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INFLUENCE OF ENTREPRENEURIAL FINANCING ON THE PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES (SMEs) IN OSUN STATE, NIGERIA.

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Abstract

This study examined the influence of Entrepreneurial financing on the performance of Small and Medium Enterprises (SMEs), with a focus on microfinance loans. Specifically, the study identified the predominant sources of entrepreneurial financing available to SMEs in Osun State; ascertained the extent to which microfinance loan enhances SMEs' expansion and the challenges faced by SMEs in accessing microfinance loan in the study area. The study employed a cross section research design. The population of this study included all the registered SMEs with the SMEDAN, out of which a total of 353 SMEs were selected as sample size using sampling technique. Data were collected with the use of questionnaires, and analysed with both descriptive and inferential statistics. The results revealed that personal savings with (43.6%) constituted the predominant source of finance to SMEs operators in the study area, while sources such as crowdfunding, cooperative societies, NGO/Donor-supported financing e.t c financings were rarely or never used by this SMEs. It was also revealed that microfinance loans have a positive and significant influence on the performance of SMEs in the study area. The study concluded that loans obtainable at reasonable rates are critical to the success of SMEs expansion. Therefore, the study recommended that microfinance banks should review microfinance interest rates to make them more affordable for small businesses.

Keywords: Entrepreneurial Finance, SMEs, and Performance.

Introduction

There has been widespread recognition of Small and Medium Enterprises as essential drivers of financial growth and employment generation (Adusei & Adeleye, 2024). Small and Medium Enterprises (SMEs) play vital roles in Nigeria's economic growth and development, driving diversification, innovation, and economic resilience. Notably, SMEs contribute significantly to the country's economy, accounting for 48% of GDP, 96% of businesses, and 84% of employment opportunities. (Oladipupo, 2024). The growing importance of Small and Medium Enterprises (SMEs) to national economic development underscores the need for adequate support and resources, particularly access to finance, to enhance their economic impact. However, SMEs have faced challenges in accessing these resources, hindering their potential contribution. (Olorunsola & Ndudi, 2023).

Various forms of entrepreneurial finance and their accessibility has stirred the attention of academicians and policymakers worldwide for many decades (Beck et al., 2016). This is because finance is a significant element for determining the growth and survival of SMEs. (Mwangi et al., 2024). Price Waterhouse Coopers 2020, indicated that obtaining finance, finding customers, and infrastructure deficits are the most pressing problems of SMEs, which confirms the Central Bank Nigeria (CBN's) assertion that inadequate funding is the primary issue or obstacle facing small and medium enterprises (SMEs). Furthermore, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), 2021 also reported that poor access to finance is one of the major constraints of SMEs performance in Nigeria.

To address the issue of accessing finance and credit for SMEs performance, various countries have implemented a range of targeted solutions, a significant action has been taken by the federal government of Nigeria to inspire the expansion of SMEs and rural areas by establishing microfinance banks, alongside other initiatives such as the National Directorate of Employment, Industrial Development Centre, Industrial Training Fund, and Administrative Staff College of Nigeria, which collectively aim to promote entrepreneurship and economic growth. (Ndugbu, et al., 2024).

In Nigeria, microfinance loans and other types of entrepreneurial financing have been the instruments in expanding credit access for SMEs, enabling them to overcome financial barriers (Firdaus & Kamello, 2023). The roles of entrepreneurial financing especially microfinance loans in promoting Small and Medium Enterprises in Nigeria is essential and cannot be over-emphasized. External financial support received by a firm when it is small and at an early stage immediately after formation is called angel financing while financial support obtained when the firm is more structured and established is called venture capital financing (Mwangi et al., 2024) even though they are not dominance in Nigeria, Microfinance banks who offers microfinance loans are recognized as a key tool in combating poverty and providing alternative funding for small and medium-sized businesses. It offers a range of financial and non-financial services, including skill enhancement and entrepreneurial development, to help small businesses overcome challenges.

Microfinance Banks have become significant players in the financial sector, offering specialized monetary services to fulfill the requirements of small and medium businesses (Babatunde, 2024). Microfinance bank has been defined as the financial services provided to low-income individuals or groups who are typically excluded from traditional banking. (Foundation for International Community Assistance, 2020). Kagan (2020) posits that Microfinance loan is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Most

microfinance institutions focus on offering credit in the form of small working capital loans, sometimes called microloans or microcredit.

While various financing strategies and approaches have been identified, the extent at which SMEs operates in Osun State explore and apply these financing opportunities to improve their economic performance has been underexplored in the literature, hence, this study.

Considering the vital role SMEs play in the national economy and the importance of microfinance banks in facilitating their access to credit, it's crucial to examine entrepreneurial financing with a particular focus on microfinance loan and its effects on their overall performance. The specific objectives are outlined below:

- i. ascertain the extent to which microfinance loan enhances SMEs' expansion.
- ii. identify the predominant sources of entrepreneurial financing available to SMEs in Osun State
- iii. identify the challenges faced by SMEs in accessing microfinance loan in the study area

To address the specific objectives above, the following questions were answered in the course of the study. In which ways do microfinance loans enhances business expansion? What are the predominant sources of entrepreneurial financing? What are the challenges SMEs encounter when trying to access microfinance loans.

This study aimed to explore different entrepreneurial financing available to SMEs and also to assess the accessibility of credit from Microfinance loans to enhance the business performance of SMEs in Osun State, Nigeria. This will help to understand different sources of financing available to SMEs and how these has impacted the SMEs' access to credit, providing valuable insights into its impact on their business performance and overall success. Additionally, the findings of this study will be beneficial to the following: SMEs' owners, future researchers, government bodies (policy makers), microfinance institutions, entrepreneurs and even future SMEs' owners.

