

**Exchange Rate Fluctuation, Financial Inclusion and Performance of Small and Medium
Scale Enterprises in Southwest Nigeria**

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Management & Social Sciences, Lead City University, Ibadan, Oyo State, Nigeria**

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(PhD) in Accounting**

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Certification

This is to certify that Adeyombo Gbenga ADEGUNJU with Matriculation number LCU/PG/002031 carried out this research work titled ‘Exchange Rate Fluctuation, Financial Inclusion and Performance of Small and Medium Scale Enterprises in Southwest Nigeria’, in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University Ibadan, Oyo State for the award of Doctor of Philosophy Degree (PhD) in Accounting and this work has not been previously submitted.

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Dedication

This research is dedicated to God Almighty.

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“Even though the above institution, and persons have assisted in the process of this research work, I alone stand responsible for the errors, if any is found in the work”.

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Abstract

This study investigates the impact of exchange rate fluctuations and financial inclusion on the performance of Small and Medium Scale Enterprises (SMEs) in Southwest Nigeria. The research specifically assesses how exchange rate volatility influences cost structure, investment decisions, and cash flow management, while also examining the roles of access to financial services, digital financial tools, and financial literacy in shaping SME growth and operational efficiency. A total of 273 valid responses were analyzed using both descriptive and inferential statistics, including regression and correlation analyses. Results indicate that exchange rate fluctuations significantly affect the cost structure ($p = 0.002$), investment decisions ($p = 0.012$), and cash flow management ($p = 0.004$) of SMEs, although the explanatory power of these relationships is modest. Access to financial services shows a statistically significant positive impact on business growth ($R = 0.400$; $R^2 = 0.160$; $p < 0.000$), while digital financial services moderately enhance operational efficiency ($R = 0.241$; $R^2 = 0.058$; $p < 0.000$). Financial literacy demonstrates the strongest effect, significantly influencing the financial decision-making of SME owners ($R = 0.536$; $R^2 = 0.287$; $p < 0.000$). The findings reveal the importance of financial capability and access to inclusive financial products in mitigating the adverse effects of macroeconomic volatility. The study concludes that SME resilience in a fluctuating economic environment requires integrated strategies involving financial education, improved digital infrastructure, and policy reforms that enhance access to tailored financial services. These measures are essential for promoting sustainable growth, strategic investment, and financial stability among SMEs in Southwest Nigeria.

Keywords: Exchange Rate Fluctuation; Financial Inclusion; SMEs; Financial Literacy; Investment Decisions; Digital Financial Services; Operational Efficiency

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Chapter One

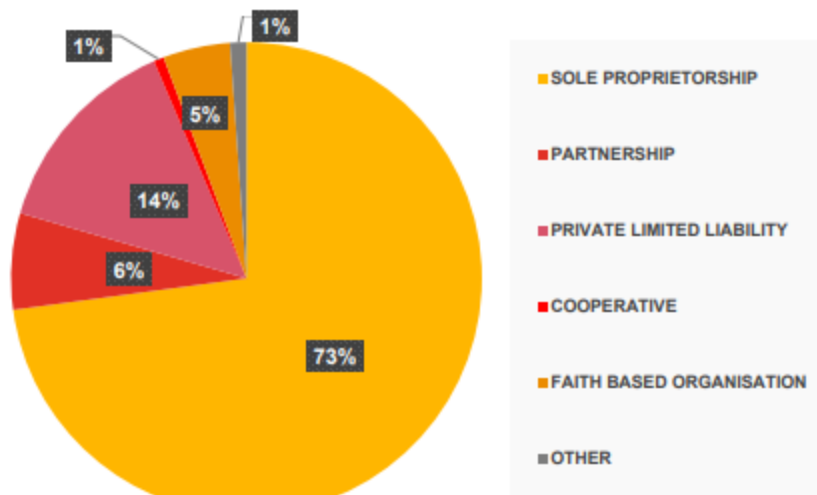
Introduction

1.1 Background to the Study

Every Society continuously aims to attain full economic independence and autonomy by fostering entrepreneurship, highlighting the importance of Small and Medium Enterprises (SMEs) as crucial catalysts for contemporary economies due to their significant role in fostering innovation and generating job opportunities in nations with advanced economies as well as those still growing. Nigeria's economy, which is mainly reliant on oil, is highly dependent on Small and Medium Scale Enterprises (SMEs). These enterprises play a crucial role in diversifying the economy, creating jobs, fostering innovation, and distributing wealth. Nevertheless, small and medium-sized enterprises (SMEs) encounter obstacles such as insufficient funding, deficient record keeping, difficulty distinguishing between company and personal capital, lack of infrastructure, and inadequate skills. Survival and growth opportunities encompass factors such as job creation, ease of setting up businesses, contribution to GDP, and possibility for further expansion.

