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SMALL AND MEDIUM-SCALE ENTERPRISE (SME) FINANCING AND RURAL DEVELOPMENT: CHALLENGES AND PROSPECTS IN EHIME MBANO, IMO STATE, NIGERIA

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ABSTRACT: The study examines the effects of small and medium-sized enterprise (SME) financing on rural development in Nigeria, including the challenges and prospects. The objectives were to determine the extent to which access to finance influences SME performance and their contribution to rural development and to assess the extent to which financial constraints, tax policy, and insecurity affect SME performance and their contribution to rural development. The study further seeks to determine the extent to which government financial and institutional support influences SME performance and their contribution to rural development. The population of the study comprises all SMEs in the Ehime Mbano Local Government Area of Imo State, Nigeria. A purposive technique was used to determine the sample size of fifty (50) SMEs. Primary data for this study were collected mainly using a structured questionnaire. The study used descriptive statistics, including the mean and standard deviation, and correlation analysis to test the hypotheses. Findings revealed that access to finance significantly influences SME performance and their contribution to rural development. Financial constraints, tax policy, insecurity, and government policy also affect SME performance in rural areas. Based on the findings, policymakers and stakeholders should recognise the significant contributions of rural SMEs to rural development and support them by developing policies that foster their growth. The government should also provide adequate support to rural SMEs, including financial assistance, training, and capacity-building programmes, to enhance their performance and contribute to the overall development of rural areas.

Keywords: SMEs, Rural Development, Entrepreneurs, Performance, Finance, Government Support.

INTRODUCTION

The economic development of any nation requires the growth and modernisation of both the rural and urban sectors (Ayanda, Adeyemi, & Aremu, 2011). Sustainable development of both rural and urban areas is crucial for achieving national development. Despite urbanisation trends, the majority of the population living in poverty will likely remain in rural areas. The rural sector plays a vital role in Nigeria's economy, contributing significantly to food production, the labour force, and population dynamics. According to Okoye and Igbokwe-Ibeto (2018), over 70% of the population living and working in rural areas depend on agriculture for food and income. In Nigeria, the rural sector occupies a central position with regard to food production, the labour force, and population

dynamics. The International Fund for Agricultural Development (IFAD) recognises rural entrepreneurs, in particular, and SMEs in general as key drivers of sustainable rural development. Hence, IFAD has launched initiatives in Africa to support rural communities in diversifying their income streams and generating employment opportunities (Lele & Baldwin, 2021). Rural areas often suffer from a lack of amenities and limited job opportunities, resulting in low income-earning and subsequent migration to urban areas. Many developing countries, including Nigeria, have established microcredit programmes that provide small loans to low-income individuals, enabling them to engage in self-employment activities, such as small and medium-scale enterprises.

Small and medium-scale enterprises are considered the engine of growth in many economies worldwide, where sustainable development can be achieved. Ihua (2009) noted that since the 1960s, SMEs have received due recognition, especially in developed nations, for playing critical roles in fostering accelerated economic growth, development, and stability across several economies. In many developing countries, including Nigeria, SMEs constitute a significant proportion of business establishments and provide livelihood opportunities for millions of people in rural communities. In Nigeria, SMEs account for 48% of the annual Gross Domestic Product, 98% of businesses, and 84% of employment (Onyinyechukwu, 2020). By promoting entrepreneurship, income generation, and local production, SMEs contribute substantially to rural development. Despite these contributions to national development, the sector in Nigeria faces diverse challenges, including inadequate funding, limited access to finance, insecurity, inadequate infrastructure, and multiple taxation, among others. According to a 2018 SMEDAN survey, about 65% of new SMEs in Nigeria fail in their early stages because of the challenges they face. A report by the Nigerian Ministry of Industry, Trade and Investment (NMITI) shows that over 37 million Micro, Small and Medium Scale Enterprises (MSMSE) in Nigeria account for more than 84% of the jobs in the country, yet the MSMSE sector in Nigeria is the most neglected, with little or no support from the government or financial institutions (Nwantok, 2018). Promoting such enterprises in Nigeria will bring about entrepreneurial development and serve as a key instrument in poverty reduction efforts (Taiwo, Falohun & Agwu, 2016).

