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Financial Accessibility And Small And Medium Enterprises Performance: Empirical Evidence From Sokoto And Zamfara States, Nigeria

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ABSTRACT
This study examines the effect of financial accessibility on performance of small and medium enterprises (SMEs) in Sokoto and Zamfara States. The study employed a cross-sectional research design with a sample size of 450 SMEs which was determined using the Yamane formula. Data were collected from SME Owners/Managers across different sectors in Sokoto and Zamfara States through structured questionnaire. Partial Least Square Structural Equation Modeling (PLS-SEM) was used to analyse the data and test the study's hypothesis. Findings from the analysis revealed that financial accessibility plays a vital role in enabling SMEs to invest in enterprise capacities and innovations, which in turn enhances performance. The study recommends increased funding and enhanced financial access for SMEs through deliberate and targeted interventions by development finance institutions (DFIs), microfinance institutions (MFIs) and other relevant stakeholders or development partners. Banks and MFIs should design customized loan packages that align with SME cash flow patterns and sector-specific needs and reduce bureaucratic bottlenecks, collateral requirements and documentation barriers that discourage SMEs from accessing finance.
Keywords: Finance, Financial Accessibility, Small and Medium Enterprises, SMEs Performance

INTRODUCTION

Small and Medium Enterprises (SMEs) constitute a critical component of economic development in both developed and developing economies. In Nigeria, SMEs serve as catalysts for job creation, poverty reduction, innovation, and industrial growth. They account for a significant proportion of business activities and contribute substantially to Gross Domestic Product (NBS, 2023). Despite their strategic importance, the performance of SMEs in Nigeria remains constrained by numerous challenges, among which limited financial accessibility stands out as one of the most persistent. In Nigeria, access to finance

remains a major obstacle for SMEs, despite numerous policy interventions and financial inclusion initiatives introduced by the government and regulatory authorities (SMEDAN, 2021). Financial accessibility refers to the ease with which enterprises can obtain and utilize financial services such as loans, credit facilities, and other financial instruments from formal and informal financial institutions. It plays a pivotal role in enhancing enterprise productivity, expansion capacity, and overall competitiveness. Mohammed et al. (2025) opined that improved access to finance significantly impacts SME performance by enabling investment in technology, human capital, and operational efficiency, accounting for a substantial proportion of performance variation.

However, many SMEs in Nigeria, particularly in less economically developed regions such as Sokoto and Zamfara States, North-west, Nigeria continue to face significant barriers in accessing finance. These obstacles include stringent collateral requirements, high interest rates, inadequate financial infrastructure, and low levels of financial literacy among entrepreneurs. Such constraints limit their ability to secure adequate funding needed for business expansion and innovation. One of the major impediments to SME performance in Sokoto and Zamfara States is limited access to finance, which stifles growth and investment in key areas (García-Pérez-de-Lema et al., 2021). A study by Malam et al. (2024) found that financial literacy and positive financial attitudes significantly enhance SME performance, while overconfidence in financial self-efficacy can be detrimental. The study also found that access to finance moderates the relationship between entrepreneurial awareness and SME performance in North-west Nigeria. Conversely, SMEs in Sokoto and Zamfara States are constrained in accessing finance due to stringent lending conditions, collateral challenges, and limited financial literacy. These barriers hinder their ability to invest in growth opportunities, adopt new technologies, and improve operational efficiency.

Several studies have examined the relationship between financial accessibility and SME performance in other regions of Nigeria and beyond, however, there is inadequate empirical evidence focusing specifically on the Northwestern region, particularly Sokoto and Zamfara States. This creates a context-specific knowledge gap which makes this study timely.

These contextual peculiarities create a challenging environment for SMEs in these States, thereby hindering their potential for growth and contributions to their local economies and by extension, the nation's GDP. It is against this backdrop that this study examines the effect of financial accessibility on the performance of small and medium enterprises in Sokoto and Zamfara States, Nigeria with respect to the null hypothesis developed: Financial accessibility has no significant effect on SME performance in Sokoto and Zamfara States.

LITERATURE REVIEW

Concept of Small and Medium Enterprises (SMEs)

According to Beck and Demirguc-Kunt (2021), SMEs are vital drivers of economic growth and innovation, defined conceptually as entities that combine operational flexibility, innovation potential and community-level economic integration. They foster local economic development by providing goods and services, stimulating competition, and driving innovation. Furthermore, SMEs are more adaptable and responsive to market changes compared to larger corporations, enabling them to meet the specific needs of local communities.

