

Small Business Funding and SME Survival Rates in Nigeria: A Quantitative Analysis of Financial Constraints

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Abstract

This study investigates the relationship between small business funding and the survival rates of Small and Medium-Sized Enterprises (SMEs) in Lagos State, Nigeria, with particular emphasis on the role of financial constraints. Despite the recognized economic significance of SMEs, persistent funding barriers continue to undermine their operational stability and long-term viability. Anchored in a quantitative research design, the study draws on primary data collected from 300 SME owners through structured questionnaires measuring access to finance, dimensions of financial constraint, and indicators of business survival and performance. Descriptive statistical techniques, including frequencies and percentages, were employed to analyze the data. The findings reveal pervasive limitations in access to external finance: 36% of respondents rated their access to funding as low and 22% as very low, whereas only 16% reported high or very high access. Perceived impact analysis further indicates that funding availability plays a decisive role in enterprise continuity, with 48% of respondents reporting that access to finance exerted a very large or large influence on business survival over the past three years. Major financial constraints identified include difficulty in accessing bank loans (30%), high interest rates (24%), inconsistent cash flow (20%), and insufficient collateral (16%). Notably, 58% of respondents stated that these constraints hindered business growth significantly or very significantly. Moreover, expectations regarding improved financial access were strongly positive. Approximately 64% of respondents indicated that enhanced funding would make long-term survival very likely or likely, while 60% reported that it would have a very large or large effect on performance indicators such as sales growth, expansion capacity, and productivity. Therefore, the results underscore the centrality of financial access to SME sustainability and resilience. The study provides empirical evidence that reducing financial constraints through improved credit mechanisms, supportive lending policies, and strengthened financial intermediation could significantly enhance SME survival prospects and contribute to broader economic development in Nigeria

Keywords: Small Business Funding, SMEs Survival Rates, Access to Funding, Financial Constraints, Business Growth.

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Introduction

Small and Medium-sized Enterprises (SMEs) occupy a structurally significant position within Nigeria's productive landscape. Beyond their numerical predominance, SMEs are deeply embedded in the country's industrial, commercial, and service sectors, providing employment opportunities, stimulating domestic production, and fostering entrepreneurial dynamism. In a context characterized by demographic expansion, labour market pressures, and persistent income inequality, SMEs function not merely as economic actors but as critical instruments of socio-economic stabilization and inclusive growth. Their performance and sustainability therefore carry implications that extend well beyond firm-level outcomes to broader macroeconomic resilience.

Despite their economic centrality, SME mortality rates in Nigeria remain persistently high, particularly within the first few years of operation. Early-stage business discontinuity constrains capital accumulation, erodes investor confidence, and undermines the long-term contribution of the sector to national development. While multiple structural and managerial factors shape enterprise longevity, access to finance consistently emerges as one of the most consequential determinants of SME survival. Financial capital influences firms' capacity to acquire productive assets, smooth cash flow fluctuations, manage risk exposure, and adapt to competitive or macroeconomic shocks. In its absence, even firms with viable business models may experience operational fragility.

Empirical scholarship increasingly documents the depth and complexity of financial constraints confronting Nigerian SMEs. For example, Ngumbi et al. (2020) identify stringent collateral requirements, elevated lending rates, and limited financial literacy as significant impediments to formal credit acquisition. Their findings indicate that these barriers materially reduce SMEs' probability of accessing bank finance, thereby constraining growth trajectories and long-term viability. Similarly, Olowe et al. (2018) observe that although microfinance institutions were designed to bridge financing gaps, high effective interest rates and rigid repayment structures often attenuate the developmental impact of such credit on small enterprises.

Beyond firm-level lending conditions, structural characteristics of the Nigerian financial system further intensify these constraints. Abolaji (2022) highlights persistent credit rationing, shallow long-term financing markets, and weak intermediation mechanisms as systemic barriers limiting SMEs' access to sustainable funding channels. In practical terms, these institutional frictions frequently compel entrepreneurs to rely on internally generated funds or informal credit sources, which are typically short-term, costly, and inadequate for strategic expansion or technological upgrading. The resulting undercapitalization increases vulnerability to liquidity shocks, market volatility, and macroeconomic instability.

