IJBS®

The IUP Journal of

Business Strategy

Vol. 22 No. 1 (Quarterly) March 2025

Role of Informal Financing in Promoting SMEs in Nigeria 5-20
Sheriff Akanji Ibrahim, Lukman Adebayo-Oke Abdurauf, Yusuf Olamilekan Quadri and Aina Taiye John

Regional Impact of Covid-19 Pandemic on Fishery Supply Chain: Insights from Bangladesh 21-41
Prabal Barua and Sadika Sultana Chowdhury

Financial Performance of Public Non-Life Insurance Companies in India: An Evaluation Using CARAMEL Model 42-64
Srinivasa H T and K Venkidasamy

Impact of Strategic Orientation on Firm Performance with Respect to Small Agribusinesses 65-75
Uma Maheswari B, Kavitha D and Sujatha R

IUP Publications
(A Division of The ICFAI Society)
www.iupindia.in

EDITORIAL BOARD

EDITOR-IN-CHIEF

Sunny Bose
Associate Professor
Department of Marketing & Strategy IBS-Hyderabad
The ICFAI Foundation for Higher Education (IFHE)
(Declared as Deemed-to-be university u/s 3 of the UGC Act, 1956)
Dontanapalli, Hyderabad 501203, Telangana State, India
E-mail: sunny.bose@ibsindia.org

G Sridhar
Associate Professor (Marketing)
IIM Kozhikode, India
E-mail: drgsridhar@iimk.ac.in

Saptarshi Purkhayastha
Associate Professor, Strategic Management
IIM, Calcutta, India
E-mail: saptarshi@iimcal.ac.in

Raghunath S
Professor (Corporate Strategy and Policy)
IIM, Bangalore, India
E-mail: srnath@iimb.ac.in

Vipin Gupta
Associate Dean, Professor and Co-Director
Global Management Center, California State
University, San Bernadino, USA
E-mail: vgupta@csusb.edu; vipin.gupta@csusb.edu

Ravi Dasari
Vice-President and Group Head
HR, Jasper Industries
Hyderabad, India
E-mail: ravi.dasari@jasperindustries.com

EDITOR
P Venkateswarlu
E-mail: venkat@ibsindia.org

IJBS®

Vol. 22 No. 1 (Quarterly) March 2025

MANAGING EDITORS
GRK Murty
Ram Garikipati

EDITORIAL TEAM
Venkatesan Iyengar
Subha Dharmapuri
P Anjani Kumar
G Swarna
V Ramalakshmi

Send your feedback to
The Managing Editor
IUP Publications
(A Division of The ICFAI Society)
Plot No. 52, Nagarjuna Hills
Panjagutta, Hyderabad 500082
Telangana, India
E-mail: info@iupindia.in

Subscriptions
For subscriptions and related enquiries write to:
The Executive, Subscriptions
IUP Publications
(A Division of The ICFAI Society)
Plot No. 52, Nagarjuna Hills, Panjagutta
Hyderabad 500082, Telangana, India
Tel: +91 8498843633, +91 9052294946
E-mail: jms@iupindia.in; info@iupindia.in
Website: www.iupindia.in

Subscription Rates				
Period	Hard Copy			
	India (₹)		Overseas ($)	
	Price +	Courier Charges	By Post	By Courier
1 year	1000	150	50	55
2 years	1800	300	70	90
3 years	2600	500	110	130
4 years	3300	800	140	180
5 years	4000	900	160	200

Payment to be made by crossed Demand Draft drawn in favor of "ICFAI A/c IUP", Hyderabad. Online remittances can be made to HDFC Bank, Banjara Hills Branch, A/c. No. 50100446721450, "ICFAI A/c IUP", IFSC Code for NEFT: HDFC0000521.

ISSN (Print): 0972-9259

Initially published as *The Icfai Journal of Business Strategy* in 2004 and later in 2010 renamed as *The IUP Journal of Business Strategy*. It is a double-blind refereed journal published four times a year in March, June, September and December with editorial support from IFHE, Dontanapalli Village, Hyderabad.

Former Title	The ICFAI Journal of Business Strategy
Starting year of the Publication	2004, Vol. 1
Current Title & Starting year of the Publication	The IUP Journal of Business Strategy; 2010
Frequency	Quarterly
Subject	Competitive analysis & strategic management, Organizational leadership
Publication Format	Print
Language of publication	English
Journal Email Id	ijbustrgy@iupindia.in
Published by	IUP Publications (A Division of The ICFAI Society), Plot No. 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082, Telangana, India. Email: info@iupindia.in

© March 2025. All Rights Reserved.

- IJBS is a registered trademark.
- The views expressed in this publication are purely personal judgments of the authors and do not reflect the views of IUP The views expressed by authors represent their personal views and not necessarily the views of the organizations they represent.
- All efforts are made to ensure that the published information is correct. However, IUP is not responsible for any errors caused due to oversight or otherwise.
- IUP holds the copyright to all articles contributed to its publications.
- No part of this publication may be reproduced or copied in any form by any means without prior written permission.