SMEs contribute to rural development by providing jobs, income, and essential services, thereby enhancing the quality of life for rural residents. However, the growth and sustainability of rural SMEs largely depend on access to adequate and affordable finance. Many rural entrepreneurs face significant financing constraints arising from limited access to credit, high interest rates, inadequate collateral, and stringent lending requirements. These challenges are often compounded by unfavourable tax policies, inadequate government support, poor infrastructure, and insecurity, which hinder SMEs' operational efficiency and expansion (Agwu & Emeti, 2014). Many development agencies believe that rural development is a key strategy for poverty reduction in Nigeria. They recognise rural entrepreneurs and SMEs as primary drivers of sustainable development and support SMEs through various programmes, including increased incentive schemes and the provision of credit facilities, notably through institutions such as the Bank of Industry (BOI), the Development Bank, the Bank of Agriculture, Microfinance Bank, the Nigerian Export and Import Banks (NEXIM), the National Economic Reconstruction Fund (NERFUND), the Small and Medium Enterprise Agency Development of Nigeria (SMEDAN), and the Nigerian Industrial Development Bank (NIDB), among others. In addition, some credit allocation schemes supported by SMEDAN and the government have been established to improve SMEs. These efforts

appear not to be working, given the persistent underperformance of SMEs and their incessant exits from business (Akinwande & Akinola, 2021). Addressing these challenges is essential to enhancing SMEs' capacity to contribute effectively to rural development. Many researchers have explored the relationship between SME financing and rural development in various contexts. For instance, Manzoor, Wei, and Sahito (2021) examined this relationship in Pakistan, while Okoye and Igbokwe-Ibeto (2018) investigated the role of SMEs in rural development in Anambra State, Nigeria. However, despite the growing body of literature, there appears to be a knowledge gap regarding the specific context of Ehime Mbano. This study seeks to bridge this gap by examining SME financing and rural development in Ehime Mbano, with particular emphasis on how access to finance influences SME performance and their contribution to rural development. It also evaluates the effects of financial constraints, tax policy, insecurity, and government financial and institutional support on SME performance and their developmental contributions, while exploring the prospects for the growth and sustainability of SMEs in the region.

Statement of the Problem

Small and medium-scale enterprises (SMEs) play a vital role in promoting rural development by creating employment opportunities, reducing poverty, stimulating local economic activity, and improving the standard of living in rural communities (Saari, 2020). Despite their significant contributions, many SMEs operating in rural areas face persistent financing challenges that limit their ability to establish, expand, and sustain their businesses. Access to adequate and affordable finance remains a major obstacle for rural SMEs. Many entrepreneurs struggle to obtain loans from formal financial institutions because of inadequate collateral, high interest rates, limited financial records, and stringent lending requirements. Although governments and financial institutions have introduced various programmes aimed at improving access to finance for SMEs, especially those in rural areas, such policies include reducing the bank lending rate from 35% to between 20.5% and 22.5% and reducing the tariffs on raw materials and machinery to 5% and 2.5%, respectively; however, these programmes and incentive schemes have not been able to address the issues in small and medium-scale businesses as regards rural development in Nigeria (Osotimehin et al., 2012).

According to Igbokwe-Ibeto, Akhakpe, and Oteh (2012), poverty rates are escalating in rural areas, with many families struggling to afford basic sustenance. This has led to a surge in crime rates, including kidnapping, theft, child trafficking, and drug-related offences. The prevalence of crimes committed by unemployed or underemployed youth has reached alarming proportions (Muritala, Awolaja & Bako, 2012). SMEs that could contribute significantly to resolving this issue die within their first five years of existence; a smaller percentage go extinct between the sixth and tenth years, while some manage to survive for a few years. Only 5-10% of SMEs achieve long-term success, with the majority failing to reach maturity (Ayanda, Adeyemi, & Aremu, 2011). Consequently, the expected impact of SMEs on employment generation, income creation, and sustainable rural development has not been fully realised. Against this background, this study seeks to examine SME financing and rural development by assessing the extent to which SME financing contributes to rural development and investigating how financing constraints, tax policy, insecurity, and government support influence SME performance and their contribution to rural development.

Objectives of the study

The main objective of this study is to examine the relationship between SME financing and rural development. Specifically, the study seeks to:

1. To determine the extent to which access to finance influences the performance of SMEs and their contribution to rural development.
2. To determine the extent to which financial constraints, tax policy, and insecurity affect the performance of SMEs and their contribution to rural development.
3. To determine the extent to which government financial and institutional support influences SME performance and their contribution to rural development.

Research question

1. To what extent does access to finance influence the performance of SMEs and their contribution to rural development?
2. To what extent do financial constraints, tax policy, and insecurity affect the performance of SMEs and their contribution to rural development?
3. To what extent does government financial and institutional support influence SME performance and their contribution to rural development?

Hypotheses

$H0_1$: Access to finance does not significantly influence the performance of SME and their contribution to rural development.

$H0_2$: Financial constraints, tax policy, and insecurity do not have any significant effect on the performance of SMEs and their contribution to rural development.

$H0_3$: Government financial and institutional support does not significantly influence the performance of SMEs and their contribution to rural development.