While prior studies have made valuable contributions by examining the relationship between finance and SME performance, much of the extant literature emphasizes growth, profitability, or output expansion rather than firm survival as a discrete and measurable outcome. Moreover, empirical investigations are often geographically bounded or sector-specific, thereby limiting external validity across Nigeria's diverse regional and industrial contexts. Survival analysis—focusing on the probability of enterprise continuity over time—remains comparatively underexplored within a comprehensive, nationally representative quantitative framework.

This study responds to that gap by advancing a rigorous quantitative investigation into the relationship between financial constraints and SME survival rates across Nigeria. By systematically examining how access to credit, cost of borrowing, collateral requirements, and financial structure influence enterprise longevity, the research seeks to generate robust empirical evidence capable of informing policy formulation and financial sector reform. In doing so, it contributes to a more nuanced understanding of how financial architecture shapes entrepreneurial sustainability, with implications for employment generation, poverty reduction, and long-term economic transformation.

Statement of the Problem

Small and Medium-sized Enterprises (SMEs) remain indispensable to Nigeria's productive capacity, labour absorption, and income generation. Yet, notwithstanding their economic relevance, enterprise discontinuity among SMEs persists at a rate that raises concern for both policymakers and financial institutions. A substantial proportion of new and existing firms experience operational fragility, with many unable to sustain activities beyond their formative years. Such discontinuity weakens capital formation, disrupts employment stability, and constrains the long-term structural transformation of the economy.

A central factor frequently associated with this pattern is the persistence of financial constraints. SMEs in Nigeria operate within a financial environment characterized by high borrowing costs, stringent collateral requirements, limited access to long-term credit, and asymmetric information between lenders and borrowers. These structural and institutional frictions restrict firms' ability to secure sufficient and timely funding for working capital, asset acquisition, and strategic reinvestment. Consequently, many enterprises depend heavily on internally generated funds or informal financing mechanisms, which are typically short-term, volatile, and inadequate for sustained competitiveness.

Although existing scholarship has examined the implications of financing for SME growth, productivity, and performance, there remains limited systematic evidence on how specific dimensions of financial constraint translate into survival outcomes across sectors and regions. Empirical studies often focus on localized samples or sector-specific contexts, thereby constraining generalizability. More importantly, survival—conceptualized as the probability of continued operation over time has not been sufficiently analyzed within a comprehensive, quantitatively robust national framework that captures cross-regional and cross-sectoral heterogeneity.

This evidentiary gap presents a significant policy and academic challenge. Without rigorous empirical clarity on the extent to which funding constraints shape SME survival probabilities, financial sector reforms and intervention programs risk being inadequately targeted or inefficiently structured. An improved understanding of the causal and statistical relationship between access to finance and enterprise longevity is therefore essential. Such evidence can inform the design of credit policies, guarantee schemes, and financial inclusion strategies capable of enhancing SME resilience, stabilizing employment, and strengthening Nigeria's broader economic development trajectory.

Objectives of the Study

The primary purpose of this study is to examine small business funding and SME survival rates in Nigeria through a quantitative analysis of financial constraints. The specific objectives of the study are:

- i. To examine the relationship between access to funding and the survival rates of SMEs in Nigeria.
- ii. To identify the key financial constraints that limit the growth and sustainability of SMEs.
- iii. To assess the potential impact of improving funding accessibility on the long-term survival and performance of SMEs.

Research Questions

The study provided answers to the following research questions.

- i. What is the relationship between access to funding and the survival rates of SMEs in Nigeria?
- ii. What are the main financial constraints that hinder the growth and sustainability of SMEs?
- iii. How would improved access to funding affect the long-term survival and performance of SMEs?

Statement of Hypotheses

The following hypotheses in null form (H_0) guided this study

- i. There is no significant relationship between access to funding and the survival rates of SMEs in Nigeria.
- ii. Financial constraints do not significantly affect the growth and sustainability of SMEs.
- iii. Improved access to funding has no significant effect on the long-term survival and performance of SMEs.

Review of Related Literature

Conceptual Review

Concept of SME Survival Rates

The survival rate of small and medium-sized enterprises (SMEs) refers to the proportion of firms that continue to operate successfully over a given period, avoiding premature closure or bankruptcy. It captures not just longevity, but the capacity of SMEs to withstand internal and external pressures — financial, market, managerial, and environmental — over time. Firms that manage to remain operational five years or more after their establishment are typically considered survivors, while those that exit early are not (Nalzaró & Montañó, 2023).