Published by Dr. P. Venkateswarlu, Printed by Dr. P. Venkateswarlu on behalf of IUP Publications (A Division of The ICFAI Society). Printed at M/s. Sai Likhita Printers, 6-2-959/2, D.B. Hindi Prachara Sabha Complex, Khairatabad, Hyderabad 500004, Telangana State. Published from Plot No. 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082, Telangana State, India. Editor Dr. P. Venkateswarlu.

The IUP Journal of
Business Strategy

Vol. 22 No. 1 March 2025

Contents

Role of Informal Financing in Promoting SMEs in Nigeria 5-20
Sheriff Akanji Ibrahim, Lukman Adebayo-Oke Abdurauf, Yusuf Olamilekan Quadri and Aina Taiye John

Regional Impact of Covid-19 Pandemic on Fishery Supply Chain: Insights from Bangladesh 21-41
Prabal Barua and Sadika Sultana Chowdhury

Financial Performance of Public Non-Life Insurance Companies in India: An Evaluation Using CARAMEL Model 42-64
Srinivasa H T and K Venkidasamy

Impact of Strategic Orientation on Firm Performance with Respect to Small Agribusinesses 65-75
Uma Maheswari B, Kavitha D and Sujatha R

Role of Informal Financing in Promoting SMEs in Nigeria

Sheriff Akanji Ibrahim[1], Lukman Adebayo-Oke Abdurauf[2], Yusuf Olamilekan Quadri[3] and Aina Taiye John[4]

Small and medium enterprises (SMEs) are critical to Nigeria's economic development, contributing to employment generation, innovation and poverty alleviation. However, access to finance remains a major constraint for SMEs, limiting their ability to grow and sustain operations. The study examines the role of informal financing in promoting SME growth in Ilorin Metropolis, Kwara State, Nigeria, focusing on the extent to which SMEs rely on informal financial sources and the impact of such financing on business performance. The study employs a quantitative research approach, using survey questionnaires to collect data from SME owners and managers. A multiple linear regression model was employed. The results established that informal financing positively impacts SME growth, with personal savings having the strongest influence, followed by family and friends and cooperative societies. Based on these findings, the study recommends policy interventions to improve SME access to financing, including reforming microfinance loan structures, strengthening cooperative societies, implementing financial literacy programs, and introducing government-backed credit facilities tailored to SME needs. Additionally, integrating informal financing models into the formal financial system could bridge the gap between SMEs and structured financial products, enhancing business sustainability.

Keywords: JEL Classifications: E2, G2, M2, R1

Author Copy

Introduction

In Nigeria, like in many developing economies, there exist two different financial systems—one includes formal or official financial institutions, such as commercial banks, insurance providers, and mortgage banks, which are governed directly by the government; the other is informal financial institution that is not directly governed by the government. Examples of these include local bankers, cooperative societies, thrift and lending societies and money lenders (Yusuf, 2020).

[1] Lecturer, Department of Accounting and Finance, Kwara State University, Malete, Nigeria; and is the corresponding author. E-mail: Sheffygold001@gmail.com

[2] Senior Lecturer, Department of Accounting and Finance, Kwara State University, Malete, Nigeria. E-mail: okelukman2003@yahoo.com

[3] Lecturer, Department of Accounting and Finance, Kwara State University, Malete, Nigeria. E-mail: Quadriyusuf@gmail.com

[4] Lecturer, Department of Accounting and Finance, Kwara State University, Malete, Nigeria. E-mail: ainataiye12@gmail.com

DOI: 10.71329/IUPJBS/2025.22.1.5-20 © 2025 IUP. All Rights Reserved.

The formal financial sector's statutory dominance since independence has been based on the idea that it will boost economic growth and accelerate the growth of small and medium-sized businesses in Nigeria, encouraging investment and savings, expanding credit options, and reducing poverty (Yusuf, 2020). However, Ifediora (2022) noted that formal financial institutions have fallen well short of these expectations, making life more difficult for Nigerians through exorbitant interest rates, poor customer service and strict credit requirements, consequently informing the alternation of informal financial institutions to cushion the effects of formal financial institutions on small and medium-scale enterprises' growth in Nigeria.

The growth and performance of any business, including small and medium-sized ones, depend on finance. This is due to the fact that financing is required for a variety of commercial operations, ranging from acquisition of assets and raw materials to payment of wages and for other essential services. Thus, the primary goal of governments and policymakers in emerging nations like Nigeria is to provide a framework that ensures sufficient funding for business survival (Susan & Obamuyi, 2023).

Small and medium enterprises (SMEs) are crucial for emerging economies because they are responsible for driving innovation and competition. In India, SMEs account for about 39% of manufacturing output and 33% of total exports (Yusuf, 2020). They also generate foreign revenues, open up job opportunities and support economic expansion (Owenvbiugie & Igbinedion, 2023). CBN (2021) asserted that SMEs possess great potential for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries.