LITERATURE REVIEW

Conceptual Review

In Nigeria, there is no definition that distinguishes small-scale enterprises from medium-scale enterprises (World Bank, 2021). The Central Bank of Nigeria, in its monetary policy, defined small-scale enterprises as those with an annual turnover not exceeding 500,000 naira (1,000 Euro). In the 1990 budget, the Federal Government of Nigeria defined small-scale enterprises based on commercial bank loans as those with an annual turnover not exceeding 500,000 naira and, for merchant bank loans, those with capital investments not exceeding two million naira (4,000 Euro) (excluding the cost of land) or a maximum of five million naira (9,000 Euro). Section 37b, subsection (2) of the Companies and Allied Matters Decree (CAMA) of 1990 defines a small

company as one with an annual turnover not exceeding two million naira (4,000 Euro) and a net value not exceeding one million naira (2,000 Euro). The National Council on Industry, at its 13th Council meeting held in July 2001, defined Micro, Small and Medium Enterprises (MSMEs) as an industry with a total cost of not more than N50 million (naira), equivalent to 100,000 Euro, not including the cost of land, and employing between 11 and 100 workers. The National Policy on Micro, Small and Medium Enterprises (MSMEs) provides a clear distinction of enterprises based on employment and assets. According to the policy, SMEs are organisations that can primarily be described by capital, scope, and cost of projects, annual turnover, financial strength, and number of employees, among other things. Such organisations must be registered under the basic requirements of the Companies and Allied Matters Act (CAMA) to do business in Nigeria (Abdullah, Jakade, & Kabir, 2015). The World Bank notes that SME definitions commonly rely on the number of employees, annual turnover, assets, or a combination of these indicators, with employee size being the most widely used criterion (World Bank, 2021). According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), small businesses are enterprises with an annual turnover of ₦25 million to ₦99 million and a workforce of 10–49 employees, while medium businesses have an annual turnover of over ₦100 million but lower than ₦1 billion and employ between 50 and 199 persons (SMEDAN, 2025). This classification provides proper criteria for identifying small and medium-scale enterprises within the Nigerian context.

SMEs and rural development

Rural development is the process of improving the standard of living and financial security of individuals in rural areas (Ene et al., 2023). According to Jimah (2011), small-scale enterprises contribute significantly to developing countries by generating employment, mobilising resources, and reducing regional inequality. SMEs drive economic growth and innovation. The International Fund for Agricultural Development emphasises the role of rural entrepreneurs and the private sector in sustainable rural development. Manzoor, Wei, and Sahito (2021) note that SMEs' potential to contribute to rural economic growth, reduce poverty and crime, and improve healthcare depends on access to adequate support services, including finance and infrastructure. Infrastructure investment can stimulate economic growth, increase productivity, and attract private investment. SMEs play an important role in national development, industrial decentralisation, rural development, and mitigating rural-urban migration. To accelerate economic growth, the government should design and implement policies that promote rural development and empower the industrial sector. The National Economic Empowerment and Development Strategy (NEEDS) is a policy framework that focuses on wealth creation, employment generation, poverty reduction, and value reorientation. As noted by Ocheni and Nwankwo (2012), rural development is crucial to national development, and Third World countries have come to realise that bridging the gap between theory and practice in this area is essential.

Challenges of SMEs in Nigeria

The Nigerian government, through its economic regulatory agencies, has recognised the importance of SMEs; as a result, various agencies such as the Small and Medium Enterprises Development Agency (SMEDAN), the Directorate of Employment, and the Microfinance Banks were created with a mandate to develop the SME sector (Kayode & Illesanmi, 2014). Nonetheless, SMEs in

Nigeria continued to face challenges that threatened their survival. Some of the major challenges faced by SMEs in Nigeria, as stated by Agwu and Emeti (2014), include inadequate basic infrastructure, difficulty in accessing financing, stiff competition from larger companies, lack of management skills, lack of government support, insecurity, strategic planning problems, poor educational background of operators, socio-cultural problems, multiple taxation, an unstable policy environment, and lack of proper bookkeeping. SMEs need to develop strategies to mitigate these challenges and sustain their operations (Dugguh, 2015). Some of the challenges that seem peculiar to rural areas, as identified in this study, include:

(i) ***Lack of access to finance:*** Several studies have examined funding challenges faced by SMEs. Some argue that access to financing is necessary to create an economic environment that enables firms to grow and prosper (Giang et al., 2019; Taiwo, Falohun & Agwu, 2016). Researchers such as Agwu and Emeti (2014) contend that the primary challenge SMEs face is a lack of access to capital and that SMEs' growth is inevitably constrained by the limited availability of financial resources to meet a variety of operational and investment needs. Other researchers, such as Ogbokor and Ngeendepi (2011), argue that gaps in financial systems, including administrative costs, high collateral requirements, and limited experience among financial intermediaries, constrain SMEs' access to financing. Increased access to finance for SMEs can improve economic conditions by fostering innovation and GDP growth. The lack of adequate financial resources places significant constraints on SME performance.

(ii) ***Multiple taxation***: Agwu and Emeti (2014) opine that SMEs are subjected to many taxes and levies from the local government to the federal government. So many agents and consultants hired by the government at all levels are involved in the collection of taxes and levies, resulting in unauthorised collection. The impact of this on the operational cost of SMEs cannot be overstated. An empirical study conducted by Ihua (2009) found that high taxes are a significant factor that causes SME failure in Nigeria. The incidence of multiple taxes has discouraged entrepreneurs from doing business (Abdullah, Jakade, & Kabir, 2015). The government needs to streamline these taxes to help SMEs.