Research on SME survival rates often links survival to firm-specific characteristics, such as size, age, capacity, and management practices, as well as environmental and institutional conditions like market conditions, access to finance, and regulatory frameworks. Studies that adopt exploratory approaches have identified a range of factors — both financial and non-financial — that influence whether SMEs persist or fail, emphasizing that survival depends on a complex mix of conditions rather than a single determinant (Adam & Alarifi, 2021).

In contexts of economic shocks or crises, survival rate becomes especially critical. During the COVID-19 pandemic, SMEs that employed adaptive strategies, such as innovation or technology adoption, were more likely to survive

than those that did not. This illustrates that beyond funding, strategic responses to external pressures play a central role in sustaining operations over time (Mishrif & Khan, 2023).

Empirical studies also indicate that survival rates vary across sectors, sizes, and geographic settings. For instance, research conducted in a suburban area of Lagos State revealed that only 42.2% of small enterprises survived over a five-year period, with manufacturing firms exhibiting higher survival rates compared to trade or service enterprises. This highlights that industry-specific factors and regional dynamics influence the probability of survival (Saibu & Bello, 2020).

Moreover, survival is not purely about staying in business; it also involves sustaining operational capacity. Firms with better-managed resources, including inventory, human capital, and organizational processes, tend to endure longer. Therefore, SME survival rates reflect both resilience and the strategic use of internal resources to overcome financial and operational challenges (Ishaq & Suleman, 2021; Journal of the Knowledge Economy, 2024).

Access to Finance

Access to finance refers to the ease with which small and medium-sized enterprises (SMEs) can obtain external funds and financial services, including credit, loans, and working-capital financing, necessary for start-up, operations, expansion, or investment. For SMEs, the ability to secure funding through formal financial institutions or alternative channels is often a precondition for growth, stability, and resilience (Adegboye & Iweriebor, 2018).

In many developing-country contexts, access to finance remains a major constraint for SMEs. Limited access to credit, due to high collateral requirements, high interest rates, and complex documentation procedures, prevents many firms from obtaining formal loans, forcing them to rely on informal sources or self-financing. Research in Lesotho also highlighted how insufficient financial information and rigid banking structures restrict SMEs from raising needed capital (Amadasun & Mutezo, 2022).

Access to finance is multidimensional, encompassing not only the availability of funds but also affordability, appropriateness, and timeliness. Empirical studies show that banks and credit institutions often fail to deliver financing that matches SMEs' needs, limiting growth potential. Adoption of digital financial tools and financial literacy programs has been shown to improve access, suggesting that innovation plays a key role in bridging financing gaps (Chowdhury, 2017; Frimpong et al., 2022).

For SMEs, improved access to finance translates into enhanced capacity for investment, better working-capital management, and resilience against market shocks. Firms that secure formal credit or other funding on favorable terms are more likely to invest in long-term growth, expand operations, and create jobs, thereby contributing to broader economic development (Oluwaseye et al., 2020).

Moreover, access to finance is a critical component of financial inclusion, bridging structural inequalities in financing across firm sizes, regions, and economic sectors. State interventions, alternative financing channels, and financial-market innovations are increasingly crucial for overcoming structural credit constraints, enabling SMEs to thrive and sustain growth (Global Business Management Review, 2024).

Financial Constraints

Financial constraints refer to the limitations and obstacles that small and medium-sized enterprises (SMEs) face in obtaining the financial resources necessary for starting up, operating and expanding their business activities. These constraints often stem from structural rigidities in financial systems, information asymmetries, and stringent requirements imposed by lenders such as high collateral demands, strict documentation, and unfavorable loan terms (Yang, Zhang & Gong, 2024). When SMEs cannot meet these requirements, they may be excluded from formal finance channels, hindering their capacity to invest or grow.

Empirical evidence shows that financing constraints manifest through restricted access to credit, high cost of borrowing, and limited availability of suitable financial products. In a cross-country analysis, firms under financial constraints experience slower growth in sales and employment compared with unconstrained firms, highlighting how constraint severity affects firm-level outcomes (Brown, Ongena & Popov, 2018). Similarly, studies in developing economies report that limited finance availability — due to lack of collateral, poor creditworthiness, or perceived high risk — reduces SMEs' ability to invest in assets or working capital, thus impairing operational efficiency (Barajas, Matías & Rodríguez, 2023).

