modeling (PLS-SEM).

The SRMR value of 0.0054 falls well below the acceptable threshold of 0.08, indicating a very good model fit. SRMR measures the average magnitude of the discrepancies between observed and predicted correlations, and values closer to zero suggest minimal residual differences. Therefore, this result suggests that the model closely approximates the actual relationships observed in the data.

Similarly, the  $d_{ULS}$  value of 0.0016 and the  $d_G$  value of 0.0027 are both very low, which implies that the estimated model closely aligns with the empirical covariance structure. These values support the conclusion that the specified model accurately captures the theoretical relationships among the constructs, Usage of Financial Services, Access to Credit, Financial Literacy, and SMEs Growth.

### **Discussion of Findings**

Findings from the paper revealed that Usage of Financial Services (UFS) had a positive and significant impact on the growth of SMEs in Jalingo, Taraba State. This suggests that SMEs that consistently utilize formal financial tools, such as digital payment systems, bank accounts, and savings services, are more likely to experience improved revenue performance. This outcome highlights the importance of financial service usage in supporting cash flow management, efficient transactions, and customer engagement. These results align with Muriithi and Wanjiru (2023), who found that SMEs in Kenya benefitted from frequent use of banking services through enhanced operational performance and customer retention. Similarly, Zhang and Wang (2022) documented in rural China that digital financial service usage contributed significantly to sales growth and market expansion. The findings are further reinforced by Ismail, Musa, and Magaji (2025), who observed that financial services improved SME performance in rural Nigeria. However, the current study's results contrast with Abubakar and Idris (2022), who reported that usage of financial services in Northern Nigeria was limited due to infrastructural challenges and low trust in the financial system, which dampened its effectiveness in promoting SME growth.

In contrast, the paper found that Access to Credit (ATC) had a negative but significant effect on SME growth. This indicates that although SMEs in Jalingo may have access to credit, such access does not always translate into business growth. Rather than using borrowed funds for investment and expansion, many SMEs may be engaging credit for survival purposes, debt servicing, or non-productive expenditures, especially under high-interest loan conditions. This finding aligns with the study by Bello and Danjuma (2023), who observed that in North-Central Nigeria, SMEs often accessed credit merely to maintain operations rather than for growth-oriented investments. Similarly, Onu and Okonkwo (2021) found that financial inclusion, though present, had no significant impact on MSME development, largely due to the affordability and structure of available credit. This contradicts the work of Campos and Ortega (2022) in Colombia, who reported a positive relationship between access to formal credit and SME productivity, particularly in firms with sound financial management capabilities. It also deviates from Damane and Ho (2025), who warned of the destabilizing effects of excessive financial inclusion through credit, especially without adequate regulatory oversight.

Finally, the paper confirmed that Financial Literacy (FL) had a positive and statistically significant effect on SME growth. This outcome suggests that entrepreneurs with better financial knowledge are more capable of interpreting credit terms, budgeting effectively, and making informed financial decisions, all of which contribute to stronger business performance. These findings are consistent with Meyer and Kuhn (2022), who showed that

financially literate SME owners in Germany were more likely to adopt innovative practices and achieve strategic growth. They are also supported by Ogunyemi and Adebayo (2022), who observed that Nigerian SMEs with higher financial literacy levels demonstrated greater adaptability and business resilience. The findings resonate with Ibrahim (2024), whose research in North-Central Nigeria revealed that financial literacy enhanced profit, labor expansion, and production output among MSMEs. However, the result diverges from Hossain and Akter (2023), who found minimal impact of financial literacy on rural SMEs in Bangladesh, attributing the weak relationship to limited access to digital tools and inconsistent application of knowledge in daily operations.

### **Conclusion and Recommendations**

Based on the analysis conducted, the study concludes that financial inclusion significantly influences the growth of small and medium enterprises (SMEs) in Jalingo, Taraba State. The findings affirm that the usage of financial services positively impacts SME growth, highlighting the importance of regular engagement with formal financial platforms in improving business outcomes. Financial literacy also demonstrated a significant positive impact, highlighting its role in equipping business owners with the knowledge required to make sound financial decisions. However, access to credit showed a negative but significant relationship with SMEs growth, suggesting that credit is either misapplied or accessed under unfavorable terms that do not promote expansion. These results imply that financial inclusion is not only multidimensional but also context-specific. While usage and knowledge enhance growth, the mere availability of credit without supportive conditions may hinder rather than help SME performance.

In light of the study's findings, several targeted recommendations can be made to enhance the effectiveness of financial inclusion in driving SME growth in Jalingo, Taraba State.

- i. Given the strong positive impact of usage of financial services on SMEs growth, it is recommended that the Central Bank of Nigeria (CBN) and the Nigeria Inter-Bank Settlement System (NIBSS) continue expanding digital financial infrastructure and incentivize the deployment of mobile banking agents in underserved areas. This would improve accessibility and encourage routine usage of formal financial platforms by SMEs, particularly those operating in remote or semi-urban communities. Banks such as First Bank, UBA, and Access Bank, along with microfinance institutions, should also design SME-friendly service packages tailored to small business needs.
- ii. Regarding the negative but significant impact of access to credit, the Bank of Industry (BOI) and Development Bank of Nigeria (DBN) should review existing loan structures for SMEs to reduce collateral requirements and streamline disbursement processes. Interest rates and repayment terms must be made more flexible, especially for micro and early-stage enterprises. The Taraba State Ministry of Commerce, Trade and Industry can play a critical role by collaborating with financial institutions to create credit-guarantee schemes that mitigate risk for lenders and make borrowing less burdensome for SMEs. Additionally, enforcing more transparency in loan conditions will help entrepreneurs better align credit with productive investment

- rather than short-term survival.
- iii. Given the significant influence of financial literacy on SMEs growth, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), in partnership with the Taraba State Board of Internal Revenue and local chambers of commerce, should launch continuous financial education programs targeting SME owners. These programs should focus on budget planning, risk management, credit assessment, and the strategic use of financial services. Also, the National Orientation Agency (NOA) can help raise awareness about the importance of financial literacy through public campaigns, while institutions like National Open University of Nigeria (NOUN) and local polytechnics could integrate basic financial management courses into their community outreach programs. By equipping SME operators with practical financial skills, these efforts will support better decision-making and long-term business sustainability.

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## Appendices

### Questionnaire

	Questions	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Usage of Financial Services	I regularly use a bank account for business-related transactions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I make use of digital payment platforms for receiving or making payments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I frequently visit or interact with financial institutions for services beyond savings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I have access to financial services through mobile or internet banking.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I feel confident in navigating the services offered by financial institutions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to Credit	I know the procedures required to apply for a business loan from a financial institution.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I have previously applied for credit through a formal financial institution.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I believe the requirements for accessing credit are fair and reasonable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I am aware of credit facilities available for businesses like mine.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I find the process of securing credit from banks or financial institutions straightforward.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Literacy	I understand basic financial terms such as interest rates, inflation, and credit scores.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I can read and interpret a business financial statement or budget.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I am confident in making decisions related to saving, borrowing, or investing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I have received formal or informal training in financial management.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	I understand the implications of taking loans with different repayment terms.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SMEs Growth:**

	Questions	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
SMEs Growth	My business has expanded its operations or physical presence in recent years.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	My business currently controls a larger share of its target market than it did previously.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The number of employees in my business has increased over the past two years.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	My business has introduced new or improved products or services recently.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	My business has recorded a steady increase in sales over the past year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>