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FINANCING OPTIONS AND ENTREPRENEURSHIP GROWTH IN NIGERIA

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ABSTRACT

The study investigated the nexus of Formal and informal Financing to entrepreneurship growth in Nigeria". The purpose of the study was to assess how the various formal financing and informal financing sources of finance affect the growth of entrepreneurship. Despite the various financing options available for the growth of entrepreneurial firms, some entrepreneurs may need to be aware of most of them and, therefore, may not be able to access them. 255 internet questionnaire were distributed using snowball and random sampling techniques. Data from The questionnaires were coded and analysed using Simple Linear Regression. The findings of this study showed that the sources of finance for the growth of entrepreneurial businesses might be derived from other sources aside the formal and informal finance sources. To this end, therefore, there is a need for awareness of the various sources of finance available to entrepreneurs because increased productivity in entrepreneurship leads to overall economic growth.

Keywords: Entrepreneurship, formal, Informal, growth.

INTRODUCTION

Entrepreneurship is a key factor in the development and growth of any economy. It aids in creating jobs, reducing poverty, and raising a country's level of productivity. (Manzoor, Wei, & Siraj, 2021). The industry has experienced its fair share of neglect and unfavourable economic repercussions. However, entrepreneurship growth has been seen as the rampart for employment creation and technical advancement (Mangori, 2022). A micro, small, or medium-sized business must continue to have access to finance to create, run, grow, expand, and do other things. The key factor is where, when, and how an enterprise raises and appropriates money for the best outcome. Some financial options available to MSMEs in Nigeria are personal resources, informal loans from friends and relatives, business associates, and cooperative societies. Conventional banks provide official loans. In the public and private sectors, industries typically function on a large or small scale. (Okolie, Anidiobu, & Ugwuanyi, 2018).

Entrepreneurs' growth promotes reducing unemployment and creating jobs for young people in Nigeria, placing the economy on a proper footing. Nations offer essential assistance for the growth of entrepreneurship to enhance their economies and address certain important socioeconomic issues. (Chinedu, Chukwuma, & Dieli, 2019). In a developing nation like Nigeria, entrepreneurs struggle with various issues, including money. A serious issue has hampered the development of entrepreneurship with finance. Inadequate security to acquire loans from commercial credit companies, subpar feasibility studies, and a lack of equity commitment are just a few of the restrictions associated with insufficient entrepreneurial financing. The second-tier security market established in 1985 aids the stock exchange quotation of small indigenous businesses. However, only a few of these businesses were listed due to requirements and the fact that some business owners wish to keep their companies private (Kalu, 2022).

Having no access to financial institutions prevents Nigerian entrepreneurs from starting new businesses, which hinders economic progress. Additionally, the origins and effects of entrepreneurial activity are often neither financially nor environmentally sustainable (Babajide, Olokoyo & Taiwo, 2016). Aladejebi (2019) saw entrepreneurs' problems as bad management by small business owners and insufficient funding from commercial banks and other financial institutions. Therefore, business owners are still looking for funding from other sources. A major obstacle to developing many entrepreneurial ventures in underdeveloped nations is the need for recognition for their success. Against this background, this paper identifies and critically examines the relationship between entrepreneurship financing and growth in Nigeria.

The study's objective is to determine the role of entrepreneurship financing options on the growth of the business by investigating how access to finance (formal and informal sources) influences the growth of entrepreneurs in Nigeria. The expected scientific contribution helps define entrepreneurs' development stages and financing sources at each stage. The research objective was to show how entrepreneurial businesses in Nigeria have achieved financing and business growth. The contribution can be seen in that few studies investigate these themes, especially in domestic literature. As a result, the study's findings can better understand how different entrepreneurial initiatives finance themselves. The data that have been given and interpreted may serve as a good starting point and motivation for additional study on this and related issues about the local and international financing landscape for entrepreneurs.

LITERATURE REVIEW

Conceptual Review

According to Bancilhon (2020), while the primary goal of an enterprise is often to generate a profit, it can also represent other objectives that the founder of the business, Richard Cantillion, may not have thought of and therefore do not qualify as an enterprise in the legal sense. According to a popular theory, the English definition of an entrepreneur is "a person who voluntarily leads a military expedition". Formal financing refers to the financial services provided by financial institutions chartered by the Government and are subject to the banking regulations and supervision of the economy (Ledgerwood, 1998). Commercial banks, Microfinance banks, the CBN and a portion of its offices are involved in the formal finances part that has assumed exceptionally conspicuous jobs in financing entrepreneurial ventures in Nigeria (Adenuga, 2015).

