Effect of Financial Inclusion on Small and Medium Enterprises Employment Generation in Abuja

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Abstract
This work is aimed at x-raying the effect of financial inclusion on small and medium enterprises (SMEs) generation of employment opportunities in the Federal Capital Territory (FCT). This study explores the relationship between financial inclusion and SMEs and how it impacts employment generation in the FCT. The study examines the impact of financial inclusion on the growth and sustainability of SMEs and how this translates to employment generation in the FCT. The study employs a mixed-methods approach, combining survey and documentary data collection methods. Through a structured questionnaire, relevant data is gathered from a diverse sample of SMEs in the FCT, including information on their finances, access to credit facilities, and challenges. The findings of this study highlight the significant effect of financial inclusion on small and medium enterprises (SMEs) in the Federal Capital Territory (FCT). Secure loans, investments, and credit lines have been instrumental in supporting various aspects of SME operations, including business expansion, working capital, and investment in equipment or technology. This access to funds has played a crucial role in enabling SMEs to grow and thrive, contributing to job creation and economic development in the FCT. The study recommends that policymakers and stakeholders should prioritie financial inclusion initiatives to support SMEs and promote employment generation in the FCT.

Keywords: Financial Inclusion, Small and Medium Enterprises, Employment Generation, Digital Lending, Microfinance

Introduction

In recent years, the global economic landscape has witnessed a growing recognition of the pivotal role played by Small and Medium Enterprises (SMEs) in fostering economic development. SMEs are acknowledged as engines of growth, contributing significantly to employment generation, poverty alleviation, and innovation. Within this context, the concept of financial inclusion has emerged as a crucial factor influencing the performance and sustainability of SMEs. The Federal Capital Territory, Abuja stands as a symbol of Nigeria's political and administrative hub, showcasing a diverse economic landscape characterized by government institutions, corporate entities, and a burgeoning entrepreneurial ecosystem. In this dynamic environment, SMEs play a vital role, serving as catalyst for economic growth and employment creation.

Financial inclusion, a concept gaining prominence in both academic and policy circles refers to the accessibility and availability of financial services to all segments of the population, including businesses. For SMEs, access to financial services such as credit savings, insurance, and payment mechanisms is critical for their establishment, expansion and overall sustainability. Financial inclusion and the operation of SMEs have been identified as key drivers of employment generation and economic growth in many countries. In India, for example, the MSME sector contributes about 8% to GDP, 45% to total manufacturing output, 40% to exports from the country, and provides employment to over 80 million people (Aiyavoo, 2020). Similarly, in the Czech Republic, SMEs account for approximately one-third of GDP, over 50% of the value added, 99% of the share of total registered enterprises, and represent 60% of total employment (Osakwe, Verter, Becvárȍva, & Chovancová, 2021). In Nigeria, rural women entrepreneurs have continued to contribute significantly to the growth and development of the economy through entrepreneurship, which has a positive impact on employment, wealth generation, and spurring local entrepreneurs (Alozie, 2022).

Financial inclusion refers to the accessibility and availability of financial services to all segments of the population, especially those traditionally excluded from the formal financial system. In the FCT, achieving financial inclusion has been a priority due to its potential to reduce poverty, boost economic growth, and promote socio-economic development. Various initiatives, such as the expansion of banking services, mobile banking, and the establishment of microfinance institutions, have been implemented to enhance financial inclusion in FCT.

SMEs are considered the backbone of any economy, including that of the FCT. These enterprises encompass a wide range of businesses, including retail shops, manufacturing units, services, and agribusinesses (Fisher, 2021). SMEs are often more labour-intensive than large corporations and are known for their ability to create employment opportunities, stimulate innovation, and contribute significantly to local economic development.

Furthermore, Ibor, Offiong, & Mendie (2020) opined that the only growing segment of the economy that assures easy access to financial services by enabling the underprivileged and weak sections of society to industriously contribute to development and safeguard themselves against socio-economic shocks is financial inclusion. Similarly, Bello and Kamoru (2021) viewed that an inclusive financial structure is a global economy policy as it has been perceived as a strategic device for poverty mitigation, promotion of small and medium Medium Enterprises (SMEs), and sustaining economic growth and sustainability, while the financial exclusion of SMEs investors has led to a high level of SMEs failure and poverty in Nigeria.