Evidence has shown that SMEs in Nigeria have underperformed and have not made significant contributions to the nation's economic growth and development. Many studies like Nelson et al. (2020), Yusuf (2020) and Zirra & Charles (2023) asserted that the contributions of SMEs to the growth of the Nigerian economy have not been felt strongly because most SMEs in Nigeria do not reach the growth stage of their life cycle due to a lack of access to finance. The focus of SMEs is however continuously shifting from formal financial institutions to informal institutions in recent years, despite the fact that these institutions are traditionally expected to provide funding for the expansion of small and medium-sized businesses (Owenvbiugie & Igbinedion, 2023). This study sought to provide knowledge on the influence of informal financing as an alternative funding source on SMEs' growth and survival.

The study specifically examines how informal financing options such as cooperatives, trade credit, personal servings, contributions from relations and friends, money lenders, etc. contribute to the growth of SMEs. It also ascertains the major factors responsible for SMEs' poor access to finance in the study area.

Literature Review

Informal Finance

As opposed to traditional formal financial and credit institutions, informal finance comprises individuals, groups and associations that mobilize local funds, for the purpose of granting

Author Copy

credits, primarily in cash and on varied principles. In the informal finance credit administration process, less paperwork is involved. Informal sources offer financial support to small business owners with or without requiring significant collateral security; instead, they may rely on word-of-mouth or a straightforward agreement (Soyemi, 2020).

The World Bank (2019) noted that informal financial intermediation is characterized by indigenous, more loosely organized, monitored and regulated system, compared to the formal financial system. The World Bank however pointed out that they are well organized with their peculiar set of norms and discipline, even in the face of informal oversight. Due to the formal financial organization's incapacity to supply the necessary cash for SMEs to function efficiently, informal finance has grown, particularly among small and medium-sized business owners. Constructive informal finance and underground finance are the two categories of informal finance used by households and corporate entities (Susan & Obamuyi, 2023; Demurgic-Kunt & Maksicmovic, 2023).

Constructive informal financing involves transactions that derive their information and enforcement technology from business or social relationships; falling under this category of informal finance are trade credit and borrowing from family and friends (Rajan, 2023). Underground informal finance involves transactions that lack information or information advantage, and relies on a network in a loose sense. This type of finance is used only for speculative activities and usually entails a high rate of interest and forcible collection of debt (Susan & Obamuyi, 2023).

Susan and Obamuyi (2023) highlighted the following as some informal sources of finance:

i. Personal Savings
ii. Relatives' and Friends' Contribution
iii. Rotating Savings (Esusu)
iv. Trade Credit
v. Cooperative Society
vi. Money Lenders

Author Copy

SMEs

According to CBN communiqué No. 69 from the Special Monetary Policy Committee meeting on April 15, 2023, it was acknowledged that there is no generally recognized definition of SMEs. Regarding variations in capital expenditure, workforce size, sales turnover, fixed capital investment, available equipment and plant, market share and degree of development, different literatures hold varying opinions (Ifediora, 2022). Small and medium-sized businesses are characterized by their staff count and turnover in nations such as the US, the UK, and other European nations. In Nigeria, SMEs are defined and categorized based on the number of employees, turnover and capital employed. However, businesses with an asset base (excluding land) between ₦5 mn and ₦500 mn, and it employing between 11 and 300 people are considered to belong to SME sub-sector, according to the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS).

Theoretical Underpinning and Financial Intermediation Theory

The Financial Intermediation Theory (Gurley & Shaw, 1960) and the Microfinance Theory serve as the main theoretical pillars for this study. These theories offer the fundamental framework for comprehending the functioning of informal financial systems and their possible contribution to SME growth. Financial institutions serve as middlemen between savers and borrowers, according to the Financial Intermediation Theory, which makes it easier for the economy to effectively allocate. Both formal and informal financial systems are covered by this idea (Okoye, 2023). This theory supports the notion that underserved economic segments by traditional financial institutions can obtain financial services through informal financial systems such as savings groups and informal money lenders, among others.

This access to financial services, such as credit and savings, can in turn empower individuals to engage in income-generating activities, invest in education or health, and better manage financial risks—all of which can contribute to poverty reduction (Tafamel, 2019). Microfinance Theory provides a more specific theoretical basis for understanding how one particular type of informal financial system, microfinance, can help promote small-scale enterprises, improve household income, and promote economic growth (Soyemi, 2020).

Author Copy

Empirical Review

Oteniya et al. (2021) examined the role of trade credit as an alternative financing model for SMEs in Nigeria. The study surveyed 500 SMEs to determine how trade credit arrangements influence SME performance. The findings revealed that over 70% of SMEs relied on trade credit to maintain liquidity and sustain operations, but suppliers often limited credit extension due to default risks and delayed payments from SMEs. This highlights the challenges associated with trade credit and the need for stronger enforcement mechanisms to encourage responsible borrowing.