(iii) ***Inadequate Infrastructure***: Inadequate infrastructure has been a major obstacle to the growth of SMEs. Ene et al. (2023) stated that SMEs have experienced setbacks in their performance because of decay, inadequate infrastructure, or deplorable conditions of the available infrastructure and therefore require urgent attention from the government. There is no doubt that this has ultimately led to the collapse of many SMEs in Nigeria, as they are no longer able to compete effectively in the market (Omotola, 2008).

(iv) ***Insecurity:*** The high rate of insecurity in the country is a challenge to small businesses' success (Dugguh, 2015). Insecurity has continued to ravage Nigeria (Ajibade, 2021). It has disrupted supply chains, making it difficult for SMEs to access essential goods and services. It has reduced investors' confidence, restricted SMEs' access to the market, increased stress and anxiety, and ultimately led to the closure of some businesses.

Prospect of SME Financing and Rural Development

SME financing refers to the provision of financial resources required to establish, operate, sustain, and expand small and medium-scale enterprises. These financial resources may be sourced from

formal financial institutions, microfinance banks, cooperative societies, government intervention programmes, venture capital firms, development finance institutions, and the personal savings of business owners. Adequate financing enables SMEs to acquire modern equipment, adopt new technologies, increase production capacity, improve product quality, and expand into new markets. The prospects of SME financing for rural development are considerable. Improved access to finance empowers rural entrepreneurs to invest in productive activities, generate employment opportunities, and enhance local economic development. It also promotes business sustainability, increases household income, and contributes to poverty reduction by creating wealth within rural communities. Furthermore, well-financed SMEs strengthen agricultural value chains, encourage innovation, and support the development of rural infrastructure through increased economic activity. Recent advances in financial technology (FinTech), digital banking, mobile money services, and government-backed credit schemes have further expanded financing opportunities for rural SMEs. These innovations reduce transaction costs, improve financial inclusion, and provide entrepreneurs with easier access to credit and other financial services. In addition, public-private partnerships and targeted government interventions can help bridge financing gaps and stimulate investment in rural enterprises. Despite persistent challenges such as inadequate collateral, high lending costs, weak infrastructure, and insecurity, the future of SME financing remains promising. Strengthening financial institutions, expanding financial inclusion, implementing supportive government policies, and improving the business environment can significantly enhance SMEs' capacity to drive sustainable rural development. Consequently, effective SME financing remains an essential strategy for promoting inclusive economic growth, reducing poverty, and achieving long-term rural prosperity.

Theoretical Review

The study draws from the Pecking Order Theory. The Pecking Order Theory (POT) was developed by Donaldson (1961) and later formalised by Myers and Majluf (1984). It explains how firms choose among alternative sources of finance. The theory posits that firms do not necessarily pursue a predetermined optimal debt–equity structure; rather, they follow a financing hierarchy based on the relative costs and risks associated with different funding sources. Firms generally prefer internally generated funds**,** followed by debt financing, and finally external equity. The theory is particularly relevant to small and medium-scale enterprises (SMEs), which often face limited collateral, inadequate financial records, and restricted access to formal financial markets. Consequently, SMEs tend to rely on personal savings, retained earnings, and other internally generated funds before seeking external debt. When internal resources are insufficient, access to affordable and appropriate credit becomes essential for business expansion, investment, and sustainability. In the context of SME Financing and Rural Development: Challenges and Prospects in Ehime Mbano, Imo State, Nigeria**,** the Pecking Order Theory provides a useful framework for explaining the financing behaviour of rural SMEs. It suggests that SMEs may initially depend on personal savings and retained profits, subsequently seek loans from banks and other financial institutions, and have limited access to external equity financing. Therefore, inadequate access to suitable external finance may constrain SME growth and investment, thereby limiting employment generation and SMEs' capacity to contribute effectively to rural development.

The study also draws from the Resource-Based View (RBV**)**. Developed from the work of Penrose (1959) and later formalised by Barney (1991), the theory explains how an organization's resources and capabilities influence its performance and competitive advantage. The theory argues that firms can achieve superior performance when they possess and effectively utilise resources that are valuable, rare, difficult to imitate, and non-substitutable. For Small and Medium-Scale Enterprises (SMEs), finance constitutes a critical resource because adequate financial resources enable firms to acquire equipment, purchase inventory, employ skilled workers, adopt technology, expand operations, and respond to changing market conditions. Conversely, inadequate access to finance may constrain SMEs' ability to utilise other resources effectively and limit their growth and sustainability. This theory provides a useful framework for explaining how access to financial resources can enhance SME performance and their contribution to rural development. SMEs with adequate financial resources are better positioned to expand their operations, create employment, generate income, invest in productive activities, and stimulate economic activities within rural communities.