Literature Review

Conceptual Review

Entrepreneurial Financing (EF)

Entrepreneurial financing has been said to include a diverse range of funding sources and mechanisms which are designed to provide capital for the establishment, growth, and sustainability of entrepreneurial ventures, particularly small and medium-sized enterprises (SMEs). This includes channels such as formal and informal channels, as well as emerging innovative financing approaches, the intention is to meet the distinct financial needs and risk profiles of entrepreneurs (Bellavitis, 2020; Bonini, 2019). It addresses important issues that entrepreneurs face, such as how much money can and should be raised, when and from whom it should be raised, what is a reasonable start-up valuation, and how funding contracts and exit decisions should be structured. It is a field that focuses on funding and allocating resources for new businesses through innovative activities, according to Wu, Si, and Wu (2016).

Entrepreneurial financing is categorized into formal, informal, and alternative categories. Formal financing on its own includes structured financial products and services (such as: stocks, bonds, mutual funds, etc.) often provided by regulated financial institutions like commercial banks, microfinance institutions, and also government-backed grants. According to Lee & Persson, (2012) personal savings of the entrepreneur, money from friends and family, and as well as funds obtained from cooperative societies are all examples of informal financing. While Boufounou, (2020); Block, (2020) noted that the alternative financing includes the crowdfunding and NGO/donor-supported financing which

are said to the emerging mechanisms and are often leverage on technology or international aid networks. Each of the aforementioned category operates under distinct principles, while offering unique advantages notable limitations are also closely associated.

Microfinance loan

Microfinance loans are loans given to small-scale loans disburse to small businesses or persons, especially those who are unable to use conventional financial services. These loans are part of a broader concept known as microfinance, which aims to reduce poverty and support entrepreneurship in underserved communities. Ledgerwood, J. (1999). Microfinance loans refer to small, short-term loans provided to small scale businesses or persons who lack access to traditional credit channels. These loans are designed to support income-generating activities, asset development, or emergency needs.

Microfinance loans represent an essential formal financing option available to entrepreneurs aside banking facility from conventional banking. Ahirwar (2024) asserted that, microfinance institutions (MFIs) often make small-scale credit facility(loans) available to entrepreneurs.

Performance of Small and Medium Enterprises (SMEs)

SMEs performance is a interconnected concept that encompasses various dimensions, including operational efficiency, financial outcomes, and market competitiveness (Garcia-Martinez et al., 2023; Adam & Alarifi, 2021). The performance considered for this study is non financial performance, which is mainly indicated by business expansion. Business expansion refers to the process through which an enterprise increases its scale of operations to achieve growth, improve market share, and enhance profitability. It involves strategies and actions that extend a business's capacity, market reach, or product offerings. According to Kotler and Keller (2016), business expansion is a critical stage in the organizational life cycle where firms move beyond survival and stability to pursue growth opportunities through innovation, market development, and diversification.

Theoretical Review

Pecking Order Theory (POT)

This study is based on the principles of Pecking Order Theory (POT) originally introduced by Donaldson (1961), who observed that firms tend to rely first on internal financing before seeking external sources. Later, became popular by Myers and Majluf (1984),who maintained that businesses preferred retained earnings, debt, and equity due to the asymmetry of information between investors and managers. This theory is particularly relevant for SMEs, which tend to rely heavily on personal savings, retained earnings, and reinvested profits before seeking external funding, thereby reducing financial risk and avoiding interest payment costs. Many SMEs avoid borrowing because of complex loan procedures, collateral requirements, and high interest rates. Some businesses may delay expansion due to a lack of funds. All these reveals why limited access to funds slows business growth and innovation, and why SMEs with weak financial management may struggle to maintain stable cash flow.

Shyam-Sunder and Myers (1999) found strong evidence in favor of Pecking Order Theory, explaining financing patterns among U.S. firms. Similarly, Frank and Goyal (2003) reported that large firms often exhibit financing behavior consistent with POT. However, Graham & Harvey (2001) from survey evidence, argued that managers' financing decisions are not solely based on POT, but also on tax considerations and market conditions.

POT helps moderate debt which helps SMEs expand while maintaining control, bearing in mind that excessive debt can lead to repayment struggles and financial instability.

This on the other hand helps maintain ownership which gives SMEs full strategic control, and also avoid equity financing which may limit the access to large scale funding. SMEs, often facing limited access to external capital, rely heavily on retained earnings. Debt is preferred only when internal funds are insufficient. Equity financing is rarely used due to ownership dilution and investor reluctance.

Zhang and Zhu (2021), provides a more accurate explanation of firms' financing behavior, suggesting that companies prioritize internal financing over debt and debt over equity to minimize the negative impact of asymmetric information on performance. This theory is particularly relevant for SMEs, which tend to rely heavily on personal savings, retained earnings, and reinvested profits before seeking external funding, thereby reducing financial risk and avoiding interest payment costs.

Empirical Review

In a research carried out by Adewale and Adeyemo (2024). It was noted that SMEs face significant obstacles when attempting to secure funding, which impedes their expansion and economic impact. Using a standardized questionnaire, the study discovered that the majority of participants had positive opinions about the loan disbursement process's availability, duration, and effectiveness. Although interest rates were a concern, the loans were found to enhance business expansion, improve the quality of product, and increase sales. Furthermore, regression research demonstrates that interest rates, loan disbursement, repayment, and SME productivity are all positively correlated.