A close perspective is equally shared by Ayyagari et al. (2007) who described SMEs as firms with modest resource bases, strong local market share, and the ability to foster innovation despite structural constraints. They are organisations whose size allows for closer management-employee relationships and adaptability, easier feedback mechanism due to closer Owner/Manager-customer relationships allowing for niche market participation. Their flexibility, customer closeness, and ability to adapt to market changes make them vital in introducing new products, services and technologies.

SMEs are businesses with revenues, assets or a number of employees below a certain threshold which vary by country and institution but generally distinguished from large corporations by their relatively small size and market reach. According to El-Madani (2018), there is no single global definition of SMEs; however, most nations rely on quantitative benchmarks like number of employees or annual turnover

which are usually shaped by regional or national policy objectives. SMEDAN (2021) classified Small Enterprise as those with between 10 to 49 employees and N5million to N50million in assets; and Medium Enterprises as those with between 50 to 199 employees and N50million to N500million in assets. They are predominantly owner-managed, informal in structure, local focus, flexible and have limited access to capital. These enterprises play a vital role in economic development, contributing to job creation and innovation. SMEs are often seen as the backbone of many economies, particularly in developing regions, where they account for a large percentage of employment and entrepreneurial activities. However, SMEs are defined not only by size but also by their organisational characteristics such as owner-manager, lack of formalization, and limited market reach. These firms typically operate in local markets, have limited access to credit, and are more vulnerable to economic fluctuations (Ayyagari et al., 2007).

Concept of Small and Medium Enterprises Performance

Measuring SMEs' performance is challenging due to the diversity of business goals, differences in industry characteristics and limited data availability (Kaplan & Norton, 1996). Performance is a multifaceted concept that refers to the ability of an organization to achieve its objectives and goals effectively and efficiently. In a business context, performance encompasses various dimensions, including financial outcomes, operational efficiency, customer satisfaction, and market competitiveness. For SMEs, performance is particularly crucial as it directly influences their sustainability, growth, and contributions to the economy. In the context of SMEs, performance is often measured through several key indicators. Profitability is a primary measure of financial performance and reflects the ability of an SME to generate income relative to its expenses. According to Afriyie et al. (2019), SMEs' performance refers to the firm's output, measured through key indicators such as growth, profitability, innovation, and market expansion. These metrics collectively reflect an SME's ability to achieve its objectives, sustain operations, and adapt to changing market conditions, thereby contributing to overall economic development. The capacity for innovation, including the introduction of new products or improvement of existing services is critical for SMEs' survival and growth. Innovation can differentiate an SME from its competitors and enable it respond effectively to changing consumer demands. In a nut shell, SMEs' performance means the output measured in terms of growth, profitability, innovation, and market expansion. Indeed, profitability is essential for survival and growth, enabling SMEs to reinvest in their operations and innovate. Another important aspect is business growth, which can be quantified in terms of revenue increases, expansion into new markets, or the development of new products and services. Business growth indicates the enterprise's capacity to scale its operations and adapt to changing market conditions. According to Wiklund and Shepherd (2005), SME performance refers to the ability of small and medium enterprises to achieve desired outcomes in areas such as profitability, growth, market share, customer satisfaction, and operational efficiency. Additionally, SME performance can be defined in terms of its ability to penetrate new markets and increase its market share, enhancing competitiveness and leading to increased sales and brand recognition (Oladotun et al., 2024). Also, SMEs' performance can also be viewed from the lenses of operational efficiency in order to assess how well an SME utilizes its resources: human, financial, and technological to optimize processes and minimize costs. Enhanced operational efficiency contributes to better profitability and competitiveness. However, this study uses revenue growth as a key measure of SME performance. It simply means the increase in an enterprise's income over a given period of time expressed as a percentage over a base period It is the percentage increase in revenue (or sales) from one period to the other.