Empirical Review

Okoye and Igbokwe-Ibeto (2018) examined the impact of SMEs on rural development in Nigeria, with particular reference to Anambra State. The study used a survey research design. The population of the study was all SMEs in rural areas of Anambra State. The study used Taro Yamani's formula to determine a sample size of 146. Questionnaires were used for data collection, and data were analysed using mean scores. The hypothesis was tested using z-test statistics. Major findings of the study show that SMEs offer job opportunities to rural dwellers, and the presence of SMEs in an area brings about rapid community development. The study recommends that the government at all levels should encourage and empower SMEs in rural areas more by providing an enabling environment in terms of security and necessary infrastructure. However, the study did not specifically examine the extent to which SME financing influences rural development, thereby leaving a gap that the present study seeks to address.

Agwu and Emeti (2014) examined the issues, challenges, and prospects of small and medium enterprises (SMEs) in Port Harcourt City, Nigeria between October 2012 and November 2013. The paper adopted a descriptive research design using 129 randomly selected registered SME operators in Port Harcourt City. Data were collected using a questionnaire and analysed using descriptive statistics, while formulated hypotheses were tested using a z-test. The results indicated that poor financing, inadequate social infrastructure, lack of managerial skills, and multiple taxation were major challenges confronting SMEs in Port Harcourt City. The study recommends the provision of soft loans to SME operators, public/private sector partnerships in infrastructure, and capacity building for SMEs. However, Agwu and Emeti (2014) focused broadly on the challenges and prospects confronting SMEs in an urban setting and did not specifically examine how SME financing influences rural development.

Manzoor, Wei, and Sahito (2021) examine the role of small and medium enterprises (SMEs) in rural development. The paper aims to discover the intervening role of "access of SMEs to finance" in the link between SME's evolution and rural development in the context of Pakistan. The target population was 338 entrepreneurs operating SMEs in rural areas. Through a multi-stage stratified

random sampling technique, entrepreneurs were selected from three districts. Confirmatory factor analysis and structural equation modelling were used to test hypotheses. This study shows that SME's evolution has a positive and optimistic influence on rural development. However, although the study established the importance of access to finance in the relationship between SMEs and rural development, it was conducted in Pakistan, thereby leaving a geographical and contextual gap in the Nigerian literature.

Giang et al. (2019) examined the causal effect of access to finance on the productivity of small and medium enterprises in Vietnam. Productivity was measured as the total factor productivity (TFP) obtained by production function estimation using the Levinsohn and Petrin approach. The empirical results indicated that improving financial accessibility could directly enhance firm productivity. These findings suggest that the government should put more effort into assisting SMEs in generating bankable projects and creating a sound and healthy financial environment to stimulate firms' access to finance, which will ensure their sustainability and growth. Although the study established that improved financial accessibility enhances SME productivity, it did not examine the implications of SME financing for broader rural development. The present study therefore seeks to address these gaps by examining SME financing and rural development, with particular emphasis on the challenges and prospects of SMEs.

METHODOLOGY

Research design: The study adopted a descriptive correlational research design. The design was considered appropriate because the study sought to describe respondents' opinions concerning SMEs and rural development and to determine the nature, direction and strength of the relationships between the variables under investigation. The descriptive component of the design enabled the researchers to summarise respondents' responses using mean and standard deviation, while the correlational component enabled the researchers to determine the relationships between the identified dimensions of SMEs and rural development using the Pearson Product-Moment Correlation Coefficient.

Area of the study: The study was conducted in Ehime Mbano Local Government Area of Imo State, Nigeria. Imo State has 27 LGAs; Ehime Mbano is one of them. Ehime Mbano was selected as the study area because it is located in a rural area and has a remarkable presence of SMEs operating in different sectors of economic activity.

Population of the study: The population of the study comprised 1,886 registered small and medium enterprises (SMEs) in Imo State, according to data obtained from the Imo State Ministry of Commerce and Industry (2024) as cited in Kalu, Okoro, Odunna, and Egwenike (2025). The population provided the sampling frame from which the study area and respondents were selected. The study adopted a multistage sampling technique to select 55 SMEs for the study. The multistage sampling technique was carried out in successive stages to ensure an appropriate selection of the study area and respondents.

Sample size sampling technique: The first stage is the stratification of the local government areas. At this stage, the 27 local government areas of Imo State constituted the first sampling units. The

local government areas were classified into two broad strata based on their predominant characteristics: local government areas and rural local government areas. This stratification provided a basis for identifying local government areas that were predominantly rural and were significant to the focus of the study on rural development. The second stage was the selection of Ehime Mbano Local Government Area, which comprises 11 wards. At this second stage, Ehime Mbano Local Government Area was selected from the rural stratum as the study area. The selection was based on the purpose of the study, which focused on the relationship between SMEs and rural development. The third stage was the selection of SMEs, and the 11 wards in Ehime Mbano Local Government Area constituted the next level of sampling. 5 SMEs were selected from each of the 11 wards, giving a total sample size of 55, using simple random sampling from the available sampling frame. The selected SME owners served as the respondents for the study. Fifty-five (55) questionnaires were administered to the respondents, of which fifty (50) were filled out and returned. The multistage sampling technique was considered appropriate because it enabled the researcher to move systematically from the wider population of registered SMEs in Imo State to the specific local government area and finally to the individual SMEs included in the study.