Small and Medium-sized Enterprises (SMEs) in Nigeria contributes to the country's Gross Domestic Product (GDP) and workforce. SMEs performance has a considerable impact on the overall economic performance of the country¹. Nigeria's small and medium-sized enterprises (SMEs) encounter obstacles such as insufficient technology, unfavourable business conditions, inadequate infrastructure, and unfavourable economic policies, regardless of the efforts made by the public authorities and private organizations to assist them. Despite the considerable prospects presented by the country's large population and rising consumer market, these variables result in increased costs and decreased profitability².

Ownership structure of SMEs



Source: NBS, SMEDAN, PwC analysis

Figure 1.1: Share of small and medium-sized enterprises (SMEs) in Nigeria in 2020

The report from figure 1.1 revealed that Micro, Small, and Medium Enterprises (MSMEs) in Nigeria make up 96% of all businesses nationwide and contribute roughly half of the country's GDP. Regarding how these businesses are owned, 73% operate as sole proprietorships, and 14% are registered as private limited liability companies. The remaining 13% consist of Partnerships (6%), Faith-based organizations (5%), Cooperatives (1%), and various other types (1%)³.

The concerning frequency of Nigerian Small and Medium Enterprises (SMEs) experiencing failure prior to their fifth anniversary has been emphasized. The paper highlights that tough economic conditions, restricted access to capital, and inadequate business practices are the main factors that hinder growth and transformation. Approximately 80 percent of small and medium-sized enterprises (SMEs) encounter substantial difficulties, largely as a result of the imposition of several taxes. This load has a detrimental effect on businesses throughout the country⁴. The Nigerian government has introduced policies and programmes to promote the flow of financial services to

small and medium-sized organisations. However, these efforts have not resulted in substantial growth and development for small-scale businesses due to many obstacles that are limiting their progress. Though various factors have been highlighted above, exchange rate fluctuation and financial inclusion is one area SMEs owners are falling short of⁵.

Businesses economic success, especially small and medium-sized organisations, is greatly influenced by exchange rates. This is because SMEs have limited resources and are exposed to global markets. The Bretton Woods system, established in the aftermath of World War II, brought stability to global trade. The system gradually collapsed during the 1970s stemming from escalating economic differences and speculative currency attacks. With the adoption of floating exchange rate regimes, many currencies experienced devaluation, enhancing the global appeal of exports while increasing the volume of imports. This shift has influenced the operational costs faced by small and medium-sized enterprises. Nigeria's oil-dependent economy has been greatly impacted by currency devaluation, which has undermined the international competitiveness of its small and medium-sized enterprises in the export market⁶. The exchange rate strategy maintained in Nigeria since 1986 has caused the naira to be overvalued, leading to a rise in imports and a decline in non-oil exports. As a result, there was an excessive reliance on foreign resources. The naira's value versus the dollar was greatly affected by the global economic crisis, causing the exchange rate to rise from N120/1\$ to over N180/1\$ between 2008 and 2009. The exchange rate is vital in determining a nation's balance of payments position and ensuring price stability. Nevertheless, Nigeria's global trade structure, which is mostly focused on crude oil and agricultural products, does not fulfil the criteria for a successful balance of payments plan⁷.

Fluctuations in exchange rates have an impact on prices, leading to a redistribution of money among suppliers, customers, and competitors. They can have a detrimental effect on the

competitiveness of a sector. Currency depreciation can enhance the profitability of exporting firms by reducing prices in foreign markets. However, it can also diminish revenues if companies acquire intermediate goods, resulting in increased production costs. Even organisations that are not operating on an international scale may nevertheless be impacted by these swings through indirect means⁸. The depreciation of the Naira has generated public interest in currency exchange rate volatility, impacting performance of enterprises in Nigeria. The fluctuation of currency exchange rates is of utmost importance for multinational corporations' financial operations, as foreign currencies play a vital role in international trade. Exchange rates are a fluctuating macroeconomic variable that has an impact on business activities⁹.