The Central Bank of Nigeria is a monetary authority that controls a nation's currencies and regulates the money supply, i.e. the amount of money in circulation. The key responsibilities of the Central Bank of Nigeria are "Price Stability," "Issuance of Legal Bank Notes," "Maintenance of a Healthy Financial System," and "Maintenance of the Nation's Exchange Reserves in order to ensure the International Value of the Domestic Currency." The CBN serves as a central bank and the financial system's top regulator, supervisor, and ensures. It also improves monetary and price stability and serves as the banks' last-resort lender (Obienusi & Obienusi 2015). The literature on the unregulated finance market is riddled with terminological ambiguity (Harding & Jenkins, 1989). The "bazaar economy", the "firm-centred economy", and stereotypes of "the criminal underworld" or "the world turned upside down" are a few early descriptions of the informal financing sector (Geertz, 1963).

Therefore, informal financial markets are seen as the heterogeneous residual of the financial sector that comprises different bodies, such as unregistered indigenous lenders and unorganised and non-institutional sources (Oluwoyo & Peter, 2019). In contrast to the formal sectors, they operate mostly outside the financial system and are generally unregulated and uncontrolled. They do not typically fall under the category of rural banking but engage in savings and loan programmes, either as their primary or secondary source of funding (Akanji, 1998). This funding does not require formal paperwork (Mollick, 2014). Channels of informal finance offer financial support to the owners of SMEs with or without requesting significant collateral security; rather, it may be based on word-of-mouth or with a simple agreement. In addition to the owners' savings, informal funding is provided by friends, family, and business angels. Riding (2006), the Government should identify the characteristics necessary for the IFS, which provides more than 70% of the funding to SMEs, and include those factors in its strategy to improve SMEs' access to credit (Gbandi & Amissah, 2014).

Theoretical Review

Proponents of capital structure theory explain how businesses finance investments using various funding sources, including ordinary stock, preferred equity, long-term debt, and short-term debt (Daskalakis, Erotic, Thanou, & Vasiliou, 2014). Entrepreneurial endeavours could use the recommendations of capital structure theories for their investment portfolios (Daskalakis et al., 2014). Although the capital structure theory primarily focuses on large businesses and some of the determinants have little to no impact on entrepreneurial businesses, the theoretical justifications that assume the relationships between debt ratio as the dependent variable of profitability, asset structure, size, and growth could apply to SMEs (Daskalakis et al., 2014).

The hypothesis developed by Myers (1984) and Myers and Majluf (1984) suggested that profitability would be adversely correlated with debt, which is consistent with the pecking order theory (Daskalakis et al., 2014). Any company's asset components are crucial for obtaining debt funding (Daskalakis et al., 2014). Thus, businesses with greater real assets will have easier access to bank loans and eventually incur greater debt (Daskalakis et al., 2014). According to the pecking order theory proponents, managers prefer retained earnings financing over debt and equity. Serrasqueiro, Nunes, and Anvaryso (2016) stated that funding requirements then limit the accessibility of funds because accessibility of funds is controlled by various levels of information asymmetry and related agency costs included in the various funding sources. The theory of pecking order became one of the most influential theories of corporate capital structure, followed by the theory of agencies, information asymmetry and signals.

Entrepreneurs appear to adapt their investment plans to the principles of the pecking order approach and could use a form of borrowing ratio to achieve their financing policy, as the trade-off theory maintains. (Chimucheka & Mandipaka, 2015). Debt variations differ from the company's immediate goal of achieving an optimal debt level (Serrasqueiro *et al*., 2016). The desire to achieve optimal debt results from external financing requirements because companies prefer debt to external equity when private funds are insufficient (Serrasqueiro *et al*., 2016).

The pecking order framework shows how businesses choose their financing form in a certain order-a pecking order. The corporate management choice of action is a consequence of information asymmetry, according to Yan, Myers and Wang (2012). In other words, the financiers need more information about the different projects, which leads to lower interest in the project, and the assets and securities of the portfolio company are at risk of undervaluing. Furthermore, if information asymmetry is large for some firms, the difference in capital costs for different financing choices should be widened, resulting in a firm's pecking order becoming more prominent (Cassar & Holmes, 2003). Also, the pecking order relies on the same premises as the financial gap, intertwining the two notions.