Reliability Test: The stability of the research instrument was assessed using the test-retest method. The questionnaire was administered to the same respondents on two separate occasions, and the scores obtained from the two administrations were correlated using the Pearson Product Moment Correlation Coefficient. The result indicated an average test-retest reliability coefficient of r = 0.71 across the three tables, demonstrating the stability of the instrument over time.

DATA PRESENTATION AND ANALYSIS

Research question 1

To what extent does access to finance influence the performance of SMEs and their contribution to rural development?

Table 1: Respondents' Responses to Research Question One

S/N	Questions	VHE	HE	A	LE	VLE	X	SD
	The extent to which access to finance influences the performance of SMEs and their contribution to rural development	5	4	3	2	1		
1	Improved access to finance enhances the performance and growth of rural entrepreneurs, thereby strengthening the capacity of SMEs to generate employment in rural communities.	8	22	17	3	0	3.70	0.814
2	SMEs, through its employment generation, improve the standard of living of rural dwellers	15	8	20	2	5	3.52	1.249
3	Most of the social ills, like kidnapping and robbery, can be reduced if rural dwellers are employed by SMEs.	20	30	0	0	0	4.40	0.495

4	Poverty is reduced when rural dweller are offered employment by the SMEs	3	27	20	0	0	3.66	0.593
5	The presence of SMEs in an area attracts government attention in the area of infrastructure.	3	20	25	2	0	3.48	0.677
	Grand Mean						3.75	0.766

Table one presents respondents' responses on the extent to which access to finance influences the performance of SMEs and their contribution to rural development. The analysis showed that the pooled mean rating is 3.75 on a 5-point Likert scale, which reveals that the extent to which access to finance influences the performance of SMEs and their contribution to rural development is above expectation, since the pooled mean is higher than the expected mean of 3.0. The grand standard deviation of 0.766 showed that the respondents' responses are spread around the mean. The respondents' responses are consistent with one another.

$H0_1$: Access to finance does not significantly influence the performance of SME and their contribution to rural development

Table 2: Correlation Relationship Between Access to Finance for SMEs and the Development of Rural Areas

Variables	N	R (Correlation coefficient)	r (P-value)	Remark
Development of rural areas.	50	0.528	0.007	Reject H_O
Access to Finance for SMEs	50			

Source: SPSS 20. Where N = Number of Respondents, r = P value R = Correlation coefficient

Table 2 above presents the correlation relationship between access to finance for SMEs and the development of rural areas. Analysis showed that the correlation probability value is 0.007, which is significant because it is less than 0.05. The results therefore led to the rejection of the null hypothesis. It is therefore concluded that access to finance significantly influences the performance of SMEs and their contribution to rural development. The results also showed that the correlation coefficient is 0.528, indicating that the relationship between access to finance for SMEs and the development of rural areas is positive and moderately correlated at 52.8%.

Research question 2

To what extent do financial constraints, tax policy, and insecurity affect the performance of SMEs and their contribution to rural development?

Table 3: Respondents' Responses to Research Question Two

S/N	Questions	VHE	HE	A	LE	VLE	X	SD
	The extent to which financial constraints, tax policy, and insecurity affect the performance of SMEs and their contribution to rural development.	5	4	3	2	1		

1	Lack of access to finance is a major challenge that has hindered the performance of SMEs in rural areas.	48	2	0	0	0	4.96	0.198
2	Insecurity is the major challenge that has hindered the performance of SMEs in rural areas.	43	5	2	0	0	4.78	0.648
3	Inadequate infrastructure, such as the absence of banks, affects the performance and development of SMEs in rural areas.	45	5	0	0	0	4.90	0.303
4	Multiple taxation affects the performance of SMEs in rural areas.	5	25	18	2	0	3.66	0.717
5	Lack of government support affects the performance of SMEs in rural areas.	45	5	0	0	0	4.90	0.303
	Grand mean						4.64	0.434

Table three presents respondents' responses on the extent to which financial constraints, tax policy, and insecurity affect the performance of SMEs and their contribution to rural development. Analysis showed that the value of the pooled mean rating is 4.64 on a 5-point Likert scale, which reveals that the extent to which financial constraints, tax policy, and insecurity affect the performance of SMEs and their contribution to rural development is above expectation since the pooled mean is higher than the expected mean of 3.0. The standard deviation grand value of 0.434 showed that the respondents' responses are spread around the mean. The respondents' responses exhibit a high level of consistency with one another.