Financial constraints are not only about liquidity but also about imperfect financial infrastructure and institutional weaknesses. For many SMEs, the absence of robust credit information systems, weak corporate governance, and limited investor confidence exacerbates funding difficulties (Huang & Ouyang, 2023). This institutional fragility often leads to high risk premiums or outright denial of credit to small enterprises, increasing their vulnerability and potentially raising their cost of capital.

The consequences of financial constraints for SMEs are significant: restricted financing limits their ability to purchase equipment, expand operations, hire staff, or buffer against adverse shocks. Studies find that SMEs facing high financing constraints demonstrate lower investment rates, reduced capacity for innovation, and constrained long-term growth prospects. As a result, many SMEs remain small, informal, or eventually exit the market, undermining their potential contributions to employment and economic growth.

Moreover, financial constraints deepen structural inequalities across firm sizes, industries, and regions. When financing is skewed toward larger or more established firms, SMEs — especially startups and youth-led enterprises are disproportionately marginalized. This unequal access to finance reduces overall economic dynamism, stifles entrepreneurship, and limits broad-based growth. Consequently, addressing financial constraints becomes essential for ensuring inclusive SME development and promoting equitable economic progress.

Business Growth

Business growth is understood as the progressive expansion of a firm's performance, activities and strategic capabilities over time, measured through financial and non-financial indicators such as sales, profitability, market share and workforce expansion. Recent studies emphasized that growth reflects both quantitative improvement and qualitative enhancement of organisational competencies, allowing firms to strengthen competitive advantage

within dynamic environments (Meressa, 2020). This broad view aligns with contemporary interpretations of sustained enterprise development.

Scholars increasingly frame business growth as a multidimensional construct, recognising that improvements in innovation capacity, human-resource quality and strategic processes contribute meaningfully to firm expansion beyond numerical performance metrics. This perspective asserts that operational efficiency, product quality and learning capability equally shape long-term growth trajectories in competitive markets, highlighting the interaction of structural, behavioural and strategic components in shaping enterprise evolution (Yahaya, 2023). Such integration broadens the conceptual boundary of growth for modern firms.

Internal determinants remain central to understanding business growth, with leadership characteristics, managerial experience, employee skill levels and organisational ambition identified as core drivers. Empirical evidence demonstrates that variables such as founder aspiration, workforce competence and effective managerial oversight significantly predict growth outcomes for small and medium enterprises, illustrating how internal organisational resources nurture performance advancement and competitive resilience (Slávik et al., 2023). These factors show that capability development remains a key mechanism through which firms expand.

External contextual conditions equally shape the pace and sustainability of business growth, including access to markets, technological infrastructure, transportation systems, economic stability and availability of relevant business information. Research applying principal-component analysis reveals that market information, technology adoption and environmental conditions strongly influence the ability of firms to scale activities effectively, especially in developing economies where institutional support may vary (Ongbali et al., 2024). These external variables form essential enabling conditions for firm expansion.

Business growth thus emerges from the dynamic interplay between internal capabilities and external influences, requiring organisations to leverage human capital, innovation and strategic decision-making while adapting to environmental opportunities and constraints. This combination determines whether growth remains stable and sustainable over time, underscoring the importance of integrating internal strengths with external market realities to enhance long-term organisational performance and competitiveness (Meressa, 2020). Moreover, this interaction provides a comprehensive lens for conceptualising modern enterprise growth.

Entrepreneurial Sustainability

Entrepreneurial sustainability refers to the capacity of entrepreneurs to create and manage ventures that achieve economic success while simultaneously advancing social welfare and environmental preservation. It promotes value creation that goes beyond short-term profitability by integrating long-term ecological and societal considerations into business models. This orientation positions entrepreneurs as agents who balance profit with responsibility, ensuring their ventures contribute positively to sustainable development (Rosário et al., 2022).

A central element of entrepreneurial sustainability is the incorporation of the triple bottom line, where economic viability, social equity and environmental stewardship are pursued in unified form. Rather than isolating these

dimensions, sustainable entrepreneurs integrate them into strategic and operational decisions, enabling businesses to generate lasting value for multiple stakeholders. This holistic approach strengthens the mission of entrepreneurship as a driver of societal transformation (Terán-Yépez et al., 2020).