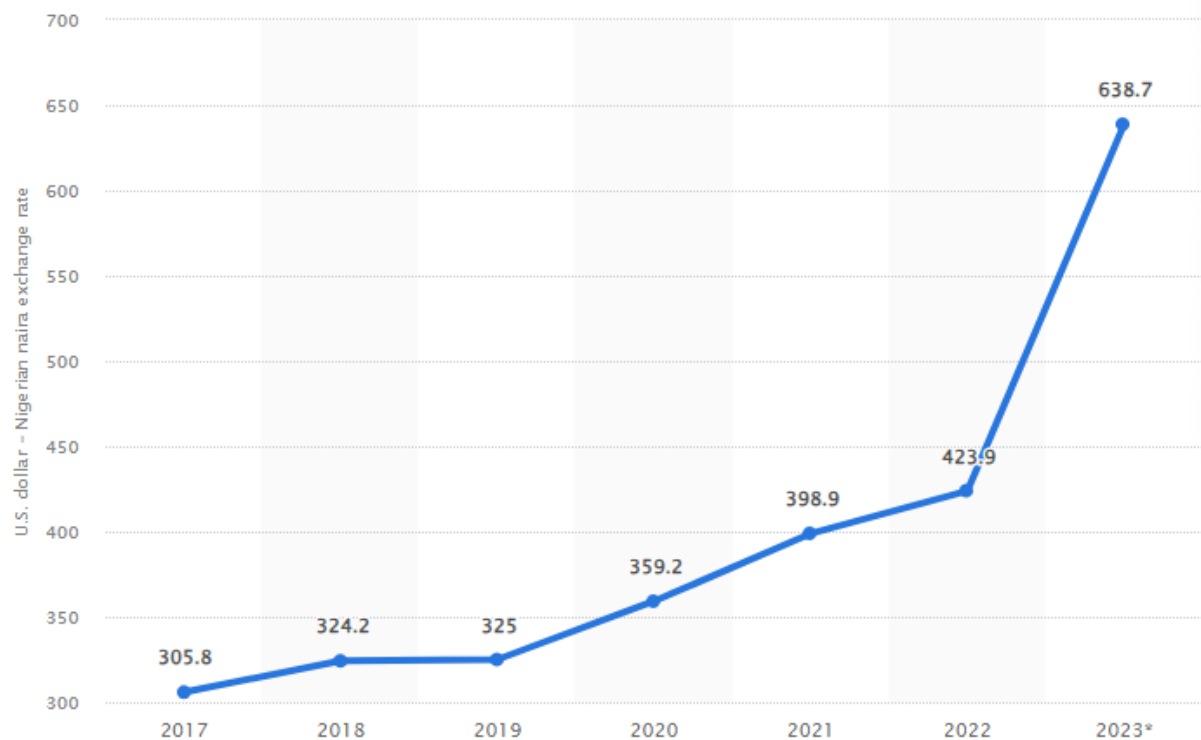


Figure 1.2: Annual average exchange rate of one U.S dollar in Nigerian naira (NGN) from 2017 to 2023¹⁰.

Figure 1.2 displays the annual average exchange rate of the U.S dollar to the Nigerian naira (NGN) from 2017 to 2023. The depreciation of the Nigerian naira versus the U.S dollar from 2017 to 2023 has raised concerns over inflation, foreign investment, debt repayment, and overall economic stability. The exchange rate appreciation from 302.8 NGN/USD in 2017 to 638.7 NGN/USD in 2023 indicates a significant devaluation, leading to increased import costs and inflation. This can potentially influence cost of living and reduce purchasing power of average Nigerian. A depreciated naira could potentially improve the affordability and market strength of Nigerian exports in the global market. However, it may also deter foreign investment by creating concerns about the currency's soundness. Policymakers should address these issues by implementing equitable economic and monetary policies to ensure sustained growth and stability.