In another study by Gbolagade and Ka'oje's (2016) with a focus on Sokoto, Kano, and Kaduna states due to their representative characteristics. The study analyzed data from various enterprises, including agro-allied, manufacturing, educational establishments, and services/trading stores. The findings revealed that microfinance banks offer diverse products to SMEs, such as personal/individual loans, group lending, micro loans, and agricultural loans, e.t.c. However, many microfinance banks were found to lack sufficient capital, limiting their ability to provide adequate loans to SMEs. Notably, SMEs that received microfinance loans demonstrated improved performance in capacity utilization, asset base, and workforce. The study highlighted significant differences in SME performance before and after accessing microfinance loans, suggesting that the CBN's 2005 policy establishing microfinance banks is achieving its objectives.

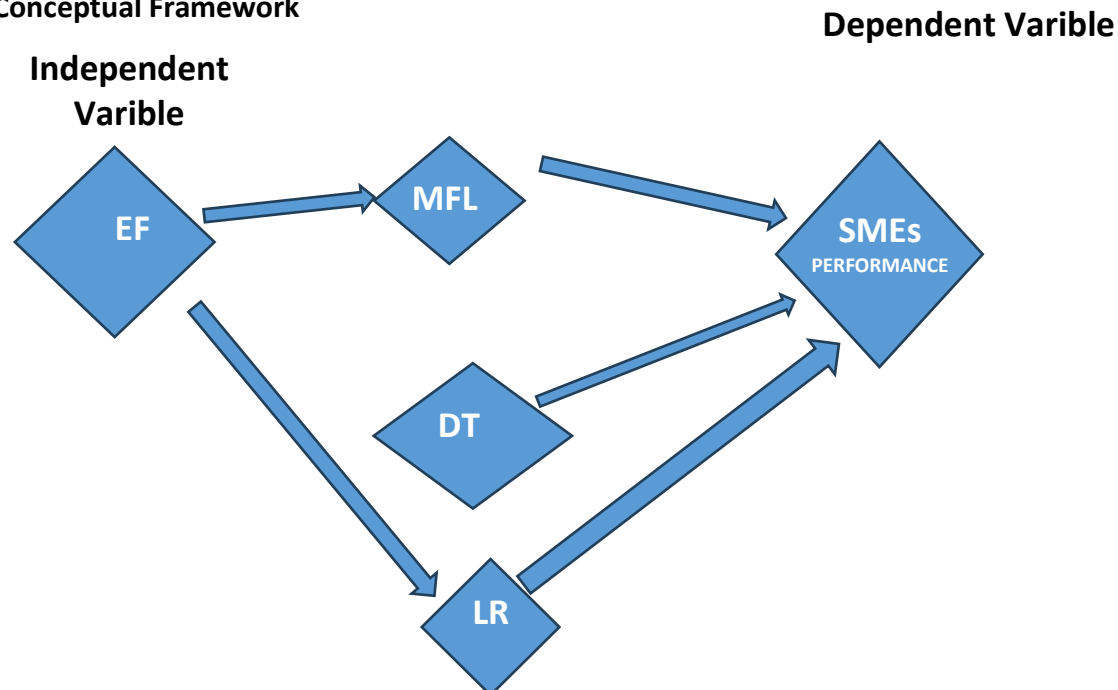
Okafor (2020) investigated the performance of small and medium-sized businesses in Nigeria as well as microfinance banks. Even though only 134 of the 150 respondents who received the questionnaire were retrieved, the study was carried out using primary data. Despite the fact that SMEs are essential to the growth and development of an economy, the inquiry asserts that there is a relationship between microfinance bank loans and SMEs in Nigeria and that microfinance banks have little influence over the performance of SMEs in Nigeria.

Delos Santos et al., (2025) researched on Accessibility of credit from microfinance institutions for enhancing business performance of existing micro and small enterprises in Quezon city. The study focused on interest rates, lending procedures, and credit awareness. Key findings included that most respondents accessed small loan amounts, were aware of lending procedures and credit availability, and that MFI credit significantly boosted business growth, particularly in sales and revenue. While profitability and market expansion showed slightly lower agreement, the results underscored MFIs' effectiveness in supporting enterprise growth and sustainability.

Rao et. al., (2021) carried out a systematic literature review of SME financing by analyzing 280 articles published between 1986 and 2020 in top small business management journals. Structured review protocol and bibliometric tools was used, the study synthesized

trends in publication, theoretical approaches, methodological designs, and thematic developments. The findings established that SME financing research has expanded significantly, with diverse themes including access to finance, financing networks, and the role of financial institutions. However, gaps remain in theory-building, methodological rigor, and the exploration of alternative financing models. The study concluded by recommending future research to focus on innovative financing mechanisms, cross-country comparisons, and the integration of digital financial technologies to enhance SME access to finance.

Conceptual Framework



Independent Variable: Entrepreneurial Financing

Dependent Variable: SMEs Performance

Mediating/Moderating Variables (Sub-factors of entrepreneurial financing):

- MFL (Microfinance Loans)
- LR (Lending Rates)
- DT (Digital Technologies)

Author's conceptualization 2025

Methodology

Research Design

This study adopted a cross-sectional research design to investigate the influence of entrepreneurial financing on the performance of Small and medium enterprises (SMEs). A cross-sectional design involves collecting data from a sample of participants at a single point in time, providing a snapshot of the characteristics, behaviors, or attitudes of the population at a particular moment. (Creswell, 2014). The cross-sectional design was considered suitable for this study because it allows for the examination of the relationships between SMEs performance and Microfinance loans at its different features. Additionally, this design is cost-effective and enables the collection of data from a large sample size, increasing the reliability and generalizability of the findings.