Empirical Review

Many studies have been conducted on access to finance for entrepreneurship. Ayomitunde, Adekunle, Olubunmi, and Iyabode, (2020) examined entrepreneurship finance with Small and Medium Scale Enterprises (SMEs) that eliminated poverty in Nigeria between 2000 and 2018 using data from the Central Bank of Nigeria Statistical Bulletin and World Development Indicators. The key conclusions of this study can be summed up as follows: short- and long-term financing of agriculture and forestry does not contribute to the eradication of poverty. However, short-term poverty is eliminated through finance for mining and quarrying businesses. In a similar line, providing funding for manufacturing and food processing companies helps in the long run to eradicate poverty. The model adjusted 27% more quickly than necessary to restore equilibrium in the current year after the prior year's shock had caused disequilibrium.

Racheal & Uju (2018) examined the role of commercial banks in Nigeria's Financing of small and medium-sized enterprises. The structured questionnaire was distributed to the respondents, including staff from commercial banks and selected staff from SMEs in Anambra State, Nigeria. The study, therefore, found that small and medium-sized enterprises encounter problems obtaining loans from commercial banks; commercial banks have also contributed enormously through their loans and advances to the development of SMEs.

According to Lawal, Iyiola, & Adegbuyi (2018), the importance of entrepreneurship development may be understood from the perspective of fostering economic prosperity, growth, and innovation. This study examined the extent to which entrepreneurs in Nigeria are using alternative finance sources as well as targeted government funding help for entrepreneurship. The study found that alternative finance channels are gradually gaining ground in Nigeria in addition to the usage of conventional lending instruments. This is in addition to government assistance in establishing various programs and specialised financial institutions to provide the SME subsector with adequate funding. It is essential to have deliberate and targeted government policy actions to establish an affordable finance framework and raise awareness of entrepreneurs' financing needs.

Using primary data, Shobayo and Akinyede (2017) identified the environmental elements influencing entrepreneurship development and their overall impact. Correlation and regression analyses were performed on the collected data. Results showed that environmental factors generally have a major impact on the growth of entrepreneurship in Nigeria. The findings revealed that all environmental factor dimensions significantly influence the growth of entrepreneurship in Ago-Iwoye, Nigeria. Therefore, it is advised that communities identify aspects of their culture that impede the growth of entrepreneurship and make required adjustments.

Using descriptive research design, Babu (2017) used Kiambu County as a case study to study the factors affecting financial access to youth-owned businesses in Kenya's small and medium-sized enterprises. The results showed that registered SMEs are more likely to borrow and that smaller SMEs are more likely to borrow than non-registered SMEs when compared to bigger SMEs. Manufacturing sectors are more difficult to get financing than SMEs in the commerce and service industries.

In order to evaluate the impact of financial inclusion and financial literacy on the development of entrepreneurship, Iriobe, Akinyede, and Iriobe (2017) conducted a study on Nigerian entrepreneurs' understanding of financial literacy and the availability of financial services. The use of a questionnaire facilitated the creation of primary data. The study utilised an ordered probit regression model for the investigation. The results showed that both financial inclusion and financial literacy have an impact on entrepreneurship in Nigeria. The development and growth of entrepreneurial businesses in Nigeria are also greatly influenced by the size and locations of Nigerian businesses. They conclude that a rise in financial activities to guarantee financial inclusion and literacy among Nigerians will directly impact the growth of entrepreneurship in the nation.

According to Onyeiwu & Nkoyo (2020), The Federal Government and the Apex Bank are given the following policy recommendations: first is to improve the performance of SMEs and growth simultaneously, capital inflows via affordable local loans to SMEs at single-digit (interest rates) are required. Electricity tariffs should be heavily subsidised for small and medium-scale enterprises to decrease overhead costs. The financial source is related to the performance of SMEs at a reasonable level. The study concluded that there is nexus between sources of finance and business performance. The overall coefficient regression results show that formal source of finance is the most significant independent variable enhancing SMEs' performance in the Ado-Ekiti metropolis.

Bassey, Asinya and Amba (2014) studied the effect of bank lending and macroeconomic policy on the growth of SMEs in Nigeria employing time series data obtained from the Central Bank of Nigeria for the period 1992 – 2011. OLS regression technique was used for analysis. The finding indicated that commercial bank credit had a positive and significant influence on the growth of SMEs in Nigeria within the period under consideration.