However, despite the potential of SMEs to drive employment generation and economic growth, they often face challenges such as lack of access to finance, poor infrastructure, and a harsh business climate (Alozie, 2022). This is where financial inclusion comes in, as it can help to address some of these challenges by providing SMEs with access to affordable financial services such as credit, savings, and insurance. In Nigeria, for example, financial inclusion has been identified as a key factor in the growth of the informal sector, which accounts for about 21% of total employment and 38% of GDP (Onwe, 2022).

Small and Medium Enterprises (SMEs) are being looked upon by an economy as the drivers for its growth, sustainability and development. They play a critical role towards a country's employment generation, exports and empowerment. However, they face a number of problems, such as, absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology and low production capacity amongst others. Financial inclusion is the process of providing financial services to the weaker and disadvantaged sections of the economy. It thus becomes imperative to study the concept of financial inclusion with respect to SMEs, since SMEs could be considered as the weaker segment as compared to their larger counterparts. Hence the study seeks to examine the relationship between financial literacy amongst SMEs and financial inclusion.

While the importance of both financial inclusion and SMEs in economic development is widely acknowledged, there exists a research gap concerning the specific relationship between financial inclusion and the employment generation capacity of SMEs in the unique context of the Federal Capital Territory, Abuja. This study seeks to bridge this gap by examining how financial inclusion influences the ability of SMEs in Abuja to generate employment opportunities. The study aims to explore and understand the Effect of financial inclusion on Small and Medium Enterprises Employment Generation in the Federal Capital Territory, Abuja.

Issues and Challenges of Financial Inclusion

Anecdotal evidence has shown that only 46 percent of adults in the world have access to financial services. Improving the global average level of financial inclusion has, therefore, become a global challenge. According to Moghalu (2019), the dearth of access to financial services by billions of adults all over the world poses serious challenges to global economic growth and development.

The challenge of inadequate financial inclusion is not just for developing economies alone; from emerging to high-income countries, governments must conceive and implement policies that seek to ensure the majority of the population becomes financially included. "Beyond the nonrobustness and inefficiencies of the financial system, which contribute to the act of being excluded or included, the more fundamental issue of a suboptimal macroeconomic environment in the form of low income capacity and pervasive poverty levels among the populace has played a more critical role in eroding the eligibility of the bulk of the financially excluded" (Moghalu, 2019). Specifically, he noted that the major challenges within the general economic conditions have manifested in the forms of:

1 A major challenge in the financial inclusion process is how to ensure that the poor rural dwellers are carried along, considering the lack of financial sophistication among this segment of Nigerian society due to the general low level of financial literacy. The majority of the estimated 40 million financially excluded Nigerians lack knowledge of the services and benefits derivable from accessing financial services, while staff of the service providers often display a lack of adequate understanding of the services and are therefore unable to educate effectively. In fact, suboptimal outcomes from attempts to increase customer awareness are reflected in the lack of appreciable progress in the literacy level of the populace. This has remained a major impediment to the progress of financial inclusion as a result.

2 2Another major challenge, especially from the perspective of growing savings, is the inability of the populace to save as a result of double-digit inflation in the economy, with its attendant effects on the real interest rate and continuous loss of money value. The disincentive negative real interest rates obviously have made potential savers remain with other non-bank avenues for savings.

3 There is also the challenge of increasing poverty. Though the economy has been reported to have grown at an average of 7.0 percent between 2009 and 2011, the unemployment rate continues to increase while progress on many of the poverty-reducing Millennium Development Goals has been slow.

Empirical Review

The relationship between financial inclusion and the employment generation capacity of Small and Medium Enterprises (SMEs) has been a subject of increasing interest among researchers and policymakers. Several empirical studies globally have shown a positive correlation between improved access to finance and the growth of Small and Medium Enterprises.