Population of the Study

The study population encompasses the entirety of elements that one intends to draw inferences about (Cooper and Schindler, 2003). The population for this study were made up of all registered SMEs operating in Osun State, Nigeria. The population of this study is derived from the records of some SMEDAN, Osun state, which is totaled 3007.(SMEDAN, 2025)

Sample Size

The Taro Yamane formula, which offers a statistically sound method of figuring out a suitable sample size for a population, is used to estimate the sample size for this investigation.

The formula is given by

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

Where n = sample size

N = population of the study

e = the margin error which is at 5%

$$n = \frac{3007}{[1+3007(0.05)^2]} = \frac{3,007}{[1+7.5175]} = \frac{3,007}{8.5175} = 353.04 \approx 353$$

Sampling Techniques

A multistage sample method was used in the investigation. At first stage, Osun State was split into three senatorial districts. Two local governments were purposefully chosen from each senatorial district in the second stage, for a total of six local governments. Additionally, 353 SMEs operators in each of the chosen local governments were chosen at random in the third stage.

Research Instruments

Survey instruments used in the investigation were structured questionnaires. The purpose of using a structured questionnaire was to lessen the respondents' response variability. There were two sections in the questionnaire. Section A of the questionnaire was on personal and demographic profile, including gender, age status, business sector, number of years in business and educational qualification. Section B to G of the questionnaire was sub-divided to assess information on each of the independent variables which include types of entrepreneurial financing, loan amount, lending rate, digital platform, and challenges. The research instrument that was used for this study was generated using primary data was analyzed by using Statistical Package for Social Science (SPSS) software version twenty-seven (27).

Validity of Research Instrument

Content and construct validity were established with input from the supervisor and other past research work. Validation was essential to ensure that each item accurately measures what it is intended to measure, aligning with the study's objectives and hypotheses. Validity is important in assessing whether the statements in the research instrument were relevant to the study.

The questionnaire for this study underwent a validation process to establish face and content validity. To determine the veracity of the content, the questionnaire was reviewed by the research supervisor. Its clarity, relevance, and comprehensiveness in

addressing the research objectives were assessed. The feedback guided necessary improvements, ensuring that the questionnaire is well-structured and capable of collecting accurate and meaningful data.

Administration of the Research Instrument

The method for administering the research instrument involved a combination of self-administered questionnaires to ensure a high response rate and accurate data collection. The questionnaire was administered to the respondents by the researcher. The confidentiality of the information was guaranteed.

Methods for Data Analysis

Each question's response was described using descriptive statistics such as simple percentage and frequency. Each table was followed by logical explanations or interpretations of the results of the table, each research question was answered from the tables used in analyzing each questionnaire question as discussed above, and Regression analysis was employed to test the hypotheses. This is considered appropriate due to its ability to examine the relationship between several independent variables and a single dependent variable simultaneously. This statistical technique enables the researcher to determine not only the direction but also the strength of influence that each predictor variable has on the outcome being studied. By employing multiple regression, the study was able to control for the effects of other variables while assessing the unique contribution of each factor, thereby ensuring more accurate and reliable results. The primary data that were collected from the questionnaire and was analyzed using statistical package for social science (SPSS) software (version 27.00).

Model Specification

The study adopted a linear regression model to examine the effect of microfinance loans on SMEs performance. The dependent variable is SMEs performance, while the independent variables include loan amount, lending terms, and digital platform.

The basic model which is the SMEML' model is specified as:

$$\text{SMEML} = \beta_0 + \beta_1 \text{LA}_1 + \epsilon$$

Where:

- SMEML= SMEs Performance
- LA_1 = Loan Amount
- β_0 = Intercept (constant term)
- β_1 , = Coefficients of the independent variables
- ϵ = Error term.

Results and Discussions

Analysis of Social Demographic Information

Data from the questionnaire in section A, which covers gender, age, business sector, years of business, and educational background, was presented and analyzed with the use of demographic data..

Table 1: Social Demographic Information of the Respondents.

	Frequency	Percentage%
Gender		
Male	109	30.8
Female	244	69.2
Total	353	100
Age Range		
18 – 28 Years	181	51.3

29 - 39 Years	127	35.9
40 - 50 Years	45	12.8
51 – 60 Years	0	0
61 and above	0	0
Total	353	100
Business Sector		
Trading	82	23.1
Manufacturing	9	2.5
Services	208	59.0
Agriculture	18	5.1
Others	36	10.3
Total	353	100
Years in Business		
1- 3 Years	172	48.7
4 – 6 Years	45	12.8
7 – 9 Years	64	18.0
10 & above Years	72	20.5
Total	353	100
Educational Qualification		
SSCE	0	0
NCE/ND	35	10.0
HND/B.Sc	227	64.4
M.Sc/M.BA	73	20.5
Professional	18	5.1
Total	353	100

Source: Field Survey, 2025.

Table 1 above represents the social demographic information of respondents sampled in the study. The classification of the respondents by “Gender” shows that 109(30.8%) are male, while 244(69.2%) are female out of the total of 353(100%). Hence, females constitute most of the respondents. This implies that female respondents constitute the majority of the sample, indicating that women are more involved in entrepreneurial activities in the study area.

According to the age classification, 181 (51.3%) of the respondents were between the ages of 18 and 28, 127 (35.7%) were between the ages of 29 and 39, and 45 (12.8%) were between the ages of 40 and 50. It is clear from the results that the 18–28 age group was more prevalent than the other age groups in the study.

82 (23.1%) of the business sector's classification fell into trading, 9 (2.5%) into manufacturing, 208 (59.0%) into services, 18 (5.1%) into agriculture, and 36 (10.3%) into other company categories not listed in the questionnaire. It is clear from the results that there were more service providers than in any other company sector in the survey.