Oluwole and Oluwagbemigun (2021) analyzed the impact of cooperative credit, money lenders, and business angel funding on SME growth in Ondo State, Nigeria. The study was based on a field survey of SMEs operating in the region. The findings showed that cooperative credit and business angel funding positively influenced SME expansion, while money lenders negatively impacted business growth due to high interest rates and short repayment periods. This study emphasizes the importance of promoting cooperative societies as sustainable financing alternatives for SMEs.

Kadiri (2022) opined that only 25% of Nigerian SMEs successfully transitioned from informal to formal financial institutions due to collateral constraints, financial illiteracy, and banking bureaucracy. The study focused on factors that hinder SME growth and access to sustainable financing models. The findings showed that 75% of SMEs remained dependent on informal finance, which, while flexible, limited their ability to scale operations due to small loan sizes and a lack of structured financial planning. This study

underscores the need for policy interventions to facilitate SME integration into formal financial systems.

Odunjo et al. (2023) assessed how microcredit affected SMEs in Oyo State, Nigeria. According to the survey, 31% of respondents had access to microcredit, whereas more than two-thirds (69%) did not. Additionally, the study found that respondents without access to microcredit had a higher frequency of poverty than those who did. This implies that having access to microcredit lowers the prevalence of poverty.

According to Mungiru and Njeru (2023), strict lending terms and restrictions are the primary reason why conventional lending institutions are unable to meet the financial demands of smallholders. This stance was supported by the findings of their study on the impact of informal finance on the performance of SMEs in Kiambu County, which revealed that the sources of SME financing in the study area are trade credit, Shylock finance, family and friends, and self-help group financing. The study also found that while Shylock finance has a negative impact on SME performance, trade credit, family and friends and self-help group finance have a positive impact.

Ashamu (2023) investigated the performance of microfinance institutions with respect to SMEs in Lagos State. The results show that over the past three years, microfinance institutions' operations have expanded dramatically, primarily due to the growth of the informal sector, community banks' conversion to microfinance banks, and commercial banks' reluctance to invest in new microbusinesses.

Author Copy

Research Gap

A cursory look at the reviewed empirical literature revealed that most studies focused on the role of informal financing in promoting SMEs (Nelson et al., 2020; Zirra & Charles, 2023), leaving some gaps unfilled. Conceptually, it was observed that in measuring deposit mobilization, most studies used Esusu contribution, cooperatives and interest-free assistance from relatives but this study is improving on that by introducing personal savings, money lenders and trade credit, as it can assist in promoting SMEs in Nigeria. Theoretically, the extant literature review indicates that most studies on informal financing adopted theories, such as capital constraint model, Life-Cycle Theory, Pecking Order Theory and Agency Theory, as their theoretical framework. This study fills the theoretical gap between Financial Intermediate Theory and Financial Growth Theory concerning informal sources in financing SMEs in Nigeria.

Hypothesis Formulation

The following hypotheses were formulated:

H_1: *Personal savings has a significant positive impact on SME growth*

H_2: *Family and friends have a significant positive impact on SME growth*

H_3: *Cooperative societies have a significant positive impact on SME growth*

H_4: *Microfinance loans have a significant positive impact on SME growth*

H_5: *Trade credit has a significant positive impact on SME growth*

Data and Methodology

The study adopts a survey research design. A well-structured questionnaire (see Appendix) was used to gather primary data from SME owners, entrepreneurs, and managers across selected local government areas. The population of this study comprised small and medium-scale enterprises in Ilorin Metropolis, which includes, Ilorin West, Ilorin South Ilorin East and Asa local government areas.

A simple random sampling technique was employed to obtain information for the study. The sampling technique gives employees the same and known chances of being nominated. According to the National Bureau of Statistics (2021), the total number of SMEs in Ilorin Metropolis is 702.

Nine (9) respondents from each of the three categories were given the questionnaires as part of a pilot study to test data reliability. Cronbach's alpha coefficient was utilized to evaluate the internal consistency of the items in the study instrument. The purpose of this was to determine if the variables fell within a reasonable range (Bridget & Lewin, 2023). The coefficient, which was 0.861, was significantly higher than the suggested 0.6. The primary data for the study was gathered in January 2025.

Author Copy

Model Specification

The multiple linear regression model is expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

The functional equation is specified as;

$$Y = \beta_0 + \beta_1 SHG + \beta_2 FnF + \beta_3 TCL + \beta_4 MFL + \varepsilon$$

where

Y = SME growth

β_0 = Intercept (constant term)

X_1 = Self-Help Group Finance (SHG)

X_2 = Family and Friends Finance (FnF)

X_3 = Trade Credit Finance (TCF)

X_4 = Microfinance Loans (MFL)

ε = Error Term (random variation not explained by the model)

Each β coefficient represents the estimated effect of each informal financing type on SME performance. A positive β coefficient indicates that an increase in the financing source contributes positively to SME growth, while a negative coefficient suggests an adverse impact.