The devaluation of the Nigerian naira has significantly impacted the operations of small and medium-sized businesses, increasing import expenses, inflation, and financial instability. This has negatively impacted profit margins, operational costs, and price competitiveness. However, SMEs selling internationally could capitalize on the decrease in currency value, potentially increasing export earnings. Strict monetary policies and reduced purchasing power may result in higher financing costs, further intensifying financial uncertainty and postponing investments. Ensuring access to financial services plays a vital role in promoting broad-based economic development and reducing poverty, employment generation, wealth accumulation, and individual well-being¹¹. Financial inclusion in Nigeria is crucial for enabling accessible fiscal tools and assistance available to individuals and organizations. However, SMEs face challenges in securing financing due to limited access to credit facilities. The Association of Nigerian Development Institutions acknowledges credit as a significant barrier to economic activity. Financial inclusion initiatives should focus on enhancing financial literacy among SMEs, enabling them to understand and

evaluate financial solutions. Banks struggle to meet the significant costs associated with lending to SMEs due to insufficient capital reserves, inadequate financial documentation, and intense market competition¹².

Financial inclusion, a global strategy aimed at addressing poverty and inadequate access to financial services seeks to offer affordable availability of diverse financial options such as payment solutions, savings accounts, loans, insurance, and retirement plans. It is essential in supporting the development and progress of small and medium businesses. The Central Bank of Nigeria is actively pursuing financial inclusion through microfinance, addressing challenges faced by SMEs in Nigeria, such as hostile business environments, inadequate capital, limited managerial expertise, and lack of access to modern technology¹³. However, the banks face challenges in obtaining funds, including inadequate business plans, marketing strategies, efficient accounting systems, and managerial issues. These obstacles hinder MSMEs' participation in banking services, particularly loans, crucial for their expansion. The National Financial Inclusion Strategy (NFIS) has not yielded significant results due to these challenges¹⁴. Furthermore, small and medium enterprises continue to struggle with obtaining or assimilating new technology, develop their operations to engage in international markets, or establish business connections¹⁵.

It was stated that access to financial services has the ability to improve the effectiveness of linking savings to investments, as well as facilitate adjustments in the financial system's framework. The advantages of financial inclusion in Nigeria have been praised, but concerns persist, particularly among small and medium-scale businesses. The issues encompass the absence of financial services, cyber theft, deceitful practices, undisclosed expenses, refusal to accept Nigerian cards for global transactions, faulty ATMs, and interruptions in network connectivity. The challenge of acquiring access to funding remains a significant barrier to establishing new enterprises¹⁶. Policy

makers, academics and development agencies are increasingly acknowledging the global significance of access to financial services as a tool for driving economic growth. This is especially true in terms of eliminating extreme poverty, generating employment opportunities, and fostering wealth creation and sustainable livelihoods. Global advancement in general¹⁷.



Figure 1.3: Most pressing problem facing SMEs in Nigeria

The graph offers significant insights into the main obstacles encountered by Small and Medium Enterprises in Nigeria. This highlights the notable obstacles that small and medium-sized enterprises have when trying to obtain financial services, emphasising a requirement for improved initiatives to promote financial inclusion. Strengthening financial inclusion for small and medium-sized enterprises in Nigeria requires targeted efforts in sectors such as tailored financial products, financial literacy initiatives, supportive regulatory frameworks, and advancements in technology.

These measures has the potential to foster development, resilience, and overall economic contribution of SMEs. This study seeks to examine the impact of exchange rate volatility and financial inclusion on the performance of SMEs in South West Nigeria. The objective is to offer policy-driven recommendations that promote financial integration and reduce the adverse effects of exchange rate fluctuations on SME performance, with a particular focus on Oyo State and the broader Nigerian context.

1.2 Statement of Problem

In the preceding paragraphs, the research have been able identify the various, as illustrated in figure 1.2 and figure 1.3, factors bedeviling SMEs in Nigeria. It has been empirically confirmed that fluctuations in exchange rates, along with barriers to accessing business finance, significantly influence the pricing strategies and profitability of SMEs in Nigeria. These trends can result in difficulties in accurately determining the prices of items or services, sustaining competitiveness in both local and global markets, and controlling import or export expenses. Why there are sufficient works done on exchange rate fluctuation and financial inclusion, there still exist so many empirical gaps to arrive at the specifics in determining what constitutes the cog in wheel of progress of SMEs in Nigeria. For instance, a study on factors affecting small and medium-sized enterprises access to finance was conducted in Nigeria¹⁸. While the research offers important understanding of the difficulties SMEs encounter when trying to obtain financing, concentrating specifically on SMEs located in Edo State. This focus may not completely capture the challenges and prospects experienced by SMEs in other parts of Nigeria. The study mainly uses quantitative survey data, delivering useful statistical insights. However, adding qualitative methods such as interviews or focus groups might reveal more detailed perspectives. Furthermore, the study predominantly

examines the use of personal savings and formal financial institutions as sources of funding for SMEs.