Additionally, according to the years in business classification, 172 (48.7%) have been in business for 1 – 3 years, 45 (12.8%) for 4 – 6 years, 64 (18.0%) for 7 – 9 years, and 72 (20.5%) for ten years or more. The majority of the businesses that were analyzed are just getting started, according to the results.

Finally, according to the educational level classification, 18 (5.1%) of the respondents were professionals, 227 (64.4%) obtained HND/B.Sc., 73 (20.5%) obtained M.Sc./MBA, and 35 (10.0%) obtained NCE/ND. The majority of respondents held an HND or B.Sc., according to the above findings.

Interpretation of Results

i. ascertain the extent to which microfinance loan enhances SMEs’ expansion.

Table 2 Microfinance loans and expansion

S/N	STATEMENT	SA	A	UD	D	SD	T
1.	Microfinance loans help business expansion	72(20.5%)	208(59.0%)	46(12.8%)	27(7.7%)	0(0%)	353(100%)
2.	Microfinance loans promotes product/service expansion	45(12.8%)	226(64.1)	27(7.7%)	55(15.4%)	0(0%)	353(100%)
3.	Continuous access to microfinance loans aids cash flow	64(17.9%)	163(46.2%)	54(15.4%)	72(20.5%)	0(0%)	353(100%)
4.	Microfinance loans enhance the opening of multiple shops (branch shop)	100(28.2%)	100(28.2%)	100(28.2%)	53(15.5%)	0(0%)	353(100%)
5.	Microfinance loans contribute to an increase revenue.	72(20.5%)	208(59.0%)	64(17.9%)	9(2.6%)	0(0%)	353(100%)

Source: Field Survey, 2025., 2025

From Table 2, 72 (20.5%) of the respondents strongly agreed that microfinance loans help business expansion, 208 (59.0%) of the respondents agreed that microfinance loans help business expansion, 46 (12.8%) of the respondents were undecided that microfinance loans help business expansion, 27 (7.7%) of the respondents disagreed that microfinance loans help business expansion.

Also, 45 (12.8%) of the respondents strongly agreed that microfinance loans promotes product/service expansion, 226 (64.1 %) of the respondents agree that microfinance loans promotes product/service expansion, 27 (7.7%) of the respondents were undecided that microfinance loans promotes product/service expansion, 55 (15.4%) of the respondents disagreed that microfinance loans promotes product/service expansion.

Furthermore, 64 (17.9%) of the respondents strongly agreed that continuous access to microfinance loans aids cash flow, 163 (46.2 %) of the respondents agreed that continuous access to microfinance loans aids cash flow, 54 (15.4%) of the respondents were undecided that continuous access to microfinance loans aids cash flow, 72 (20.5%) of the respondents disagreed that continuous access to microfinance loans aids cash flow.

Also, 100 (28.2%) of the respondents strongly agreed that microfinance loans enhance the opening of multiple shops (branch shop), 100 (28.2%) of the respondents agreed that microfinance loans enhance the opening of multiple shops (branch shop), 100 (28.2%) of the respondents were undecided that microfinance loans enhance the opening of multiple shops (branch shop), 53 (15.4%) of the respondents disagreed that microfinance loans enhance the opening of multiple shops (branch shop).

Lastly, 72 (20.5%) of the respondents strongly agreed that microfinance loans contribute to an increase revenue, 208 (59.0%) of the respondents agreed that microfinance loans contribute to an increase revenue, 64 (17.9%) of the respondents were undecided that microfinance loans contribute to an increase revenue, 9 (2.6%) of the respondents disagreed that microfinance loans contribute to an increase revenue.

ii. identify the predominant sources of entrepreneurial financing available to SMEs in Osun State

Table 3 Entrepreneurial Sources of Finance

S/N	STATEMENT	VF	F	O	R	N	T
1.	Microfinance Loan	18(5.1%)	18(5.1%)	36(10.3%)	45(12.8)	236(66.7%)	353(100%)
2.	Personal Savings	154(43.6%)	90(25.6%)	100(28.2)	0(0%)	9(2.6)	353(100%)

3.	Commercial Bank Loan	0(0%)	36(10.3)	18(5.1%)	45(12.8%)	254(71.8)	353(100%)
4.	Family & Friends	36(10.3%)	100(28.2%)	127(35.9%)	63(17.9)	27(7.7%)	353(100%)
5.	Government grants/subsidies	18(5.1%)	9(2.6%)	27(7.7%)	118(33.3%)	181(51.3%)	353(100%)
6.	Cooperative Societies	45(12.7%)	28(7.7%)	36(10.3%)	36(10.3%)	208(59.0%)	353(100%)
7.	NGO/Donor-supported financing	9(2.6%)	27(7.7%)	27(7.7%)	46(12.8%)	244(69.2%)	353(100%)
8.	Crowdfunding	0(0%)	18(5.1%)	45(12.8)	36(10.3%)	254(71.8%)	353(100%)

Source: Field Survey, 2025.

VF: (Very Frequently), F: (Frequently), O: (Occasionally), R: (Rarely), N: (Never)

From Table 3, 18 (5.1%) of the respondents uses microfinance loan very frequently, 18(5.1%) of the respondents uses microfinance loan frequently, 36 (10.3%) of the respondents uses microfinance loan occasionally, 45 (12.85%) of the respondents rarely uses microfinance loan, 236 (66.7%) of the respondents never use microfinance loan.

Also, 154 (43.6%) of the respondents uses personal savings very frequently, 90 (25.6%) of the respondents uses personal savings frequently, 100 (28.2%) of the respondents uses personal savings occasionally, and 9 (2.6%) of the respondents never uses personal savings.