Results and Discussion

Sources of Informal Financing

Table 1 provides insights into the various sources of informal financing utilized by SMEs in Nigeria, highlighting their frequencies and percentages, along with their implications for SME growth and sustainability.

Table 1: Sources of Informal Financing

Source of Informal Financing	Frequency	Percentage (%)
Personal Savings	120	80
Family and Friends	90	60
Cooperative Societies	75	50
Microfinance Loans	45	30
Trade Credit	60	40
Rotating Savings (Esusu)	30	20

Author Copy

Personal savings constitute the most widely used source of informal financing, chosen by 80% of the respondents. This indicates that a significant number of SME owners rely on their financial resources to start and sustain their businesses. Personal savings are often the first recourse for financing due to their accessibility and lack of external borrowing risks. Reliance on personal savings limits the scale of business operations and restricts expansion opportunities, especially when additional capital is needed to take advantage of new opportunities.

Family and friends contribute 60% of the informal financing accessed by SMEs. This source is highly accessible, with little to no formalities required. The informal nature of borrowing from family and friends often makes it a quick solution during periods of financial need. The reliance on personal networks can lead to challenges when expectations or repayment obligations strain personal relationships, potentially impacting the long-term viability of this financing method.

Cooperative societies represent 50% of respondents. Cooperative societies provide SMEs with a structured and collective mechanism for accessing funds without the stringent requirements of formal financial institutions. They foster trust and mutual support among members, enabling SMEs to meet short-term and medium-term financial needs. The limited funding pool within cooperatives can constrain their ability to support larger or more capital-intensive projects.

Microfinance loans account for 30% of the informal financing utilized by SMEs. Although microfinance institutions are increasingly recognized as critical players in SME financing, their relatively low uptake reflects ongoing challenges such as high interest rates, limited outreach in rural areas, and stringent repayment conditions. Despite these barriers, microfinance institutions offer significant potential to support SME growth by providing access to credit for entrepreneurs excluded from traditional banking systems.

Trade credit, which also represents 40% of the respondents, serves as an important source of financing, especially for SMEs in the trade and retail sectors. Trade credit allows businesses to purchase goods and services on credit, enabling them to manage cash flow more effectively and sustain operations without immediate financial outlay. Inconsistent repayment patterns and limited access to trusted suppliers can hinder the effectiveness of this financing source.

Rotating savings (Esusu) as a source of informal financing highlights its importance in supporting SMEs, particularly in communities where formal financial systems are inaccessible or overly restrictive. Based on the data, Esusu accounts for 20% of the financing sources utilized by SMEs in the study area. This positions Esusu as a significant contributor to the informal financial ecosystem, reflecting its accessibility, flexibility, and cultural relevance.

Esusu, also known as rotating savings and credit association, operates on the principle of group contributions, where members pool resources and take turns accessing the funds. The high uptake of this financing model among SMEs is attributed to its simplicity, trust-based structure, and lack of stringent requirements such as collateral or formal documentation. For SMEs, Esusu provides a reliable means of addressing short-term financial needs, such as purchasing inventory, covering operational costs, or responding to emergencies. The reliance on Esusu also has limitations. Since the pooled funds are finite and distributed sequentially, members must wait for their turn to access the contributions, which can delay financing during urgent situations. Additionally, the sustainability of the Esusu model depends heavily on the commitment and financial discipline of its members; disruptions, such as member defaults or withdrawals, can compromise the group's operations. Furthermore, the amount of funds available through Esusu is often small and may not be sufficient to support large-scale business expansion or capital-intensive projects.

Author Copy

Table 2 outlines the major challenges SMEs face when relying on informal financing, viz., high interest rates, lack of collateral, limited access to information, and short repayment periods. These challenges, alongside their frequencies and percentages, provide insights into how they affect SME operations and financial sustainability.

Table 2: Challenges Faced by SMEs in Accessing Informal Financing

Challenge	Frequency	Percentage (%)
High Interest Rates	90	60
Lack of Collateral	75	50
Limited Access to Information	60	40
Short Repayment Periods	45	30

High interest rates were the most frequently reported, affecting 60% of respondents. Many SMEs rely on informal lenders, microfinance institutions, or money lenders, who often

impose significantly higher interest rates compared to formal banking institutions. These financing sources are more accessible; the high cost of borrowing reduces profit margins, increases financial pressure, and discourages long-term investments. SMEs facing high interest rates often struggle to reinvest in their businesses, leading to slow growth and limited expansion opportunities.

Lack of Collateral: Reported by 50% of respondents, informal financing mechanisms generally require trust-based lending. When collateral is needed, SME owners without sufficient assets are unable to access larger loans. This barrier particularly affects startups and small enterprises looking to scale, as they may not have the physical or financial assets required by lenders. The lack of collateral also forces many SMEs to rely on family savings, cooperative societies, or small-scale informal loans, which may not be sufficient for sustained business growth.