Imoughele and Ismaila (2014) assessed the impact of commercial bank credit on the growth of SMEs in Nigeria for the period 1986 – 2012. The study used the cointegration technique and the error correction model (ECM) to estimate the series. The results demonstrated a long-term association between SMEs and specific macroeconomic variables in the model and SME production. According to other findings, commercial bank credit to SMEs, total government spending, and bank density had positive and non-significant effects on SME output, while interest rates harmed SME output. Savings, time deposits (STD), and exchange rate (EXR) also significantly impacted SME output.

Egbuna, Aiyewalehinmi, and Agali (2013). Results on how planning affects the performance of small and medium-sized businesses in southwest Nigeria demonstrate that one of the biggest challenges facing SMEs is finding a source of funding, among other issues. According to the report, SMEs' ability to easily access financial resources significantly contributes to the success of their operations as a whole.

Businesses engaged in entrepreneurship range greatly in size and characteristics. Each company uses either debt, equity, or a combination of the two to finance itself. They often come from two financial sectors: formal finance (FFS) and informal finance (IFS). Researchers, academics, and practitioners have identified the formal and informal modes of finance, including the two core notions of entrepreneurship financing (Gelinas, 1998). Commercial and development banks are the formal sector's most common source of commercial financing. The informal sector is also seen as an important source of financing for entrepreneurs by borrowing from friends, relatives, and cooperatives.

Despite the various financing options available for the growth of entrepreneurial firms, some entrepreneurs may need to be aware of most of them and, therefore, may not access them. Entrepreneurs find themselves in a scenario where they need access to financial services tailored to their needs and are not given affordable conditions that consider their reality due to the financial services industry's antagonism and the restrictions they face. The study's gap is exacerbated by barriers of entry that hinder the confidence entrepreneurs need to carry out their business ventures (poor financial education, limited management skills). In an economic and political environment, the resources at their disposal to access suitable financing (little or no formalisation, no credit history, and few or no formal guarantees) amplifies the risk and reinforces these shortfalls.

METHODOLOGY

The researcher adopted an explanatory cross-sectional census in this study. This design is suitable because of the investigation of entrepreneurial financing and the growth of businesses in Nigeria. In this case, data on the effect of formal and informal financing on entrepreneurship growth in Nigeria was gathered. An Internet questionnaire was used in this study to obtain data. The study adopted this survey because it is interested in analysing the relationship between the financing options of entrepreneurship and business growth in Nigeria without attempting to control or manipulate respondents' opinions. Therefore, the study will use a survey research method through the questionnaire to gather information from various businesses. The population for the subjects of the study will comprise entrepreneurial businesses totaling 37,067,416 (SMEDAN and National Bureau of Statistics Collaborative Survey, 2013). The subjects surveyed will not be influenced by environmental qualities that may skew results. The sampling technique used for this study was the snowball sampling method and simple random sampling techniques. The snowball sampling method uses a small pool of initial informants to nominate; through social networks, other participants who meet the eligibility criteria could contribute to a specific study. Random sampling techniques were employed to arrive at a representative sample of each division of interest. The research study selected a sample size of two hundred and fifty-five (255) respondents operating as entrepreneurs in Nigeria. The (255) questionnaires were administered to the entrepreneurial operators in Nigeria through social networks.

Model Specification

The Simple Linear Regression model will be used to model the relationship between a single response variable, y, and a single explanatory variable, x.

Given the equation; Y = *ƒ* (FF, INF,)

The OLS equation for the model is specified mathematically as

$EG = \beta 0 + \beta 1\ FF + \beta 2\ INF + e$

Where;

EG = Entrepreneurship growth

FF = Formal financing

INF = Informal financing

e = Error

RESULTS AND DISCUSSION

	Unstandardised Coefficients B	Standardised Coefficients Beta	t	Sig.
(Constant)	3.67		3.433	0.001
FF	-0.027	-0.04	-1.584	0.114
IF	1.111	0.909	36.122	0
R	0.914[a]			
R Square	0.836			
Adjusted R Square	0.834			
F	666.175			
Sig.	.000[b]			