$H0_{2:}$ Financial constraints, tax policy, and insecurity do not have any significant effect on the performance of SMEs and their contribution to rural development.

Table 4: Correlation relationship between financial constraints, tax policy, insecurity, and SME performance in rural areas

Variables	N	R (Correlation coefficient)	r (P-value)	Remark
Performance of SMEs in the rural areas	50	0.708	0.000	Reject H_O
Financial constraint, tax policy and insecurity.	50			

Source: SPSS 20. Where N = Number of Respondents, r = P value R = Correlation coefficient

Table 4 above presents the correlation relationship between financial constraint, tax policy, insecurity, and SME performance in rural areas. Analysis showed that the correlation probability value is 0.000, which is significant because it is less than 0.05. The results therefore led to the rejection of the null hypothesis. It is therefore concluded that financial constraint, tax policy, and insecurity have a significant effect on SMEs' performance and their contribution to rural development. The results also showed that the correlation coefficient is 0.708, indicating that the extent to which financial constraint, tax policy, and insecurity affect the performance of SMEs in rural areas is positive and highly correlated at 70.8%.

Research question 3

To what extent does government financial and institutional support influence the performance of SMEs and their contribution to rural development?

Table 5: Respondents' Responses to Research Question Three

S/N	Questions	VHE	HE	A	LE	VLE	X	SD
	The extent to which government financial and institutional support influences the performance of SMEs and their contribution to rural development.	5	4	3	2	1		
1	Government providing grants and funding to rural SMEs can improve the growth and development of rural areas.	48	2	0	0	0	4.96	0.198
2	Having access to digital technology such as digital marketing, digital banking, digital payment, and social media platforms can enhance the competitiveness of rural SMEs.	43	5	2	0	0	4.82	0.482
3	Government providing farming incentives and offering loan programs such as guaranteed loan programs can improve business in rural areas.	45	5	0	0	0	4.90	0.303
4	Government support for rural SMEs in adopting digital technology and e-commerce by investing in digital connectivity initiatives, such as broadband and mobile coverage, can improve their performance.	5	25	20	0	0	3.70	0.647
5	Government providing infrastructure such as electricity, banks can enhance businesses.	48	2	0	0	0	4.96	0.198
	Grand mean						4.67	0.37

Table five presents respondents' responses on the extent to which government financial and institutional support influences the performance of SMEs and their contribution to rural development. Analysis showed that the value of the pooled mean rating is 4.67 on a 5-point Likert scale, which reveals that the extent to which government financial and institutional support influences the performance of SMEs and their contribution to rural development is above expectation since the pooled mean is higher than the expected mean of 3.0. The standard deviation grand value of 0.37 showed that the respondents' responses are spread around the mean. The respondents' responses are consistent with one another.

H03: Government financial and institutional support does not significantly influence the performance of SMEs and their contribution to rural development.

Table 6: Correlation relationship between government financial and institutional support and the performance of SMEs in rural areas

Variables	N	R (Correlation coefficient)	r (P-value)	Remark
Performance of SMEs in the rural areas	50	0.700	0.000	Reject H_O
Government financial and institutional support	50			

Source: SPSS 20. Where N = Number of Respondents, r = P value R = Correlation coefficient

Table 6 above presents the correlation relationship between government financial and institutional support and the performance of SMEs in rural areas. Analysis showed that the correlation probability value is 0.000, which is significant because it is less than 0.05. Results, therefore, led to the rejection of the null hypothesis. It is therefore concluded that government financial and institutional support has a significant influence on the performance of SMEs and their contribution to rural development. Results also showed that the correlation coefficient is 0.700, indicating that the relationship between government financial and institutional support and the performance of SMEs in rural areas is positive and highly correlated at 70%.

DISCUSSION OF FINDINGS

After the empirical analysis of the data generated, the following findings were made. The findings established that access to finance significantly influences SME performance and their contribution to rural development in Ehime Mbano, Imo State. Table 1 recorded a grand mean of 3.75, above the benchmark mean of 3.00, indicating that respondents agreed that access to finance enhances SME growth and rural development. Adequate financing enables rural entrepreneurs to expand their businesses, increase production, and create employment. Respondents also agreed that SME employment can reduce poverty and social problems such as kidnapping and robbery, while vibrant SME activities may attract government attention to infrastructure development. The inferential result in Table 2 further supports this finding, showing a positive moderate correlation ($r = 0.528$) between access to finance and rural development, with a p-value of 0.007, which is below 0.05. The null hypothesis was therefore rejected, indicating a significant relationship between access to finance, SME performance, and rural development. This finding suggests that limited access to affordable finance may restrict the ability of rural SMEs to expand, acquire equipment, maintain working capital, and exploit business opportunities. These findings align with those of Giang et al. (2019), who found that improving financial accessibility could directly enhance firm productivity. The finding is also consistent with the Pecking Order Theory (Donaldson, 1961; Myers & Majluf, 1984), which suggests that firms prefer internally generated funds before seeking external financing. Since rural SMEs often have limited internal resources, access to affordable external financing becomes essential for business expansion and sustainability. The finding also supports the Resource-Based View (Barney, 1991), which identifies valuable resources as important determinants of firm performance.