Financial Accessibility

According to Amadasun and Mutezo (2022), financial accessibility refers to how easily SMEs can obtain credit, loans or other financial services under fair terms, including factors like sufficiency, affordability and collateral requirements. It encompasses different dimensions such as the structure of financial institutions, interest rates, collateral demands and proximity to credit providers. For SMEs, it is pertinent to access finance under favourable and usable terms such as adequacy (sufficiency of the finance); affordability (fair interest rates, fees and management charges); timeliness (speed); geographic access (proximity to branches or availability of microfinance institutions); financial literacy to access finance;

collateral requirement or availability of government guarantee schemes; and inclusion in formal financial system.

Also, Beck and Demirgüç-Kunt (2021) defined financial accessibility or access to finance as the ease with which SMEs can obtain affordable and usable financial products. This encompasses the availability, affordability and suitability of various financing options, including loans, grants, and venture capital, among others that meet the specific needs of SMEs. Effective access to finance is crucial for enabling these enterprises to invest, grow, and innovate, thereby contributing to overall economic development and sustainability. Greater financial accessibility enhances financial inclusion, enabling marginalized populations to participate in economic activities. There are greater access in urban than rural areas where physical distance to banking institutions, lack of infrastructure, and low population density hinder financial service delivery.

According to Chowdhury and Alam. (2017), financial accessibility refers to the ability of SMEs to obtain loans or credit from formal financial institutions. Factors influencing that ability include interest rates, documentation requirements, and existence of institutional funds. This concept is particularly crucial for SMEs, which often require funding for capital investments, operational expenses, and innovation. Financial accessibility encompasses various forms of finance, including loans, grants, equity financing, and microfinance. For SMEs, access to finance can significantly impact performance and sustainability. However, many SMEs face barriers such as stringent lending criteria, lack of collateral and insufficient credit history, which can hinder their ability to secure funding (Mohammed et al., 2025). Additionally, financial literacy plays a vital role; entrepreneurs who lack knowledge about available financial products may struggle to navigate the funding landscape effectively.

Improving access to finance is essential for fostering entrepreneurship and economic growth. Financial institutions and governments can enhance financial accessibility by developing tailored products that meet the unique needs of SMEs. This includes offering lower interest rates, flexible repayment terms, and simplified application processes. Moreover, initiatives such as financial education programs empower entrepreneurs to make informed financial decisions.

Review of Empirical Studies

Access to financial resources is a critical determinant of performance of Small and Medium Enterprises (SMEs). Extant literature highlights the significance of financial access in enhancing the operational capabilities and growth potential of SMEs.

In the context of Iraq, Harash et al. (2014) examined the challenges faced by SMEs in accessing necessary financing. Despite the willingness of financial institutions to provide funds, many SMEs cannot meet the collateral requirements. The study emphasizes the need for promoting a more supportive environment for entrepreneurs, including policy reforms that facilitate access to finance. However, the study is limited by its focus on Iraqi SMEs and the findings may not apply universally to SMEs in other contexts. Furthermore, SMEs performance was measured in financial terms, thereby overlooking other dimensions of performance, which this study addresses.

Chowdhury and Alam (2017) examined the factors affecting access to finance of small and medium enterprises (SMEs) of Bangladesh with a view to addressing the impediments of obtaining finance from financial institutions. Data were collected from a sample of 86 SMEs through direct interview for self-guidance with the help of questionnaire to investigate the problem and give policy recommendations. Both primary and secondary data were used. Findings revealed that the size and age of enterprises, education and skills of the owners and unfavourable credit terms such as high interest rates, lack of collateral security, corruption by bank officials, among others are some of the biggest hurdles that SMEs in Bangladesh face in getting loans from financial institutions. The study recommends strengthening SMEs' access to finance for their expansion and growth. However, the study was carried out in one city with a small sample size which limits the generalizability of its findings. As such, there is need for further studies in other countries like Nigeria and with ample sample size for wider generalizability of result, hence this study.

In a related context, Motta and Sharma (2019) investigate the unique financing challenges faced by SMEs in the hospitality industry in Brazil. The study highlights the role of information asymmetries between

borrowers and lenders, which often leads to credit rationing. By analyzing firm-level data, the study explore how lending technologies, such as fixed asset lending and financial statement lending, can mitigate these asymmetries. Their findings indicate that fixed asset lending is the preferred method for improving access to financing, demonstrating the importance of tailored lending technologies in enhancing the financial viability of hospitality SMEs. The relationship between financial access and technology is crucial for improving SMEs' performance. The study also indicate that SMEs with better access to finance can invest in technology, enhancing their operational efficiency and competitive edge. For instance, the findings suggest that SMEs that invest in technology are more likely to succeed. However, without adequate financial resources, many SMEs cannot make these essential investments. Since the study was conducted in Brazil and the findings may not be applicable in this part, hence the need for this study to address this context specific gap.