Internal organisational capacities play a pivotal role in achieving entrepreneurial sustainability. Capabilities such as innovation, knowledge management and learning orientation allow entrepreneurs to respond effectively to environmental and social challenges while capturing new opportunities. Research shows that ventures with strong knowledge processes and innovative strategies are better positioned to sustain long-term growth aligned with sustainability goals, reinforcing the importance of internal strengths in the entrepreneurial journey (Alkathiri et al., 2024).

External contextual conditions further influence the sustainability orientation of entrepreneurs. Institutional frameworks, environmental regulations, cultural norms and market demand for sustainable products determine whether entrepreneurs can successfully pursue sustainability goals. Empirical evidence indicates that supportive formal institutions and conducive ecosystem factors significantly enhance sustainable entrepreneurial activity, highlighting the interdependence between firms and their broader environments (Alwakid et al., 2021).

Entrepreneurial sustainability ultimately represents a dynamic process shaped by the interaction of internal capabilities and external ecosystem conditions, demanding strategic alignment between profit objectives and long-term societal and environmental needs. By embedding sustainability principles into their ventures, entrepreneurs contribute meaningfully to economic progress while advancing shared value for communities and ecosystems, moreover reinforcing entrepreneurship's role in sustainable development (Broccia et al., 2022).

Credit Accessibility

Credit accessibility refers to the extent to which individuals or enterprises can obtain credit from formal or semi-formal financial institutions under reasonable terms. It encompasses the availability of financial resources, the affordability of loan conditions, and the ease of meeting lender requirements. Studies show that credit accessibility is influenced by the procedures, interest rates, collateral demands, and administrative processes that determine whether borrowers can successfully secure funding (Cobbinah et al., 2021).

Access to credit remains essential for micro, small and medium enterprises because it enables them to finance working capital, acquire assets, expand operations and strengthen competitiveness. Evidence indicates that favourable credit terms — such as manageable interest rates, flexible repayment periods and reduced bureaucratic requirements — significantly enhance a firm's likelihood of obtaining formal financing, which consequently improves business performance and operational stability (Abolaji Oladimeji, 2022).

Institutional factors strongly shape credit accessibility, particularly the structure and behaviour of financial institutions. Aspects such as banking outreach, asset-based lending frameworks and risk-assessment procedures influence how easily enterprises can obtain loans. Research demonstrates that banks' willingness to accept business turnover, movable assets or simplified documentation procedures increases the probability that small firms will access credit from formal lenders (Kobia et al., 2021).

Borrower-level characteristics also play a central role in determining credit accessibility. Elements such as financial literacy, record-keeping practices, business experience and demonstrated creditworthiness significantly affect lenders' willingness to advance loans. Evidence suggests that enterprises with sound financial behaviour, reliable cash flows and transparent documentation experience fewer barriers during credit application processes, enhancing their ability to meet financing needs (Ngumbi et al., 2020).

Credit accessibility therefore represents a dynamic interaction between supply-side institutional conditions and demand-side borrower attributes, influenced by broader economic environments and regulatory frameworks. Limited access often forces enterprises to rely on informal lenders, constraining expansion and long-term sustainability, whereas improved accessibility strengthens business resilience, innovation and economic participation, moreover enhancing inclusive growth within developing economies (Waweru et al., 2023).

Theoretical Review

This study was theoretically underpinned on Pecking Order Theory (POT)

Pecking Order Theory (POT)

The Pecking Order Theory, developed by Myers and Majluf (1984), suggests that firms prioritize their sources of financing based on the principle of least effort and lowest risk. Firms prefer to use internal funds (retained earnings) first. If internal funds are insufficient, they resort to debt financing, and only as a last resort do they seek external equity. This hierarchy arises due to asymmetric information, where managers know more about the firm's financial health than external investors. Issuing new equity may signal overvaluation or financial distress, making it less attractive.

Relevance to the Study:

- i. Most Nigerian SMEs rely on internal funds due to limited access to external financing, aligning with the Pecking Order Theory.
- ii. SMEs face challenges such as lack of collateral, poor financial records, and high lending costs, which increases reliance on internal resources before seeking debt.
- iii. Limited access to debt or equity can restrict investment and growth, influencing SME survival rates.
- iv. It helps in formulating hypotheses on the relationship between financing sources and SME survival in Nigeria.