Anga, Sakanko, and Adamu (2021) employed the Error Correction Model to examine the effect of financial inclusion on small and medium enterprises in Nigeria from 1999 to 2019. A co-integration relationship exists between small and medium enterprises and financial inclusion (measured by deposits and savings, access to financial institutions, and credit to the private sector). The result revealed that financial inclusion (deposits, savings, and access to banks) had a positive and statistically significant effect on small and medium enterprises in the study period. However, access to credit has a significant and negative effect on small and medium enterprises. Based on these findings, policymakers are therefore advised to put in place strategies that will further enhance the level of financial inclusion through access to financial institutions, deposits, and savings, and provide favourable lending facilities to ease access to credit in Nigeria to improve SME's

Ibor, Offiong, and Mendie (2021) investigated the impact of financial inclusion on the performance of micro, small, and medium enterprises (MSMEs) in Nigeria. The survey research design method was used, involving the use of questionnaires, in collecting data from respondents. The data were analysed using the Pearson Chi-square technique. The results show that, whereas financial inclusion positively and significantly impacts the operations and growth of MSMEs, distance to financial services access points and infrastructural deficiency challenge fast and effective access to financial services by MSMEs in Nigeria. The study recommends that deliberate efforts should be made to spread access points to more rural areas and improve infrastructure to promote FI. This should include a policy roadmap for expanding financial services access points to unbanked and underserved areas using the financial services geospatial map. Furthermore, the digitization of payments across the country should be prioritised to include enhanced ICT and e-banking tools and a consumer protection framework.

Kadiri (2017) examines the contributions of small and medium-scale enterprises (SMEs) to employment generation in Nigeria. Past efforts at providing solutions to this malaise facing developing nations around the world have often faced stiff opposition, sometimes right from conception. The aim of this study, therefore, was to provide a sectoral analysis of the efficacy of SMEs as a vibrant tool for employment generation in the country. The binomial logistic regression analysis was employed as a tool for statistical analysis. The study observes that the sector was unable to achieve this goal due to its inability to obtain adequate business finance for the sector. It was observed that virtually all the SMEs that were sampled relied on informal sources of finance to start their businesses. As a way out, the study suggests the need for the integration of the activities of the formal with those of the informal financial institutions. Also, the government should, as a matter of urgency, provide the needed infrastructure, such as roads, water, electricity, and the needed enabling environment. The paper is of the view that these efforts will reduce the cost of doing business, increase the retained earnings of SMEs, their average monthly income, and poverty in the long run.

Nteegah (2021) examines the effects of financial inclusion on job creation in Nigeria from 1981–2019 using the ARDL approach. The study reveals that in the short term, increases in deposit, credit, and domestic investment penetration significantly reduced the unemployment rate, enhancing the wellbeing of Nigerians. Conversely, higher interest rates on credits increased unemployment, aligning with theoretical predictions. Bank branch penetration showed mixed results in terms of employment. In the long term, however, only bank branch penetration effectively reduced unemployment, while deposit, credit, and domestic investment penetrations, alongside interest rates, were found to increase joblessness.

Theoretical Framework

Since it has been established earlier that one of the pertinent factors affecting SMEs in Nigeria is finance, it means that the problems of financial inclusion ought to be solved. Moreover, every profit-maximising firm's performance depends on available funds and a stable environment in which to operate. Therefore, the theoretical framework of this study is the financial intermediation theory. Financial intermediation theory is an economic theory that describes the role of financial intermediaries, such as banks and other financial institutions, in facilitating the flow of funds between savers and borrowers.

The theory emphasizes the importance of these intermediaries in overcoming information asymmetry and transaction costs in financial markets. Financial intermediaries act as a bridge between those who have access funds (savers or depositors) and those who need funds (borrowers or entrepreneurs). The process involves intermediaries accepting deposits from savers and providing loans or investments to borrowers. Financial intermediaries help to mitigate the problem of information asymmetry, where borrowers may have better information about their projects than lenders. Intermediaries use their expertise to access the credit worthiness of borrowers and allocate funds to projects with the highest likelihood of success. The theory assumed that effective financial systems simply react and affect the development of SMEs through the value creation of small businesses and the mobilisation of local savings, which tend to increase productive investments in local businesses. This is so because more savings means more wealth for financial institutions to create credit, and as more entrepreneurs get access to financial products such as access to financial institutions, access to credit, an effective trusted payment system, a financial adviser, and insurance, the cost and risks involving transactions are reduced, and exchange will be well handled. The paradigm further stated that lack of access to financial products is a responsible factor for raising income inequality, which slows down economic wellbeing and growth. That is, access to a safe, easy, and affordable source of financial services is acknowledged as a prerequisite for promoting. SME's growth (Babajide, Adegboye, & Omankhanlen, 2015).