Likewise, the issues and opportunities confronting SMEs in Nigeria have been explored, with particular attention given to three locations within a local government area: Bwari L.G. Headquarters, Kubwa, and Dutse Alhaji. However, the narrow geographical focus may not adequately reflect the broader experiences of SMEs. Moreover, the research mainly relies on quantitative data collected through a structured questionnaire. While the analysis utilized frequency tables and basic percentages, incorporating qualitative methods like interviews or focus groups could offer deeper insights. Additionally, another study examining the connection between SME financing and sustainable economic growth in Nigeria from 1992 to 2019 applied econometric modeling and statistical tools to assess the relationship's nature and intensity. This research focused on factors such as broad money supply, commercial bank loans to SMEs, gross fixed capital formation, and total commercial bank credit to the private sector¹⁹.

Additionally, a study on the challenges faced by SMEs in Nigeria's post-pandemic economy primarily relied on literature reviews and broad observations without using empirical data or case studies to substantiate its claims. Moreover, the applicability of research on the CBN's SME intervention programs in Nigeria is limited due to insufficient data, a lack of quantitative analysis, and a narrow geographic focus. Among the existing studies, very few have examined the combined impact of exchange rate fluctuations and financial inclusion on SME performance in South West Nigeria. Furthermore, the direct and indirect influences of exchange rate volatility and financial inclusion on SMEs' outcomes have not been thoroughly investigated. Therefore, this study aims to fill that gap.

1.3 Aim and Objectives of the Study

The aim of this study is to assess exchange rate fluctuation, financial inclusion and performance of Small and Medium Scale Enterprises in South West Nigeria. The objectives are to:

1. analyse the perceived fluctuation intensity in Cost Structure on performance of Small and Medium Scale Enterprises in South West Nigeria
2. investigate the Perceived fluctuation intensity in Cash Flow on performance of Small and Medium Scale Enterprises in South West Nigeria
3. evaluate the Effect of Access to Financial Services on Performance of Small and Medium Scale Enterprises in Southwest Nigeria
4. determine the Effect of Digital Financial Services on Performance of Small and Medium Scale Enterprises in Southwest Nigeria
5. assess the effect of exchange rate fluctuation and financial inclusion on performance of Small and Medium Scale Enterprises in South West Nigeria

1.4 Research Questions

1. What is the relationship between exchange rate fluctuation and the cost structure of SMEs?
2. What impact do exchange rate fluctuation have on investment decisions of SMEs?
3. What impact do exchange rate fluctuation have on cash flow of SMEs?
4. How does access to financial services impact the growth of SMEs?
5. What is the effect of digital financial services on the operational efficiency of SMEs?

1.5 Hypotheses

H₀₁: There is no significant relationship between Exchange rate fluctuation and the cost structure of SMEs.

H₀₂: Exchange rate fluctuation have no significant impact on investment decisions of SMEs.

H₀₃: Exchange rate fluctuation have no significant impact on cash flow of SMEs.

H₀₄: Access to financial services has no significant impacts the growth of SMEs.

H₀₅: Digital financial services does not significantly improve the operational efficiency of SMEs.

1.6 Significance of the Study

This study aims to offer valuable understanding of the key factors influencing the SMEs in Nigeria, with broader relevance to other developing nations. SMEs play a crucial role in generating employment, driving innovation, and supporting overall economic development. It is vital for policymakers, financial institutions, and SME owners to thoroughly understand the complexities and operations of these businesses. The research examines how fluctuations in exchange rates affect SMEs' cost structures, investment decisions, and cash flow management. It presents empirical information that may be used to guide monetary and fiscal policies targeted at stabilizing the business climate for SMEs.

The study also explores how financial inclusion influences the growth and development of small and medium enterprises (SMEs), highlighting the importance of accessible and affordable financial services. The research provides evidence of the positive relationship between access to banking, credit, and other financial goods and company development. This supports efforts to promote financial inclusion. Policymakers may use these observations to develop initiatives that improve financial accessibility for small and medium-sized enterprises (SMEs), possibly stimulating economic expansion and alleviating poverty.