Accept the claim that there is a significant relationship between the dependent variable and the independent variable if $p < \alpha$. Note that the required alpha (α) at a 5% significant level is 0.05. The model summary table (Table1) shows that R=0.914 signifies a strong linear relationship between formal and Informal Financing and entrepreneurship growth. Furthermore, R Square (R2), which is a corrected goodness-of-fit or coefficient of determination, is 0.836. It explains that financing affects entrepreneurship growth in Nigeria by 83.6%, and the remaining 16.4% is explained by other factors that can affect financing options in entrepreneurship growth but are not included in this model. The relationship between that formal and entrepreneurship growth in Nigeria is statistically insignificant as the p-value=0.114 The p-value, when compared to the alpha level of 0.05, is greater (p=0.114>0.05). Hence, the alternative hypothesis is rejected, and the null hypothesis is accepted. Informal Financing and entrepreneurship growth in Nigeria is statistically Significant as the p-value=0.0014. Hence, the null hypothesis and the alternative hypothesis are accepted.

Discussion

An efficient financial system can channel financial riches from many sources to company investments and offer incentives in the form of financial resources to a wide range of firms in various situations. However, the main obstacle preventing entrepreneurs from adequately contributing to economic growth and, more importantly, in developing economies, achieving entrepreneurship development has been the availability, accessibility, and sufficiency of appropriate financial capital to achieve growth and expansion of entrepreneurial endeavours (Lawal, Iyiola, & Adegbuyi, 2018). According to Mohammed and Obeleagu-nzelibe (2014), access to financing and friendly taxation were major causes of Nigeria's entrepreneurship failures. However, getting sufficient financial resources is determined by the firm's operation and strategic activities.

The main thrust of this study is to examine the nexus between formal and informal financing to entrepreneurship growth in Nigeria. The relevance of financing to entrepreneurial ventures cannot be overemphasised; chapter one of this study examined the background to the study, assessing finance as a problem for various businesses; the aim of the study relates to the effects of finance on entrepreneurship growth, how formal and informal financing affect entrepreneurship growth and the significance of formal and informal financing on entrepreneurship growth through hypothesis questions.

Formal financing is a form of financing involving formal applications for finance. Informal financing involves unregistered indigenous lenders, personal savings, unorganised and non-institutional sources, and Entrepreneurship as a driving factor in unemployment eradication and economic development. The Capital Structure Theory was also reviewed; Entrepreneurial ventures could apply the capital structure theories suggestions for their investment portfolios (Daskalakis *et al*., 2014). Theoretical justifications for capital structure theory assume that relationships between debt ratio as the dependent variable of profitability, asset structure, size, and growth could apply to SMEs. Even though the theory focuses primarily on large enterprises, some indicators have little to no impact on entrepreneurial firms. Internet Questionnaires were used for the survey, and the sample size was two hundred and fifty-five (255).

Conclusion

Based on the analysis and findings, there is an association between formal and informal sources of finance and entrepreneurship growth. Furthermore, although formal and informal financing has a relationship with entrepreneurship growth, as the study reveals, there are better predictors of the sources of finance of sampled entrepreneurs in Nigeria than formal financing. As a result, it has been determined that one of the foundational elements of the nation's economic development is the expansion of entrepreneurship. In other words, entrepreneurial businesses are enabling the nation's industrial development and progress. As a result, it becomes a sector that the Government should concentrate on, protect, and nurture by making funding more readily available to them at a cheap interest rate as they depend on funding to grow and survive.

Recommendation

One of the major issues preventing potential entrepreneurs from starting businesses worldwide is the need for more funding. There are worries that entrepreneurial growth is being hindered by access to finance more and more. This is especially troublesome if it hinders innovative businesses from obtaining the financing they require to launch their various goods and procedures, expand, and generate employment during the economic recovery. Entrepreneur's access to finance or funding for their enterprising activities will be aided if the following could be observed:

1. Approaching the right source: Knowing where to obtain finance is crucial in business, and approaching the wrong sources will only involve frustration and business failure.
2. Good financial literacy will help entrepreneurs know other financial options besides conventional financing.
3. Government should support the development of more SMEs, and micro-finance institutions should be promoted in Nigeria.
4. Government and the corporate sector need to work together more frequently.
5. By offering motivation and the necessary enabling environment to support and encourage the survival and expansion of SMEs, the Government must continue its engagements with the private sector.
6. Financial or banking organisations that focus on development provide easy access to finance. The money provided by these sources should be distributed at favourable interest rates.

7. Entrepreneurship in Nigeria will develop and consequently contribute to the country's general economic growth while reducing poverty.

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