Furthermore, 36(10.3%) of the respondents uses commercial bank loan frequently, 18 (5.1%) of the respondents uses commercial bank loan occasionally, 45 (12.8%) of the respondents rarely uses commercial bank loan, 254 (71.8%) of the respondents never uses commercial bank loan.

In addition, 36(10.3%) of the respondents uses family & friends very frequently, 100 (28.2%) of the respondents uses family & friends frequently, 127 (35.9%) of the respondents uses family & friends occasionally, 63 (17.9%) of the respondents rarely uses family & friends, 27 (7.7%) of the respondents never uses family & friends.

Also, 18 (5.1%) of the respondents uses government grants/subsidies very frequently, 9 (2.6%) of the respondents uses government grants/subsidies frequently, 27 (7.7%) of the respondents uses government grants/subsidies occasionally, 118 (33.3%) of the respondents rarely uses government grants/subsidies, 181 (51.3%) of the respondents never uses government grants/subsidies.

Moreover, 45 (12.7%) of the respondents uses cooperative societies very frequently, 28(7.7%) of the respondents uses cooperative societies frequently, 36 (10.3%) of the respondents uses cooperative societies occasionally, 36 (10.3%) of the respondents rarely uses cooperative societies, 208 (59.0%) of the respondents never uses cooperative societies.

Also, 9 (2.6%) of the respondents uses NGO/Donor-supported financing very frequently, 27 (7.7%) of the respondents uses NGO/Donor-supported financing frequently, 27 (7.7%) of the respondents uses NGO/Donor-supported financing occasionally, 46 (12.8%) of the respondents rarely uses NGO/Donor-supported financing, 244 (69.2%) of the respondents never uses NGO/Donor-supported financing.

Lastly, 18 (5.1%) of the respondents uses crowdfunding frequently, 45 (12.8%) of the respondents uses crowdfunding occasionally, 36 (10.3%) of the respondents rarely uses crowdfunding, 254 (71.8%) of the respondents never uses crowdfunding.

This reveals that the majority of respondents use personal savings as their source of entrepreneurial financing, which aligns with the theory of Pecking order, which states that firms prioritize internal financing.

iii. identify the challenges faced by SMEs in accessing microfinance loan in the study area

Table 4 Challenges SMEs faced in accessing microfinance loans

INFLUENCE OF ENTREPRENEURIAL FINANCING ON THE PERFORMANCE OF SMALL...

S/N	STATEMENT	VF	F	O	R	N	T
1.	High Interest Rates	219(62%)	78(22%)	39(11%)	17(5%)	0(0%)	353(100%)
2.	Collateral requirements	120(34%)	53(15%)	28(8%)	53(15%)	99(28%)	353(100%)
3.	Short repayment terms	205(58%)	64(18%)	46(13%)	27(8%)	11(3%)	353(100%)
4.	Complicated application procedures	173(49%)	81(23%)	53(15%)	46(13%)	0(0%)	353(100%)
5.	Lack of a digital platform	120(34%)	64(18%)	53(15%)	99(28%)	17(5%)	353(100%)

Source: Author's Computation, 2025

From Table 4, 219 (62%) of the respondents very frequently avoid taking microfinance loan due to high interest rates, 78 (22%) of the respondents frequently avoid taking microfinance loan due to high interest rates, 39 (11%) of the respondents occasionally avoid taking microfinance loan due to high interest rates, 17 (5%) of the respondents rarely avoid taking microfinance loan due to high interest rates.

Also, 120(34%) of the respondents very frequently avoid taking microfinance loan due to collateral requirements, 53 (15%) of the respondents frequently avoid taking microfinance loan due to collateral requirements, 28 (8%) of the respondents occasionally avoid taking microfinance loan due to collateral requirements, 53 (15%) of the respondents rarely avoid taking microfinance loan due to collateral requirements, 99 (28%) of the respondents never avoid taking microfinance loan due to collateral requirements.

Furthermore, 205 (58%) of the respondents very frequently avoid taking microfinance loan due to short repayment terms, 64 (18%) of the respondents frequently avoid taking microfinance loan due to short repayment terms, 46 (13%) of the respondents occasionally avoid taking microfinance loan due to short repayment terms, 27 (8%) of the respondents rarely avoid taking microfinance loan due to short repayment terms, 11 (3%) of the respondents never avoid taking microfinance loans due to short repayment terms.

Also, 173 (49%) of the respondents very frequently avoid taking microfinance loan due to complicated application procedures, 81 (23%) of the respondents frequently avoid taking microfinance loan due to complicated application procedures, 53 (15%) of the respondents occasionally avoid taking microfinance loan due to complicated application procedures, 46 (13%) of the respondents rarely avoid taking microfinance loan due to complicated application procedures.

Lastly, 120 (34%) of the respondents very frequently avoid taking microfinance loan due to lack of digital platforms, 64 (18%) of the respondents frequently avoid taking microfinance loan due to lack of digital platforms, 53 (15%) of the respondents occasionally avoid taking microfinance loan due to lack of digital platforms, 99 (28%) of the respondents rarely avoid taking microfinance loan due to lack of digital platforms, 17 (5%) of the respondents never avoid taking microfinance loan due to lack of digital platforms.

Table 5 SMEs Performance

S/ N	STATEMENT	SA	A	UD	D	SD	T
1.	The number of products/services offered by my business has increased since I accessed microfinance loans	127(35.9%)	172(48.7%)	36(10.3%)	18(5.1%)	0(0%)	353(100%)
2.	My business has opened additional branches or outlets since accessing microfinance loans	91(25.6%)	181(51.3%)	63(17.9%)	18(5.1%)	0(0%)	353(100%)

3	My business now serves customers beyond its original geographical location	91(25.6%)	208(59.0%)	36(10.3%)	18(5.1%)	0(0%)	353(100%)
4	Access to microfinance loans has enabled my business to invest in new equipment or technologies to support growth.	109(30.8%)	199(56.4%)	36(10.3%)	9(2.5%)	0(0%)	353(100%)
5	The scale of my business operations has increased as a result of financing support	63(17.9%)	199(56.4%)	27(7.7%)	64(18%)	0(0%)	353(100%)

Source: Field Survey, 2025.