The study emphasizes the critical role of digital financial services in enhancing operational effectiveness. It explores the advantages of digital transformation for small and medium-sized enterprises (SMEs) by analyzing how mobile banking, digital payment systems, and online financial platforms contribute to improved efficiency. It encourages SMEs to utilize digital technologies to strengthen their competitiveness and operational resilience.

Ultimately, the research emphasizes the need of providing financial education to small and medium-sized enterprise (SME) owners. It establishes a connection between possessing a solid grasp of financial matters and making more informed financial choices, which in turn leads to improved company results. The thorough examination of SME performance in Nigeria will provide useful insights for policymakers, financial institutions, and SME owners, providing instructive lessons for other emerging nations seeking to enhance their SME sectors.

1.7 Scope of the Study

The study will specifically target Southwest Nigeria, encompassing states such as Lagos, Oyo, Ogun, Ondo, Osun, and Ekiti. The selection of this location is based on its substantial economic activities and high concentration of small and medium-sized enterprises (SMEs). This study seeks to examine the factors influencing the operational efficiency of small and medium-sized enterprises (SMEs) in Nigeria. It places particular emphasis on how exchange rate fluctuations, access to financial resources, adoption of digital financial services, and financial literacy affect these businesses. The research targets SMEs across various sectors to evaluate the impact on different types of enterprises.

The project will use a range of data gathering techniques, such as surveys, questionnaires, close ended questionnaire, analysis of performance, and case studies of individual small and medium-

sized enterprises (SMEs) impacted by exchange rate fluctuation or other financial factors. Various methods will be applied in analyzing the data statistical techniques such as descriptive statistics, correlation, regression analyses MANNOVA, and theme or content analysis, to uncover the underlying connections between variables.

The study's temporal scope encompasses data from the last five years, offering a complete perspective on current trends and alterations in the financial environment and performance of small and medium-sized enterprises (SMEs) are examined. Although the findings may not be directly transferable to countries with different economic and financial contexts, they offer valuable guidance for policymakers, financial institutions, and SME owners in Nigeria. The accuracy of the conclusions depends on the availability and reliability of financial information and responses provided by SME owners. The research is restricted to analyzing certain financial variables, which may not include all external factors that impact SME performance.

The study will employ a mixed-methods approach, integrating both quantitative and qualitative research methodologies. A questionnaire survey will be used to collect quantitative data on exchange rate fluctuation and financial inclusion, while focus groups with SME owners will be engaged for qualitative data collection. The study will utilise techniques such as descriptive analyses with frequency counts presented in charts, linear regression, multiple regression analysis, and structural equation modelling (SEM) to investigate the correlations between variables. Thematic analysis will be utilised to analyse qualitative data obtained from focus group talks and interviews to uncover recurring themes and get valuable insights.

1.8 Operational Definition of Terms

Cost Structure: The composition of costs incurred by SMEs in the production of goods and services, including fixed and variable costs such as raw materials, labor, and overhead expenses. Assessed through analyses of financial statements, focusing on cost of goods sold (COGS), operational expenses, and input costs.

Cash Flow Management: The process of monitoring, analyzing, and optimizing the net amount of cash receipts minus cash expenses over a specific period. Measured by examining cash flow statements, liquidity ratios, and working capital metrics.

Digital Financial Services: Financial services delivered through digital channels, including mobile banking, digital payments, and online financial platforms. Assessed by the extent of adoption and usage of mobile banking, digital payment systems, and online financial services by SMEs.

Exchange Rate Fluctuations: Variations in the value of one currency relative to another over time. These fluctuations can be due to changes in economic conditions, market speculation, geopolitical events, and differences in inflation rates. This is measured by the percentage change in the exchange rate between the Nigerian Naira and major foreign currencies (e.g., US Dollar, GB Pound, Euro) over specific periods.

Financial Inclusion: The availability and accessibility of financial services to all individuals and businesses, particularly underserved populations and SMEs. Quantified by the number of SMEs with bank accounts, access to credit, and use of financial products like loans, savings, and insurance.

Investment Decisions: Choices made by SMEs regarding the allocation of resources to different investment opportunities, including capital expenditure, technology acquisition, and business

expansion. Evaluated through surveys and financial records, examining expenditures on new technology, infrastructure, and other capital investments.