Limited Access to Information: This was highlighted by 40% of the respondents. Many SMEs lack awareness of available financing options, repayment structures, or strategies to optimize their access to funds. This lack of financial literacy often results in poor decision-making, unstructured borrowing habits, and increased vulnerability to predatory lending practices. Additionally, SMEs operating in rural or semi-urban areas face difficulties in obtaining information about financing opportunities, leaving them reliant on inefficient or exploitative funding sources.

Short Repayment: Periods were identified as a challenge by 30% of the respondents. Many informal financial arrangements require SMEs to repay loans within very tight timelines, sometimes within weeks or months. This repayment structure puts a strain on businesses that may not have immediate cash flow, leading to liquidity crises and financial instability. SMEs facing short repayment periods often struggle with maintaining operations, as they must divert working capital toward loan repayment rather than reinvestment.

Author Copy

The regression analysis conducted in this study evaluated the impact of various informal financing sources on SME growth. The results, presented in Table 3, provide key insights into how different informal financing mechanisms contribute to business performance. The analysis reveals that while some financing sources significantly enhance SME growth, others present challenges that may hinder long-term success.

Table 3: Regression Analysis

Variable	Coefficient (β)	Standard Error	*t*-Value	*p*-Value
Personal Savings	0.45	0.12	3.75	0.001
Family and Friends	0.30	0.10	3.00	0.003
Cooperative Societies	0.25	0.08	3.13	0.002
Microfinance Loans	–0.15	0.05	–3.00	0.003
Trade Credit	0.20	0.13	3.02	0.005
R-squared	0.6120			
Adj. *R*-squared	0.5851			

Personal savings exhibited the strongest positive impact on SME growth with a regression coefficient of $\beta = 0.45$ ($p < 0.05$). This indicates that self-financing plays a crucial role in driving business success. Many SME owners rely on personal savings in the early stages of their businesses, avoiding the constraints of external financing such as interest payments and collateral requirements. The positive impact of personal savings suggests that entrepreneurs with access to their funds are better positioned to invest in their businesses, manage operational costs efficiently, and pursue expansion opportunities without financial strain.

Family and friends demonstrated a significant positive effect on SME growth, with a regression coefficient of $\beta = 0.30$ ($p < 0.05$). This highlights the importance of informal social networks in supporting business development. Loans or financial assistance from family members and friends often come with low or no interest rates, reducing financial pressure on business owners. Family-based financing allows for flexible repayment arrangements, enabling SMEs to allocate funds toward growth initiatives rather than servicing expensive debt.

Cooperative societies contributed positively to SME growth, with a regression coefficient of $\beta = 0.25$ ($p < 0.05$). This finding underscores the role of community-based financing in facilitating business expansion. Cooperative societies provide SMEs with access to pooled financial resources, allowing them to secure loans with more flexible repayment structures compared to commercial banks. Since cooperatives operate on a mutual benefit system, they foster a sense of financial security and inclusivity among business owners, particularly those who struggle to access formal banking services.

Microfinance loans hurt SME growth, with a regression coefficient of $\beta = -0.15$ ($p < 0.05$). This suggests that contrary to expectations, microfinance institutions may not always be a favorable financing option for SMEs. The negative impact could be attributed to high interest rates, strict repayment terms, and limited loan sizes. Many SMEs that obtain microfinance loans may find themselves burdened by repayment schedules that do not align with their cash flow cycles, leading to financial distress rather than growth. This finding calls for a reassessment of microfinance policies to ensure that lending terms are better suited to the financial realities of SMEs.

Trade credit exhibited a moderate positive effect on SME growth, with a regression coefficient of $\beta = 0.20$ ($p < 0.05$). This finding indicates that supplier-based credit arrangements are valuable for SMEs, particularly in industries where businesses maintain strong relationships with suppliers. Trade credit allows businesses to acquire goods and services on credit, providing flexibility in cash flow management. Its moderate impact suggests that while trade credit can be beneficial, its effectiveness depends on the terms of the agreements and the reliability of suppliers in extending credit.

The *R*-squared value of 0.612 suggests that approximately 61.2% of the variations in SME performance can be explained by the informal financing sources included in the model, indicating that informal financing sources play a significant role in SME growth, but other external factors such as government policies, market competition, and macroeconomic conditions may account for the remaining 38.8% of unexplained variations. A highly adjusted

Author Copy

R-squared value of 0.585 further confirms that the model has strong explanatory power, even after adjusting for the number of independent variables.

Conclusion

The study found that informal financing remains a fundamental source of financial support for SMEs. The study found that personal savings, family and friends, and cooperative societies are the most effective informal financing sources, positively impacting SME performance. These findings reinforce the notion that community-based financing mechanisms provide a more flexible, accessible, and entrepreneur-friendly alternative to traditional banking services.