From Table 5, 127 (35.9%) of the respondents strongly agreed that the number of products/services offered by my business has increased since I accessed microfinance loans, 172 (48.7%) of the respondents agreed that the number of products/services offered by my business has increased since I accessed microfinance loans, 36 (10.3%) of the respondents are undecided that the number of products/services offered by my business has increased since I accessed microfinance loans, 18 (5.1%) of the respondents disagreed that the number of products/services offered by my business has increased since I accessed microfinance loans.

Also, 91 (25.6%) of the respondents strongly agreed that my business has opened additional branches or outlets since accessing microfinance loans, 181 (51.3%) of the respondents agreed that my business has opened additional branches or outlets since accessing microfinance loans, 63 (17.9%) of the respondents are undecided that my business has opened additional branches or outlets since accessing microfinance loans, 18 (5.1%) of the respondents disagreed that my business has opened additional branches or outlets since accessing microfinance loans.

Furthermore, 91 (25.6%) of the respondents strongly agreed that my business now serves customers beyond its original geographical location, 208 (59.0%) of the respondents agreed that my business now serves customers beyond its original geographical location, 36 (10.3%) of the respondents are undecided that my business now serves customers beyond its original geographical location, 18 (5.1%) of the respondents disagreed that my business now serves customers beyond its original geographical location.

Also, 109 (30.8%) of the respondents strongly agreed that access to microfinance loans has enabled my business to invest in new equipment or technologies to support growth, 199 (56.4%) of the respondents agreed that access to microfinance loans has enabled my business to invest in new equipment or technologies to support growth, 36 (10.3%) of the respondents are undecided that access to microfinance loans has enabled my business to invest in new equipment or technologies to support growth, 9 (2.5%) of the respondents disagreed that access to microfinance loans has enabled my business to invest in new equipment or technologies to support growth.

Lastly, 63 (17.9%) of the respondents strongly agreed that the scale of my business operations has increased as a result of financing support, 199 (56.4%) of the respondents agreed that the scale of my business operations has increased as a result of financing support, 27 (7.7%) of the respondents are undecided that the scale of my business operations has increased as a result of financing support, 64 (18%) of the respondents disagreed that the scale of my business operations has increased as a result of financing support.

Testing of Hypothesis One (H₀₁)

Microfinance loans do not significantly contribute to SMEs expansion

Table 6 **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.562 ^a	.316	.202	.744

a. Predictors: (Constant), Microfinance loans.

Table 7 **ANOVA^a**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	90.032	1	90.032	162.26	.000 ^b
	Residual	194.885	351	.555		
	Total	284.917	352			

a. Dependent Variable: Performance

b. Predictors: (Constant), microfinance loans

Table 8 **Coefficients^a**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.897	.540		3.515	.001
	Microfinance loans	.324	.164	.562	12.74	.000

a. Dependent Variable: Performance

Table 5.2 presents the model summary, R squared is the coefficient of determination, which explains the proportion of variation in the dependent variable (SMEs performance) that can be attributed to changes in the independent variable (microfinance loans). From the findings in the model summary table, the value of R squared was 0.316, indicating that 31.6% of the variation in SMEs' performance is due to changes in microfinance loans. This implies that the remaining 68.4% of the variation in SMEs' performance is explained by other factors not included in this study.

R is the correlation coefficient, which shows the strength and direction of the relationship between the study variables. From the findings in the model summary table, there was a moderate positive relationship between microfinance loans and SMEs' performance, as indicated by the correlation value of 0.562 and the positive coefficient in the regression model.

From the ANOVA statistics shown in the table, the F-statistics is 162.26, this was found to be significant at 5% level ($p < 0.005$), the processed data had a significance level of 0.000, which is less than the 0.05 threshold. This shows that the model is statistically significant, meaning that microfinance loans have a significant influence on SMEs' performance within the study area. The F calculated value of 162.26 further supports the model's ability to explain the relationship between the variables.

Since for this hypothesis the significance value ($p = 0.000$) is less than 0.05, we reject the null hypothesis (H₀₂) and conclude that microfinance loans have a significant influence on the performance of SMEs in the study area.

R is the correlation coefficient, which shows the strength and direction of the relationship between the study variables. From the findings in the model summary table, the correlation value was 0.150, which indicates a very weak positive relationship between microfinance loans, lending rates, digital technologies, and SMEs performance.

From the ANOVA statistics shown in Table 6.2, the F-statistic was 2.701, which was found to be significant at the 5% level ($p = 0.045$). Since the significance value is less than the 0.05 threshold, this shows that the overall regression model is statistically significant. This implies that microfinance loans, lending rates, and digital technologies jointly have a significant effect on the performance of SMEs in the study area, even though the explanatory power is weak.

From the coefficients in Table 6.3, microfinance loans had a positive and statistically significant effect on SMEs performance ($\beta = 0.165$, $p = 0.014$). Lending rates showed a negative but insignificant effect ($\beta = -0.083$, $p = 0.279$), while digital technologies had a positive but insignificant effect ($\beta = 0.097$, $p = 0.214$). This suggests that among the three predictors, only microfinance loans contribute significantly to the performance of SMEs in the study area.