Empirical Review

Akinyele et al. (2023) studied entrepreneurial financing (bank credit, equity financing, and crowdfunding) and growth of SMEs in Abeokuta using a quantitative cross-sectional survey of 109 SMEs selected randomly. They found that bank credit and equity financing significantly improve SMEs' growth and market share, while crowdfunding also positively influences net profit margin — underscoring the value of diversified finance sources beyond traditional credit.

Owota & Mansi (2024) examined how removal of fuel subsidy (an exogenous policy shock) affected MSME growth in Bayelsa state. Using a survey of 400 MSMEs and regression analysis, they found that rising transportation and operational costs (post-subsidy removal) significantly impaired MSMEs' revenue growth and constrained their access to finance — suggesting that macroeconomic policy changes may indirectly undermine SME stability and expansion.

Musa Mohammed et al. (2025) explored access to finance for MSMEs in Nigeria by comparing traditional financial institutions with alternative financing channels (e.g. fintech, informal funding). Using a mixed-method design combining surveys, interviews, and financial data across urban and rural MSMEs, they found that alternative financing sources have become critical: many MSMEs rely more on informal or non-bank financing because formal institutions remain difficult to access, especially in underserved regions.

Bukar et al. (2025) evaluated the effect of crowdfunding platforms on enhancing finance sources for MSMEs in northeastern Nigeria — using a descriptive survey and multiple regression on structured questionnaire data. They found that reward-based and debt-based crowdfunding significantly improve access to finance for MSMEs; donation-based and equity-based crowdfunding showed no significant effects. The study recommends expanding fintech infrastructure and regulatory support for crowdfunding to close the financing gap.

Effiom & Edet (2022) — via a time-series model spanning 1990–2019 — assessed how financial inclusion (bank deposits/savings, access to banks) and credit from banks affect SME development in Nigeria, using an Error Correction Model and co-integration analysis. They found that financial inclusion (savings and bank-access) significantly supports SME growth, while access to credit had a statistically negative effect in the short run, suggesting that mere credit expansion without supporting financial-inclusion mechanisms may not yield positive SME outcomes.

Methodology

Research Design

The study adopted a survey research design to examine the relationship between small business funding and SME survival rates in Nigeria, focusing on the impact of financial constraints. The survey method was considered appropriate as it allowed for the collection of quantitative data from a large number of respondents within a short period, providing measurable insights into funding challenges and survival outcomes.

Setting

The study was conducted in Lagos State, Nigeria, a major commercial hub with a high concentration of Small and Medium Enterprises (SMEs). The setting was chosen due to its diverse SME landscape and the accessibility of financial data relevant to the research objectives.

Population

The population consisted of registered small and medium-sized enterprise owners in Lagos State. A population size of 1,200 SMEs was used for the study. These SMEs included businesses across various sectors such as retail, manufacturing, and services, ensuring that the findings reflected a broad representation of financial experiences and survival rates.

Sample Size

The sample size was determined using the Taro Yamane formula:

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = sample size

N = population size (1,200)

e= margin of error (0.05 for 95% confidence level)

$$n = \frac{1200}{1+1200(0.05)^2} = \frac{1200}{1+1200(0.0025)} = \frac{1200}{1+3} = \frac{1200}{4} = 300$$

Thus, a sample size of **300 SME owners** was used for the study.

Sampling Techniques

A simple random sampling technique was employed to select 300 respondents from the population of 1,200 SMEs. This technique ensured that every SME had an equal chance of being selected, minimizing bias and enhancing the generalizability of the results.

Instrument for Data Collection

Data were collected using a structured questionnaire, which was divided into sections capturing demographic information, funding sources, financial constraints, and survival indicators. The questionnaire included both closed-ended and Likert-scale items to quantify financial challenges and SME survival rates.

Validity of Instrument

The questionnaire was reviewed by three experts in SME finance and business research to ensure content validity. Adjustments were made to ambiguous items, and the instrument was pre-tested on 20 SME owners outside the main study sample to verify clarity and relevance.

Reliability of Instrument

The reliability of the questionnaire was assessed using the Cronbach's Alpha coefficient, which yielded a value of 0.82, indicating high internal consistency and reliability of the instrument.

Method of Data Collection

Data were collected using survey and interview methods. The questionnaire was administered physically and electronically to respondents, and follow-up interviews were conducted with selected SME owners to clarify responses and gain deeper insights into financial constraints affecting survival rates.