However, despite the importance of informal financing, the study revealed significant challenges that hinder SME access to financial resources, including high interest rates, lack of collateral, limited access to information, and short repayment periods. These barriers limit SME growth and sustainability, emphasizing the need for financial sector reforms and government-backed interventions to improve the availability and accessibility of financing options for small businesses.

The study also highlighted a crucial gap between informal and formal financial systems, where SMEs struggle to transition from short-term, community-based financing models to structured, long-term financial products offered by banks and regulated lenders. Many SMEs remain financially excluded due to low credit scores, lack of business documentation, and weak financial literacy.

To enhance the effectiveness of informal financing for SMEs, this paper recommends that government and financial institutions should support cooperative societies with additional funding and capacity-building initiatives to expand their lending capacity and make credit more accessible.

SME owners should be provided with financial education programs on savings, debt management, and investment strategies to enhance their ability to secure and utilize funds effectively. To address the collateral challenges, policymakers should implement collateral-free loan schemes and SME development funds that offer favorable loan conditions.

A hybrid financial model, where informal financing sources (such as cooperative societies and trade credit) are integrated into formal financial systems, could ease the transition for SMEs seeking formal financing options. ✪

Author Copy

References

1. Ashamu, S. (2023). The performance of microfinance institutions in Lagos State: Implications for SME development. *Nigerian Journal of Business and Finance, 19*(2), 87–104.
2. Bridget, M., & Lewin, T. (2023). Research methodologies in social sciences. *International Journal of Qualitative Research*, *15*(1), 112–135.
3. Central Bank of Nigeria (2021), Annual Economic Report. Accessible on https://www.cbn.gov.ng/Out/2023/RSD/2021%20CBN%20ANNUAL%20ECONOMIC%20REPORT.a.pdf

4. Demurgic-Kunt, A., & Maksicmovic, M. (2023). Trade credit as an alternative source of SME financing in emerging economies. *Journal of Finance and Development*, *28*(1), 73–92.

5. Gurley, J. G., & Shaw, E. S. (1960). Money in a theory of finance. Washington: Brookings Institution.

6. Ifediora, O. (2022). Entrepreneurial financing scope of small and medium enterprises in southeastern Nigeria: Barriers and opportunities. *Journal of Developmental Economics*, *18*(2), 65–80.

7. Kadiri, J. (2022). SME Transition from informal to formal financing in Nigeria: Challenges and prospects. *Journal of African Economic Policy*, *16*(4), 210–230.

8. Ministry of Business and Innovation (2022). Business survey. Kwara state, Nigeria. https://kwarastate.gov.ng/ministry/ministry-of-business-innovation-and-technology/

9. Mungiru, J. W., & Njeru, A. (2015), Effects of informal finance on the performance of small and medium enterprises in kiambu county. *International Journal of Scientific and Research Publications*, *5*(11), 339–364.

10. Nelson, G., Paul, O. C., & Olumorin, M. O. (2020). Microfinance bank and growth of small and medium scale enterprises (SMEs) in Bida Metropolis of Niger State, Nigeria. *KIU Interdisciplinary Journal of Humanities and Social Sciences*, *1*(1), 1–15.

11. Odunjo, V. O., Osawe, W. O., and Okoruwa, V. O. (2023), *Journal of Sustainable Development Studies*. *11*(1), 69–93.

12. Okoye, B. (2023). Financial intermediation and the informal sector in Africa. *African Economic Review, 20*(3), 167–181.

13. Oluwole, F., & Oluwagbemigun, J. (2021). The impact of informal financial institutions on SME development in southwestern Nigeria. *Nigerian Journal of Business and Finance*, *17*(2).

14. Olusola, A. (2019). Informal finance options and SME growth in Ekiti State, Nigeria. *International Journal of Business and Social Research*, *9*(5), 112–129.

15. Oteniya, P. O., & Lawal Naheem A. (2021). Trade credit impact on small and medium enterprises in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, *9*(1), *85–96.*

16. Owenvbiugie, R., & Igbinedion, S. (2023). The role of informal financing in poverty alleviation among SMEs in Nigeria. *Journal of Entrepreneurship and Small Business*, *22*(1), 54–78.

17. Rajan, R. (2023). Trade credit as a tool for financial inclusion in developing economies. *Finance and Development*, *18*(2), 92–108.

Author Copy

18. SMEDAN (2021), National Survey of Micro Small & Medium Enterprises (MSMEs).

19. Soyemi, T. (2020). Microfinance theory and the informal economy. *Journal of Business and Economic Policy*, *11*(3), 130–149.

20. Susan, K., & Obamuyi, T. (2023). Sustainability of informal financing models in Nigeria's agricultural sector: A case for micro-lending networks. *African Journal of Sustainable Development*, *20*(3), 145–162.

21. Tafamel, E. (2019). The financial intermediation theory and SME performance: Evidence from West Africa. *International Journal of Financial Studies*, *7*(2), 90–110.