Since the significance value of the overall model ($p = 0.045$) is less than 0.05, we reject the null hypothesis (H_{04}) and conclude that microfinance loans, lending rates, and digital technologies have a significant joint influence on the performance of SMEs in the study area.

Discussion of Findings

The study ascertained the extent to which microfinance loans enhance SMEs' expansion and observed that microfinance loans have significant effects on SMEs performance since p value is less than 0.05 which is the threshold, $R = 0.562$ indicates a moderate positive correlation between microfinance loans and SME expansion, of which $B = 0.324$, $p = 0.000$ which means that for every 1-unit increase in microfinance loan access, SMEs performance increases by 0.324 units, and t-value of 12.74 indicates a very high level of statistical significance. This finding is similar to that of Gbolagade and Ka'oje's (2016) who found out that there is a significant differences in SMEs performance before and after accessing microfinance loans,.

It is also consistent with Akinadewo, (2021); Sarfo, *et al.* (2024) findings which shows that there is positive and significant relationship between microfinance delivery and SMEs performance. Also Adu and Uchehara (2022) found out that microfinance credit and loans significantly and positively affect the financial performance and profitability of small and medium enterprises, which means that as microfinance bank loans increases, SMEs' financial performance improves. However, the result contrast with Sunday *et al.* (2025) who found that microfinance loans surprisingly hinder SMEs growth, potentially due to loan funds, suggesting it is not a key factor in business expansion in Nigeria.

The study identified the predominant sources of entrepreneurial financing available to SMEs in Osun State and aimed to investigate their influence on the performance of small and medium enterprises in the state, from the research, the findings reveal that personal savings is the most frequently used source of finance, with 43.6% of respondents indicating very frequent use, 25.6% indicating frequent use, and only 2.6% reporting that they never use it. The findings suggests that most entrepreneurs in Osun State rely heavily on internally generated funds to start and sustain their businesses, which support the trade off theory which states that firms including SMEs prefer to use the internal financing as their sources of finance first before maximizing external when it is no longer enough. It was also deduced SMEs occasionally uses family and friends as their sources of finance with 35.9%, it was

reported that majority of the SMEs in Osun State never uses crowdfunding with 71.8%. and NGO/Donor-supported financing with 69.2%.

The result shows that SMEs in Osun State struggle to maintain and sustain their business themselves. So therefore, the most predominant sources of Entrepreneurial financing available to SMEs in Osun State is Personal Savings.

The study identified the challenges faced by SMEs in accessing microfinance loans. Based on the questionnaire responses, five major challenges were examined: high interest rates, collateral requirements, short repayment terms, complicated application procedures, and lack of digital platforms and the result revealed that majority of the respondent avoids microfinance loans due to high interest rates, followed by Short repayment terms, complicated application procedures, lack of digital platforms, and then collateral requirements.

Conclusion

This study investigated the influence of entrepreneurial financing on the performance of small and medium enterprises (SMEs) in Osun State, Nigeria. The findings revealed that personal savings remained the most frequently used source of finance, indicating that most entrepreneurs in Osun State heavily relied on internally generated funds to start and sustain their businesses, in line with the pecking order theory which suggests that firms prefer internal financing before seeking external sources. Family and friends were occasionally used as financing sources, while crowdfunding and NGO/donor-supported financing were largely underutilized. It can be concluded from this research work that Entrepreneurs need to be supported by the Government as they are struggling to keep their various businesses.

Microfinance loans were found to have a significant and positive effect on SME performance. Regression analysis showed a moderate similar correlation, indicating that increased access to microfinance loans substantially enhanced business expansion, cash flow, and service or product diversification. This finding corroborates previous studies that highlight the positive impact of microfinance on SMEs' financial performance and profitability, though it contrasts with some research suggesting that microfinance loans may, in certain contexts, hinder growth.

The overall performance of SMEs in Osun State was shown to be heavily dependent on the availability and accessibility of entrepreneurial financing. Microfinance loans, interest rates, and digital technology adoption were critical determinants of SMEs expansion. The study underscores the importance of well-structured, affordable, and technologically inclusive financing mechanisms. It further emphasizes that collaboration among policymakers, financial institutions, and SME operators is essential to foster sustainable growth and a vibrant SME sector in Osun State and across Nigeria.

Recommendation

The following recommendations are suggested, based on the findings and conclusions of this study

1. Micro Finance Institutions policy makers should review microfinance interest rates to make them more affordable for small businesses. This can be achieved through interest rate caps for SME-targeted loans, and the provision of subsidized credit lines by the Central Bank of Nigeria or government-backed refinancing schemes. These kind of measures will reduce the burden of high repayment costs and encourage SMEs to access formal financing.
2. Also, Micro Finance Institutions should design alternative collateral systems such as movable asset registries or group guarantees. This can be operationalized by adopting the National Collateral Registry already introduced by the Central Bank, training loan officers to

value non-fixed assets, and encouraging SMEs to form lending groups that share collective responsibility for repayment.

3. SMEs Operators should use loans for business activities that would enhance all-round business growth and sustainability such as expansion, equipment purchase, or market diversification, not just for daily expenses. This can be achieved by the SME operators if priority is rightly set, and also if the required financial literacy is acquired through proper mentorship scheme, workshops and any other available medium of knowledge.

Limitations of the Study

This research focuses on three independent Variables (Microfinance loans, lending rates, and digital technology) and its effect on SMEs performance, so other possible factors influencing SME performance were not included. And also, the data were based on self-reports and self-opinion, which can be affected by personal perceptions. Also

Suggestions for Further Studies

The influence of entrepreneurial financing on the performance of Small and Medium Enterprises (SMEs) was empirically examined in this study. Future research could investigate this subject across other states or geopolitical zones in Nigeria.

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