Operational Efficiency: An SME's capacity to provide goods or services efficiently, minimizing costs while maintaining quality. This is assessed by analyzing operational expenses, transaction speed, payment processing efficiency, and the decrease in manual financial mistakes. Additionally, financial literacy refers to the comprehension of financial principles and the capability to apply this knowledge in making informed, effective decisions. This is evaluated through surveys measuring SME owners' familiarity with financial products, involvement in financial education initiatives, and grasp of financial management techniques.

SME Performance: The overall success and sustainability of an SME, typically measured by financial and operational metrics such as revenue growth, profitability, market expansion, and operational efficiency. Assessed through financial statements, growth indicators, and efficiency metrics.

SME: Small and Medium Enterprises in Nigeria

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Chapter Two

Literature Review

2.1 Conceptual Review

2.1.1 Exchange Rate Fluctuation and SMEs

Fluctuations in exchange rates act as a major force influencing the performance of SMEs, particularly those reliant on imported raw materials. In Nigeria, most small and medium-sized businesses depend on such imports for their production processes, making them especially vulnerable to currency fluctuations. These businesses often shoulder the impact of exchange rate volatility, which affects both input costs and final product pricing. Operating in an increasingly interconnected global economy exposes SMEs to significant risks, especially uncertainties surrounding future cash flows caused by potential shifts in production costs and revenue. These uncertainties are largely attributed to the instability and unpredictability of exchange rates, placing SMEs at a considerable disadvantage¹.

Variations in exchange rates significantly influence the cost of raw materials. For example, greater exchange rate instability usually results in higher prices for imported raw materials, thereby raising production costs and ultimately driving up commodity prices. In Nigeria, the lack of sufficient raw materials for domestic production has posed a persistent challenge. As a result, small and medium-sized enterprises (SMEs) are heavily reliant on imported inputs, making them particularly susceptible to exchange rate instability and its impact on their operational expenses². Imported goods and services required by SMEs are priced in foreign currencies with highly unstable exchange rates. This volatility negatively impacts sectors that rely heavily on external sources for their production inputs. In addition to this, issues such as inadequate infrastructure, limited access to funding, and inconsistent government policies further constrain SME operations. This study

investigates how fluctuations in exchange rates influence the performance of SMEs in Nigeria, with a particular focus on both the short-term and long-term implications. Within this research, SMEs are defined as enterprises operating within Nigeria's informal sector. The study pays special attention to manufacturing SMEs, given their heightened sensitivity to exchange rate volatility³ as well as the increasing likelihood that SMEs can now access more structured sources of financing, thanks to recent advancements in the financial sector. Academic interest in small and medium-sized enterprises has also grown, fuelled by a growing recognition among scholars of their critical role in economic development, employment generation, and innovation⁴ of Nigeria's pressing need to restructure its economy—especially the manufacturing sector—by shifting from low value-added activities to high value-added production that can drive sustainable economic growth and development⁵. SMEs play a pivotal role in this transformation process, serving as key drivers of innovation and contributing significantly to industrial advancement and economic diversification⁶. Their contribution to economic transformation must also be assessed alongside the policy of exchange rate deregulation to determine its suitability for SMEs, given the unique market conditions and structural challenges present in Nigeria.

Nigeria's exchange rate system has undergone several changes over the years. At independence in 1960, the Nigerian currency was pegged solely to the British Pound Sterling. After the Pound was devalued in 1967, the US dollar was added to the exchange rate framework. By 1972, with the US dollar strengthening, Nigeria ended its fixed link to the British Pound, marking a notable shift in its exchange rate approach. In 1973, following the devaluation of the US dollar, Nigeria returned to a fixed parity with the British Pound. To reduce the risk of relying on a single currency, in 1974 the naira was pegged to both the Pound and the Dollar. For much of the 1970s, the naira steadily appreciated in nominal terms, largely driven by surging international oil prices. This upward trend

in exchange rates fostered a heavy dependence on imports, leading to significant capital flight and a decline in non-oil exports. Consequently, Nigeria began to face Balance of Payments difficulties and a sharp reduction in external reserves. The heightened tendency to import goods also contributed to the collapse of the agricultural sector, which had previously been a cornerstone of the economy⁷.