Method of Data Analysis

Data collected were analyzed using descriptive statistics, including frequency tables, percentages, and mean scores. Frequency tables were used to summarize responses and identify patterns relating to funding sources, financial constraints, and SME survival rates. The analysis provided a quantitative understanding of the relationship between financial constraints and SME survival in Lagos State.

Data Presentation and Analysis

Table 1: How would you rate your business's current level of access to external funding?

Options / Responses	Frequency (n = 300)	Percentage (%)
Very High	12	4.0%
High	36	12.0%
Moderate	78	26.0%
Low	108	36.0%
Very Low	66	22.0%
Total	300	100%

Source: Field Survey, 2026

This table illustrates the respondents' views on their level of access to external funding, showing that a majority of SMEs experience limited funding opportunities. Specifically, 36% of respondents rated their access as low, and 22% reported very low access, indicating that more than half of the businesses face significant challenges in securing external finance. About a quarter of the respondents (26%) described their access as moderate, while only 12% and 4% rated their funding access as high and very high, respectively. These findings highlight that inadequate access to funding is a common issue among SMEs, which could negatively affect their growth, operational sustainability, and overall survival in the Nigerian business environment.

Table 2: To what extent has access to funding influenced the survival of your business over the past 3 years?

Options / Responses	Frequency (n = 300)	Percentage (%)
Very large extent	54	18.0%
Large extent	90	30.0%
Moderate extent	78	26.0%
Small extent	48	16.0%
No extent	30	10.0%
Total	300	100%

Source: Field Survey, 2026

This table illustrates the respondents' views on the influence of funding access on the survival of their businesses over the past three years. The majority of SME owners, accounting for 30% and 18% of respondents, indicated that

access to funding had a large or very large impact on business survival, highlighting the critical role of financial support in sustaining operations. About 26% reported a moderate influence, while 16% and 10% perceived a small or no impact, respectively. These results suggest that while access to funding is a key determinant of SME survival for many businesses, there remains a subset of firms whose survival is less dependent on external financial support, possibly due to other internal resources or revenue streams.

Table 3: Which of the following financial constraints most affects your business?

Options / Responses	Frequency (n = 300)	Percentage (%)
High interest rates	72	24.0%
Difficulty accessing bank loans	90	30.0%
Insufficient collateral	48	16.0%
Inconsistent cash flow	60	20.0%
High cost of operations	30	10.0%
Total	300	100%

Source: Field Survey, 2026

This table illustrates the respondents' views on the financial constraints that most affect their businesses. The majority of SMEs, accounting for 30% of respondents, reported difficulty accessing bank loans as their main challenge, while 24% cited high interest rates as the most significant constraint. Inconsistent cash flow affected 20% of the respondents, and 16% were constrained by insufficient collateral, with the remaining 10% impacted by the high cost of operations. These findings indicate that access to affordable financing is the most critical barrier for SMEs, and addressing these financial constraints could substantially improve their growth prospects and sustainability.

Table 4: How significantly do financial constraints hinder the growth of your business?

Options / Responses	Frequency (n = 300)	Percentage (%)
Very significantly	84	28.0%
Significantly	90	30.0%
Moderately	66	22.0%
Slightly	36	12.0%
Not at all	24	8.0%
Total	300	100%

Source: Field Survey, 2026

This table illustrates the respondents' views on how financial constraints affect the growth of their businesses. Most SME owners perceive financial limitations as a substantial barrier, with 30% indicating significant hindrance and 28% reporting very significant effects on growth. Additionally, 22% of respondents felt that financial constraints moderately affect their business, while a smaller proportion, 12% and 8%, reported slight or no hindrance, respectively. These results underscore that financial challenges remain a major impediment to SME expansion and operational development, highlighting the need for improved funding strategies and financial support mechanisms.

Table 5: If access to funding were improved, how likely would your business's long-term survival increase?

Options / Responses	Frequency (n = 300)	Percentage (%)
Very likely	102	34.0%
Likely	ninety (90)	30.0%
Moderately likely	sixty (60)	20.0%
Unlikely	thirty (30)	10.0%
Very unlikely	eighteen (18)	6.0%
Total	300	100%

Sources: Field Survey, 2026

This table illustrates the respondents' views on the potential impact of improved access to funding on their business's long-term survival. A significant majority of SME owners, representing 34% and 30% of respondents, believe that enhanced funding would very likely or likely improve their chances of survival, demonstrating the crucial role of financial support in sustaining SMEs. Another 20% indicated that improved funding would moderately affect survival, while only 10% and 6% perceived unlikely or very unlikely benefits, respectively. These results suggest that facilitating access to adequate funding could substantially enhance the long-term survival and stability of small and medium-sized enterprises.