Methodology

The study utilized both quantitative and qualitative methods to provide a comprehensive understanding of the relationship between financial inclusion and SMEs employment generation. The study developed a structured survey questionnaire to collect quantitative data from SMEs in Abuja which included financial inclusion indicators (access to credit, savings, insurance) employment generation, business growth and demographic information.

In FCT, Abuja, the population of this research consists of small and medium enterprises, ranging from manufacturers, service providers, retailers, farmers among others with a total strength of 3,410 individuals.(FCTA Digest, 2023). The study used a stratified random sampling method to ensure representation across different sectors and sizes of SMEs in Abuja. The study collaborated with relevant business associations, government agencies and financial institutions for access to SMEs databases A sample of one hundred and fifteen (115) respondents was drawn from a cross section of the business hubs at Wuse Market, bars, patent store, cafes and restaurants, and online retailers.

Tables presenting the data were subsequently used. Results were reached after doing a comparative analysis with simple percentage approach, percentage is defined $x/_N \, X \, ^{100}/_1$ (Adefila, 2008) where X = frequency of responses, and N = total number of responses.

Data Presentation

Respondents were asked to state the type of SME they operate, responding, 21 (18%) of the respondents indicated manufacturing, 20 (17%) stated that they provide services; while 27(22.2%) indicated retail, 22(18.8%) of the respondents indicated agriculture while others stated that they are involved in many others like bar and restaurants. The analysis revealed, secure loans, investments, and credit lines, are used for business expansion, working capital, and investment in equipment or technology.

Table 1: Respondents View on Types of SMEs they Operate in FCT

Variables	Frequency	Percentage (%)
Manufacturing	22	19.1
Services	21	18.3
Retail	27	23.5
Agriculture	22	19.1
Others	23	20.0
Total	115	100

Source: Field Survey, 2023

On the question whether the respondents are familiar with the concept of financial inclusion, responding, 115 responded representing (100%) said yes. This shows that all the respondents are much aware of the concept of financial inclusion.

Table 2: Respondents View on Knowledge of Financial Inclusion

Variables	Frequency	Percentage (%)
Yes	115	100
No	------	------
Total	115	100

Source: Field Survey, 2023

The view of respondents were sought on their utilization of financial services from formal financial institutions like banks, microfinance institutions in the past 12 months, responding, 100 resondents, representing (87%) said yeswhile 15 respondents representing 13% said no. The table is presented below.

Table 3: Respondents Opinion on Utilisation of Financial Services From Financial Institutions

Variables	Frequency	Percentage (%)
Yes	100	87
No	15	13
Total	115	100

Source: Field Survey, 2023

Respondents were asked to specify the type of financial services they have utlised, 61 (53%) of the respondents indicated loan; while 37(32.2%) indicated savings, 17(14.8%) of the respondents indicated insurance. The analysis revealed, secure loans, savings, and insurance, are the financial services they have utilized..

Table 4: Respondents View on Type of Financial Services Utilised

Variables	Frequency	Percentage (%)
Loan	61	53
Savings	37	32.2
Insurance	17	14.8
Total	115	100

Source: Field Survey, 2023

Respondents' opinions were sought on how access to financial services has influenced the growth and operations of their SMEs. The data obtained showed that 72 (62.6%) of the respondents indicate average while 32 (27.8%) of the respondents indicated medium and 11 (9.6%) of the respondents indicated extremely. From the analysis, it was revealed that access to financial services has influenced the growth of SMEs in FCT.

Table 5: Respondents Opinion on How Access to Financial Services Influence Growth and Operations of SMEs

Variables	Frequency	Percentage (%)
Average	72	62.6
Medium	32	27.8
Extremely	11	9.6
Total	115	100

Source: Field Survey, 2023

Respondents view was sought on whether improved financial inclusion positively impacts employment generation of SMEs 37 (32.2%) strongly agree. 38 (33.04%) of the respondents agreed**,** 11 (9.57%) of the respondents were neutral, 15 (13.04) respondents strongly disagree while 14 (12.2%) strongly disagree.