22. Yusuf, T. (2020). Formal vs. informal financing: The dual financial system in Nigeria. *Journal of African Economic Policy*, *18*(2), 200–220.

23. World Bank (2019). Informal financing and economic development: A global perspective. World Bank Policy Paper No. 237.

24. Zirra, C., & Charles, P. (2023). The role of informal financing in SMEs' growth: A Nigerian perspective. *Journal of Business Research*, *19*(4), 123–140.

Author Copy

Appendix

Questionnaire

SME Informal Financing Survey

Section A: Demographic Information

Gender

☐ Male ☐ Female

Age Group

☐ Below 25 years ☐ 25–35 years ☐ 36–45 years ☐ 46–60 years ☐ Above 60 years

Educational Qualification

☐ No formal education ☐ Primary education ☐ Secondary education
☐ Tertiary education

Business Sector

☐ Trade ☐ Agriculture ☐ Manufacturing ☐ Services

☐ Others (Specify) _____

Years of Business Operation

☐ Less than 1 year ☐ 1–5 years ☐ 6–10 years ☐ Above 10 years

Author Copy

Section B: Sources of SME Financing

What is your primary source of business financing? (Tick all that apply)

Years of Business Operation

☐ Less than 1 year ☐ 1–5 years ☐ 6–10 years
☐ Above 10 years ☐ Personal savings ☐ Family and friends
☐ Cooperative societies
☐ Trade credit ☐ Microfinance loans ☐ Money lenders
☐ Others (Specify) _____

Appendix (Cont.)

If you use personal savings, what percentage of your business capital comes from it?

☐ Below 20% ☐ 20-40% ☐ 41-60% ☐ Above 60%

If you use trade credit, how often do you receive credit from suppliers?

☐ Regularly ☐ Occasionally ☐ Rarely ☐ Never

Have you ever applied for a loan from a microfinance institution?

☐ Yes ☐ No (Skip to Question 11)

If yes, what was the outcome?

☐ Approved ☐ Rejected ☐ Still under review

Section C: Business Performance and Impact of Informal Financing

How would you rate the growth of your business in the past three years?

☐ No growth ☐ Moderate growth ☐ Significant growth

Has informal financing improved your ability to expand business operations?

☐ Yes ☐ No

How has informal financing impacted your business profitability?

☐ Increased profits ☐ No change ☐ Reduced profits

If you have accessed cooperative society financing, how would you describe its impact?

☐ Highly beneficial ☐ Moderately beneficial ☐ No impact ☐ Negative impact

To what extent do you rely on informal financing for daily business operations?

☐ Completely ☐ Partially ☐ Rarely ☐ Not at all

Section D: Challenges in Accessing Informal Financing

What are the major challenges you face in obtaining informal financing? (Tick all that apply)

☐ High interest rates ☐ Short repayment period ☐ Lack of collateral ☐ Limited financial information ☐ Unreliable lenders

Do high interest rates discourage you from borrowing from informal sources?

☐ Yes ☐ No

Have you ever been denied financing from an informal lender (e.g., microfinance bank, money lender, cooperative)?

☐ Yes ☐ No

Author Copy

Appendix (Cont.)

What improvements would you like to see in informal financing for SMEs?

☐ Lower interest rates ☐ Longer repayment periods ☐ Increased financial education

☐ More accessible loans

Would you consider transitioning from informal financing to formal bank loans if conditions were favorable?

☐ Yes ☐ No

Reference # 33J-2025-03-01-01

Author Copy

Form IV

1.	Place of publication	:	Hyderabad
2.	Periodicity of its publication	:	Quarterly
3.	Printer's Name	:	Dr. P. Venkateswarlu
	Nationality	:	Indian
	(a) Whether a citizen of India?	:	Yes
	Address	:	# 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082.
4.	Publisher's Name	:	Dr. P. Venkateswarlu
	Nationality	:	Indian
	(a) Whether a citizen of India?	:	Yes
	Address	:	# 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082.
5.	Editor's Name	:	Dr. P. Venkateswarlu
	Nationality	:	Indian
	(a) Whether a citizen of India?	:	Yes
	Address	:	# 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082.

6. Name and addresses of individuals who own the newspaper and holding more than one percent of the total capital – **IUP Publications (A Division of The ICFAI Society), # 52, Nagarjuna Hills, Panjagutta, Hyderabad 500082.**

I, Dr. P. Venkateswarlu, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Date
March 2025

Sd/-
Signature of Publisher

IUP Publications
(A Division of The ICFAI Society)
Plot No. 52, Nagarjuna Hills, Panjagutta
Hyderabad 500082, Telangana, India
Tel: +91 8498843633; +91 9052294946
E-mail: info@iupindia.in; Website: www.iupindia.in

The IUP Journal of Business Strategy **is included in**
EBSCO and ProQuest (Part of Clarivate) Database