Lontchi et al. (2023) further examine the mediating effect of financial literacy on the relationship between FinTech and SMEs' performance during the COVID-19 recovery in Cameroon. The study with a sample size of 381 SMEs from Yaoundé and Douala, employs PLS-SEM to test its hypotheses. Findings indicate a positive and significant relationship between FinTech and financial literacy, as well as between FinTech and SME performance. Financial literacy is identified as a crucial mechanism through which FinTech services enhance operational and financial performance, highlighting the importance of financial education in maximizing the benefits of technological innovations.

In terms of funding strategies, Sawitri (2023) provide insights into the funding challenges faced by SMEs and promotes inclusive funding approaches. While SMEs play a significant role in African economies, they often struggle to access formal financial services, leading to a reliance on informal finance. The study recommends building a regulatory framework to enhance linkages between formal and informal sectors and leveraging financial technology to improve financial access. It emphasizes the importance of financial inclusion and effective risk management in supporting the growth of SMEs.

Johnson and Lee (2024) examined the impact of digital financial services on SMEs' performance. The study surveyed 300 SMEs utilizing digital platforms for financing, indicating that businesses leveraging digital loans and crowd funding experienced faster growth than those relying on traditional financing methods. The study highlighted the role of technology in overcoming geographical barriers to financial access, allowing SMEs in rural areas to tap into broader markets. The study maintained that digital financial services not only offer convenience but also lower transaction costs, enabling SMEs to allocate more resources toward strategic initiatives rather than financing logistics. However, the findings cannot be generalized especially for the rural communities that lack the digital infrastructure. This localized study is context-specific for areas with distinct peculiarities like thse of Sokoto and Zamfara States, Nigeria.

A longitudinal study by Thompson and Garcia (2025) explored the effect of government policies on SMEs' financial access and performance. Analyzing data from 1,000 SMEs over five years, and found that supportive government initiatives such as grants and low-interest loans significantly enhance financial access for SMEs and that those that benefited from these policies showed remarkable improvements in growth rates compared to those without access to such support. The study concluded that a conducive policy environment is essential for fostering financial inclusivity, which in turn boosts SME performance.

A meta-analysis conducted by Patel et al. (2025) synthesized findings from various studies on financial access and SME performance. The analysis revealed a consistent positive correlation between financial access and various performance indicators, including innovation capacity, market expansion, and employment generation. The study identified key factors influencing this relationship, such as financial literacy and the quality of financial services available to SMEs and that enhancing financial literacy among SMEs' owners could further amplify the positive impacts of financial access on performance.

Theoretical Foundation of the Study

Various theories exist that also address factors influencing SMEs performance, however, this study is grounded on Resource-Based View and Financial Intermediation theory.

The Resource-Based View posits that a firm's unique resources and capabilities are essential in attaining and sustaining competitive advantage (Barney, 1991). In the context of SMEs, financial access serves as a critical resource that enables businesses to acquire necessary assets, such as advanced technology, skilled labour, and innovative processes. This theory suggests that SMEs with better financial access can invest in resources that enhance operational efficiency, product quality, and innovation capabilities. It often focuses on existing resources and may neglect the dynamic capabilities required to adapt to changing environments, leading to a static view of competitive advantage. Also, it may not adequately address the role of innovation and entrepreneurship in resource creation, potentially overlooking key drivers of competitive advantage. Financial access provides SMEs with the means to invest in various resources that are vital for their growth. For instance, funding can be used to purchase new technologies, hire skilled personnel, or improve production processes.

Financial intermediaries play a crucial role in bridging the gap between SMEs and potential investors as SMEs often struggle to obtain funding due to their small size, limited collateral, or inadequate credit history. In the context of SMEs, this theory supports the variable ”financial accessibility”, suggesting that the extent to which SMEs can access financial resources through banks, microfinance institutions, or cooperative societies significantly influences their performance, productivity, and sustainability. Financial intermediaries help bridge this gap by assessing SMEs' creditworthiness and providing tailored financing options like loans, microcredits, credit guarantees and leasing facilities. They can help mitigate risks associated with lending by pooling resources and providing tailored financial products. Indeed, access to finance through intermediaries allows SMEs to pursue growth opportunities that may otherwise be impossible.