Table 6: To what extent do you believe better funding opportunities would improve your business performance (sales, expansion, productivity)?

Options / Responses	Frequency (n = 300)	Percentage (%)
Very large extent	ninety (90)	30.0%
Large extent	ninety (90)	30.0%
Moderate extent	sixty (60)	20.0%
Small extent	forty-five (45)	15.0%
No extent	fifteen (15)	5.0%
Total	300	100%

Source: Field Survey, 2026

This table illustrates the respondents' views on the potential impact of improved funding opportunities on their business performance. A substantial proportion of SMEs, 30% reporting very large extent and another 30% reporting large extent, indicated that better access to funding would significantly enhance their sales, expansion, and productivity. An additional 20% perceived a moderate effect, while 15% and 5% felt the improvement would be small or negligible, respectively. These results highlight that increased access to financial resources is widely regarded as a key driver of improved performance, suggesting that policies aimed at facilitating funding could meaningfully boost SME productivity and growth in Nigeria.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The following summarizes the key findings:

- i. The study revealed that a significant majority of SMEs in Lagos State face challenges in accessing external funding. Most respondents reported low or very low access to financial resources, while only a small proportion indicated high or very high access. This finding underscores that inadequate funding is a common obstacle that could impede business growth and long-term survival.
- ii. The findings indicated that key financial constraints—such as difficulty accessing bank loans, high interest rates, inconsistent cash flow, and insufficient collateral—substantially hinder the growth and sustainability of SMEs. A majority of respondents reported that these constraints have a very large or significant impact on both operational performance and business survival over time.
- iii. The analysis showed that most respondents believe better access to funding would significantly improve their long-term survival and business performance, including sales, expansion, and productivity. The majority indicated that enhanced financial support would have a very large or large positive effect, highlighting the critical role of funding policies and interventions in strengthening SME resilience and growth prospects.

Conclusion

The findings of this study demonstrate that access to funding is a critical factor influencing the survival and growth of SMEs in Lagos State, Nigeria. The majority of respondents reported limited or very low access to financial resources, highlighting that many small and medium-sized enterprises face significant barriers when seeking external funding. High interest rates, difficulty accessing bank loans, insufficient collateral, and inconsistent cash flow emerged as the primary financial constraints affecting SMEs. These challenges not only limit business expansion but also pose a serious threat to the long-term sustainability of these enterprises.

Furthermore, the study shows that financial constraints have a direct impact on SME growth and operational performance. Most respondents indicated that these constraints significantly hinder their business activities, including investment in new opportunities, productivity, and overall performance. The findings suggest that without adequate financial support, many SMEs may struggle to survive, which could result in decreased contribution to employment generation and economic development in the region. This underscores the urgency of addressing the financial challenges that SMEs face.

Importantly, the study highlights the potential positive impact of improving funding accessibility on SME survival and performance. A majority of respondents believe that better access to funding would greatly enhance their chances of long-term survival, expand their operations, and increase productivity. This indicates that policy interventions, targeted financial support programs, and accessible credit facilities could significantly strengthen SME resilience. Overall, the results emphasize the necessity of creating an enabling financial environment to support SMEs, which are vital drivers of economic growth and development in Nigeria.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

- i. Financial institutions and government agencies should develop and implement schemes that provide SMEs with easier access to affordable loans and credit facilities. This could include lower interest rates, reduced collateral requirements, and simplified application processes. By improving funding accessibility, SMEs would be better positioned to expand operations, increase productivity, and enhance long-term survival.
- ii. Policy-makers and relevant stakeholders should design targeted financial support programs specifically aimed at addressing the key constraints faced by SMEs, such as inconsistent cash flow, high operating costs, and limited collateral. Grants, subsidized loans, and financial advisory services could help SMEs overcome these challenges, fostering growth, sustainability, and competitiveness in the market.
- iii. To complement increased funding opportunities, SMEs should be provided with training and capacity-building programs on financial management, budgeting, and strategic planning. Improving business owners' financial literacy and managerial skills can ensure that available funds are efficiently utilized, risks are minimized, and the survival rate of SMEs is enhanced over the long term.

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