Table 6: Respondents View on Whether Financial Inclusion Positively Impacts Employment Generation of SMEs

Variables	Frequency	Percentage (%)
Strongly Agree	37	32.2
Agree	38	33.04
Neutral	11	9.57
Disagree	15	13.04
Strongly Disagree	14	12.2
Total	115	100

Source: Field Survey, 2023

Responses on the main challenges SMEs still faces in accessing funds or finances, despite the progress in financial inclusion revealed that 55 (47.8%) of the respondents indicated high interest rates while 47 (40.8%) of the respondents indicated limited collateral or credit history and 13 (11.3%) of the respondents indicated lack of awareness about the availability of financial service, The survey question aim to gauge the impact of financial inclusion initiatives on SMEs' access to funds and identify any remaining challenges they may face. The responses provided valuable insights for policymakers, financial institutions, and other stakeholders to further improve financial inclusion and support SME growth.

Table 7: Respondents Opinion on Challenges Facing SMEs in Accessing Funds or Finances

Variables	Frequency	Percentage (%)
High interest rates	55	47.8
Limited collateral or credit history	47	40.8
Lack of awareness about available financial services	13	11.3
Total	115	100

Source: Field Survey, 2023

Discussion of Findings

The analysis of the findings highlights the significant effect of financial inclusion initiatives on small and medium-sized enterprises (SMEs) in the Federal Capital Territory (FCT). Financial services influence the growth and operations of SMEs in Abuja. Secure loans, investments, and credit lines have been instrumental in supporting various aspects of SME operations, including business expansion, working capital, and investment in equipment or technology. This access to funds has played a crucial role in enabling SMEs to grow and thrive, contributing to job creation and economic development in the FCT.

One of the key findings is the positive relationship between financial inclusion and SMEs' job creation in the FCT. As SMEs gain better access to funds and finances, they are able to expand their operations, hire more employees, and contribute to the local economy. This highlights the importance of continued efforts to promote financial inclusion and support SME growth in FCT.

Despite the progress in financial inclusion, SMEs in the FCT still face some challenges in accessing funds or finances. High interest rates and limited collateral or credit history are identified as the main obstacles. These challenges can make it difficult for SMEs to secure affordable financing, especially for those with less established credit profiles or insufficient collateral. In addressing these issues through targeted interventions, such as interest rate subsidies or credit enhancement programmes, can further enhance SMEs' access to funds and support their growth.

Overall, the findings underscore the importance of ongoing efforts to promote financial inclusion, address the remaining challenges, and create an enabling environment for SMEs in the FCT. By supporting SMEs' access to funds and finances, policymakers, financial institutions, and other stakeholders can drive economic growth, job creation, and prosperity in the region.

Conclusion and Recommendations

In conclusion, the analysis of survey findings clearly demonstrates the substantial positive effect of financial inclusion initiatives on small and medium-sized enterprises (SMEs) in the Federal Capital Territory (FCT). Access to secure loans, investments, and credit lines has played a pivotal role in facilitating SME growth, leading to job creation and economic development in the region. The study highlights the strong correlation between financial inclusion and job creation among SMEs, emphasising the need for sustained efforts to promote financial inclusion and support SME expansion in the FCT. While progress has been made, challenges such as high interest rates and limited collateral persist, posing obstacles for SMEs. Targeted interventions, such as interest rate subsidies and credit enhancement programmes, are recommended to alleviate these hurdles. Overall, the findings underline the importance of ongoing initiatives to foster financial inclusion, address existing challenges, and create a conducive environment for SMEs in the FCT, ultimately driving economic growth, employment opportunities, and prosperity in the area.

Based on the analysis of the survey findings regarding financial inclusion and its effects on SMEs in the Federal Capital Territory (FCT), the following are recommended:

i. Policymakers and financial institutions should work together to reduce high interest rates and alleviate collateral constraints that hinder SMEs from accessing affordable financing. Implementing interest rate subsidies or credit enhancement programmes can help make funds more accessible to SMEs with less established credit histories or limited collateral.

ii. To promote SME growth and economic development in the FCT, it is crucial to continue and expand financial inclusion initiatives. By providing SMEs with secure loans, investments, and credit lines, these initiatives can support various aspects of their operations, enabling business expansion, job creation, and overall prosperity.

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