RESEARCH METHODOLOGY

Research Design

This study adopts a survey research design through the use of questionnaire as the instrument of data collection. The survey strategy was selected for its suitability in collecting standardized information from a relatively large population, allowing for comparisons and statistical generalizations. In line with this strategy, a quantitative research approach was adopted. This approach supports the collection and statistical analysis of numerical data to uncover relationships among variables. The unit of analysis for this study is the individual SMEs in Sokoto and Zamfara States while data regarding the organizational-level variable (financial access) is collected from SMEs' Owners/Managers who are the respondents.

The population of the study is made up of 22,473 registered SMEs operating across Sokoto and Zamfara States (Sokoto State Small and Medium Enterprises Development Agency, 2025; Zamfara State Ministry of Commerce and Industry, 2005) and sample of 450 respondents were drawn using the Yamane formula. These individuals were purposively targeted because they possess direct knowledge of the financial dynamics of their enterprises. As key decision-makers, their responses provide reliable and insightful data regarding the factors influencing SME performance within the local business context. The study used primary data obtained from developing a structured questionnaire.

The study employed both descriptive and inferential statistical tools to analyze the data that were collected for the study. The study made use of descriptive statistics (such as mean, median, standard deviation, minimum, maximum and total count values) to ascertain the general characteristics of data collected for the study. The study also adopted a multiple regression tool of Partial Least Square Structural Equation Modeling (PLS-SEM) to analyse the due to its appropriateness.

Table 3.1 Variables Definition and Measurement

Variable	Definition	Indicators/Items	Measurement Scale	Source
Access to Finance	Degree to which SMEs can obtain affordable and timely financing.	Loan access, collateral, interest rates, delays, &alternative sources	5 items	Olayemi, 2021; Adewole & Umoru, 2021
SME Performance	The extent to which SMEs achieve business goals and growth.	Profitability, sales growth, operational efficiency, market share, &customer satisfaction	5 items	Eniola & Ektebang, 2014; Ogundare, 2019; Olayemi, 2021; Adewole & Umoru, 2021

Model Specification

The conceptual model empirically tests hypothesis derived from the aforementioned theoretical frameworks. The interaction among the independent variable (financial acessibility) and SME performance forms the analytical structure of the study. The model is adapted from the work of Malam et al. (2024). The functional equation for the model can be expressed as follows:

SMESP= f(FAC)…….……. (1)

Where; *"Y"* represents the dependent variable (SMEs performance) and X represents the independent variable (financial accessibility).

RESULTS

Table 4.1 Results of the Convergent Validity Test

Constructs	**Indicators**	**Outer Loadings**	**Cronbach's Alpha**	**Composite Reliability**	**Average Variance Extracted (AVE)**
Access to Finance	AF	0.78	0.79	0.86	0.54
SMEs Performance	SP1	0.78	0.82	0.88	0.59

Source: Smart-PLS 4 Output

Table 4.1 presents the findings from the convergent validity assessment. The results indicate that convergent validity is established, as the average factor loading for all constructs exceeds 0.5. Convergent validity is used to determine whether the indicators of a construct are well-correlated and collectively measure the underlying construct. The Average Variance Extracted (AVE) is used to assess convergent validity, with a threshold of 0.50 or higher indicating that at least 50% of the variance in the items is explained by the construct (Fornell & Larcker, 1981). All constructs listed in Table 4.1 have AVE values exceeding the 0.50 threshold, confirming adequate convergent validity. Their Cronbach's Alpha is 0.79 and 0.82, and Composite Reliability is 0.86 and 0.88, reflecting strong internal consistency among the performance indicators. The AVE for SMEs' Performance is 0.54 and 0.58, indicating that more than 50% of the variances in the indicators are explained by the constructs, confirming that the items are well-correlated and adequately measure SMEs' performance.