The second finding revealed that financial constraints, tax policy, insecurity, inadequate infrastructure, and lack of government support significantly affect SME performance and rural development. Table 3 recorded a high grand mean of 4.64, indicating strong agreement among respondents. Lack of access to finance received the highest mean of 4.96, confirming that financing constraints remain a major obstacle to rural SME development. Insecurity also recorded a high mean of 4.78, indicating that kidnapping, robbery, and related security challenges disrupt business operations, discourage investment, increase operating costs, and constrain business expansion. Inadequate infrastructure and lack of government support each recorded a mean of 4.90, while multiple taxation recorded 3.66, suggesting that taxation also constitutes a notable constraint. This finding is consistent with the findings of Agwu and Emeti (2014), who reported that poor financing, inadequate social infrastructure, insecurity, and multiple taxation were among the major challenges confronting SMEs. Table 4 provides further evidence, showing a strong correlation ($r = 0.708$)

between financial constraints, tax policy, insecurity, and SME performance, with a p-value of 0.000. The null hypothesis was therefore rejected. The finding demonstrates that the challenges facing rural SMEs are multidimensional. This finding also supports the Pecking Order Theory and Resource-Based View, as SMEs require both adequate financial resources and complementary resources to achieve sustainable growth.

The third finding established that government financial and institutional support significantly influences SME performance and contribution to rural development. Table 5 recorded a grand mean of 4.67, indicating strong agreement that government intervention is essential to rural SME development. Respondents particularly supported government grants and funding (4.96), infrastructure such as electricity and banking facilities (4.96), farming incentives and loan programmes (4.90), and digital technologies such as digital banking, digital marketing and electronic payments (4.82). These interventions can improve access to finance and strengthen the capacity of rural SMEs to contribute to employment and economic development. The inferential result in Table 6 reinforces this finding, with a strong positive correlation ($r = 0.700$) and a p-value of 0.000, leading to the rejection of the null hypothesis. Thus, government financial and institutional support is significantly associated with SME performance and rural development. The finding supports the Resource-Based View, as government intervention can help SMEs access critical resources such as finance, infrastructure, technology, information, and markets. It also complements the Pecking Order Theory, since government-backed loans, grants, and credit-support programs can provide SMEs with external financing when internally generated funds are inadequate. Overall, the findings demonstrate that SME financing is a critical driver of rural development in Ehime Mbano, but its effectiveness depends on the broader business environment. Improved access to affordable finance, combined with effective government support, infrastructure development, improved security, appropriate taxation, and digital connectivity, can strengthen SME performance, create employment, and stimulate sustainable rural development.

Conclusion

The study examines the effect of small and medium enterprise (SME) financing on rural development in Nigeria with particular reference to Ehime Mbano, Imo State. The findings demonstrate that access to finance significantly influences SME performance and their contribution to rural development. The study further established that financial constraints, insecurity, inadequate infrastructure, and multiple taxation affect SME performance and their contribution to rural development. These challenges have had a profound impact on businesses in rural areas. Insecurity has severely disrupted business operations, impeding rural community development and contributing to increased crime rates and poverty levels. The study further revealed that government financial and institutional support significantly influences the performance of SMEs in rural areas. The prospects of SME financing and rural development depend largely on policymakers' commitment to implement reforms that foster a business-enabling environment. Improving access to affordable and timely financing remains one of the most critical drivers of SME growth, productivity, and sustainability. As financing opportunities expand through formal financial institutions, government intervention programmes, cooperative societies, and other funding mechanisms, SMEs are better positioned to create employment, stimulate local economic activities, reduce rural poverty, and enhance overall rural development. Consequently, strengthening the

financial ecosystem for SMEs presents significant prospects for accelerating inclusive and sustainable rural development.

Recommendation

1. Based on the findings, policymakers and stakeholders should recognise and support the significant contributions of rural SMEs to rural development and develop policies that foster their growth.
2. The government and relevant stakeholders should address the challenges facing rural SMEs, including financial constraints, tax policy, and insecurity, by implementing policies and programmes that provide financial support, improve security, upgrade infrastructure, and streamline taxation.
3. The government should provide adequate support to rural SMEs, including financial assistance, training, and capacity-building programmes, to enhance their performance and contribute to the overall development of rural areas.

Suggestion for Further Studies

1. The study explored the effect of SMEs' financing on rural development in Ehime Mbano Local Government Area, Imo State. Hence, further study could be carried out in other locations.
2. The study considered the extent to which government support affects the performance of SMEs in rural areas. Further studies should highlight specific policies or laws that should be enacted to enhance the performance of SMEs in rural areas to ensure the development of rural areas.

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