Table 4.2 Measures and Threshold Values for Assessment of Inner Model

Assessment Measure	**Measure**	**Threshold value**
Path Coefficient	T-value	1.96 ($p < 0.05$)
Coefficient of Determination	R^2	0.19 (weak), 0.33 (mediocre), 0.67 (good)
Effect Size	F^2	0.02(weak), 0.15(moderate) and 0.35(strong)
Predictive Relevance	Q^2	0.02 (small), 0.15 (medium), 0.35 (strong)
Source: Smart-PLS 4 Output		

Table 4.2 displays the results of the measures and threshold values for assessing the inner model regarding the effect of financial accessibility on SME performance in Sokoto and Zamfara States, Nigeria. The key considerations for this assessment include path coefficient estimates, coefficient of determination (R^2 values), effect sizes (F^2), and predictive relevance (Q^2) (Hair et al., 2014).

Path Coefficient (T-value): A T-value exceeding 1.96 indicates a significant relationship between access to finance and SMEs' performance.

Effect Size (F^2): The effect size provides insight into the practical significance of the relationships. Weak, moderate, or strong effect sizes indicate varying levels of impact that financial access has on SMEs' performance. A strong effect size suggests that changes in financial access could lead to substantial changes in performance outcomes. Predictive Relevance (Q^2): A Q^2 value greater than 0 indicates that the model possesses predictive relevance for the data. This measure assesses the model's ability to predict real-world outcomes. A low Q^2 value might signal limited predictive capability, suggesting the need for more robust modeling approaches.

Table 4.3 Results of the Path Coefficient

Relationship	Coefficient	Standard Deviation	T Statistics	P Values
Access to Finance	0.29	0.05	7.60	0.00

Source: Smart-PLS 4 Output, 2025

Table 4.3 presents a detailed summary of the results from the hypothesis testing that examine the direct relationships between the independent variables (IV) and the performance of SMEs in Sokoto and Zamfara States (DV).

The relationship between Access to Finance and SME performance reveals a Beta value of 0.29. This indicates a moderate positive effect, suggesting that improved financial accessibility significantly enhances the performance of SMEs. The T-statistic of 7.60, which surpasses the critical value of 1.96, combined with a P-value of 0.00 (indicating statistical significance at the 5% level) confirms that this relationship is statistically significant; disproving the statement of the null hypothesis that financial accessibility does not significantly affect SMEs performance in Sokoto and Zamfara States, Nigeria.

DISCUSSION OF FINDINGS

The analysis reveals that access to finance is a significant factor affecting the performance of SMEs. The results indicate a moderate positive relationship between financial accessibility and SME performance, highlighting the crucial role that financial resources play in fostering business growth and success. Access to finance enables SMEs to make essential investments in new technologies, expand their operations, and manage working capital effectively. This finding is consistent with Sullivan (2020), who states that enhanced financial access correlates directly with increased innovation and competitiveness among SMEs.

However, limited access to finance remains a substantial barrier, particularly in developing economies. Fahad and Koshak (2022) highlight that financial constraints often lead to underinvestment in critical areas like innovation and human resource development, which can stifle overall growth and competitiveness. Their findings reinforce the notion that enhancing access to credit and financial services is vital for SMEs to thrive. Moreover, the importance of creating inclusive financing systems is echoed in the work of Meyer and Sinani (2021), who backer for collaborative efforts between financial institutions and governments to design policies that facilitate SMEs' access to credit. Such initiatives could include offering lower interest rates, collateral-free loans, and targeted financial literacy programmes. These measures are crucial for equipping SMEs with the resources needed to scale their operations and capitalize on market opportunities.

Conclusion

The study concludes that access to finance remains a decisive factor influencing SME performance in Sokoto and Zamfara States. Financial accessibility allows firms to invest in technological infrastructure,

expand operations, and strengthen human capital. Access to finance fosters innovation and competitiveness among SMEs.

RECOMMENDATIONS

In line with the findings, this study recommends that financial institutions in Sokoto and Zamfara States should develop innovative financial products that meet the unique needs of SMEs, including flexible repayment schedules and collateral-free credit facilities. The government should operationalize credit guarantee schemes and strengthen microfinance initiatives to enhance accessibility for SMEs. Banks and MFIs should design and customize loan packages that align with SME cash flow patterns with sector-specific needs, reduce bureaucratic bottlenecks, collateral requirements and documentation barriers that discourage SMEs from accessing finance.

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