In 1978, Nigeria linked the naira to a basket of twelve currencies representing its key trading partners to achieve greater exchange rate stability. However, by 1985, this system was replaced with a direct quotation of the naira against the US dollar. Prior to 1986, Nigeria's exchange rate policies consistently caused the naira to be overvalued. To tackle the problems stemming from this, the government introduced a significant policy change in September 1986 as part of the Structural Adjustment Programme (SAP). This reform involved deregulating the naira and launching the Second-Tier Foreign Exchange Market (SFEM), aimed at creating a market-driven exchange rate system to improve short-term stability and support long-term Balance of Payments equilibrium. SFEM's main goals were to set a realistic exchange rate for the naira based on supply and demand, allocate resources more efficiently, enhance the non-oil sector, attract foreign currency inflows while restricting outflows, and eliminate currency speculation by closing down the unofficial parallel foreign exchange market. Over time, various adjustments were made to further these objectives, including the shift to the Foreign Exchange Market (FEM), establishment of the Autonomous Foreign Exchange Market (AFEM), and the adoption of both the Dutch Auction System and the Wholesale Dutch Auction System⁸.

2.1.2 Financial Inclusion among SMEs

Financial inclusion is used to explain and tackle the issue of financial exclusion. It generally refers to the ability of people to obtain and use essential financial services—like savings, loans, and

insurance—in ways that are reasonably convenient, reliable, and flexible in both accessibility and design. Traditionally, financial inclusion means ensuring that individuals can access and effectively use a broad range of affordable and convenient financial services. Such access and usage are widely acknowledged as vital drivers of economic growth and development⁹. Financial inclusion involves providing lasting, suitable, affordable, and effective financial services to underserved groups, especially those in rural regions. It also relates to the range, quality, and ease of access to financial products and services for individuals who are either excluded from or have limited access to formal financial institutions¹⁰. Financial inclusion aims to guarantee that marginalized and at-risk groups like low-income earners, rural communities, and undocumented persons have access to a wide array of safe, accessible, and affordable financial services. It also strives to broaden the selection of financial products for those who currently depend only on basic services, helping to better integrate them into the formal financial sector¹¹.

Financial inclusion has also been defined as a condition in which everyone capable of utilising financial services is able to access a full range of high-quality financial products that are affordable, delivered with respect, and offered in a convenient manner. It plays a vital role in helping individuals expand or diversify their household income, improve cash flow, and build resilience during times of hardship. By enabling asset accumulation, financial inclusion allows people to manage unexpected financial challenges through consumption smoothing, thereby preventing the need to sell productive assets in times of crisis¹². Income rises when borrowed funds are invested in ventures that yield profits greater than the cost of repaying the loan. Even when such investments do not result in substantial profits, they still contribute to asset accumulation, as the acquired assets remain in the borrower's possession¹³.

Financial inclusion refers to a condition where both individuals and businesses can obtain financial products and services should be affordable, relevant, and provided in a responsible and sustainable manner. These offerings encompass payments, transactions, investments, credit, borrowing, savings, and insurance. Financial inclusion strategies refer to the plans or action frameworks developed at national or regional levels to promote or expand financial inclusion. To be effective, these strategies must coordinate key stakeholders' efforts, clearly define roles, and establish resource planning with measurable goals. Such strategies often encourage streamlined and effective processes to achieve meaningful advancements in financial inclusion, usually developed in partnership with the private sector to establish and pursue shared, realistic objectives. A holistic approach to enhancing financial inclusion typically emphasizes three main elements: the availability of financial products and services, the actual utilization of these offerings, and the quality of the financial services provided¹⁴.

In recent times, an increasing number of nations have implemented strategies Designed to promote and expand financial inclusion, these plans are often embedded within broader financial development frameworks and involve collaboration among various government agencies and other key stakeholders. The World Bank's 2017 Global Financial Inclusion and Consumer Protection Survey reported that roughly 25% of countries have implemented such strategies in recent years, while an additional 25% are in the process of formulating new ones¹⁵. National financial sector master plans have generally played a crucial role in advancing the development, engagement, and sophistication of financial systems. Success factors commonly include effective coordination among various government agencies, proactive involvement by key authorities such as central banks in engaging with the private sector, and regulatory reforms that enhance information transparency, enforce contracts more effectively, and improve bankruptcy procedures. Numerous

countries have already enacted a variety of policies and reforms aimed at boosting financial inclusion for SMEs. These measures often involve direct interventions to increase bank lending, including state-owned banks dedicated to SMEs, credit guarantee programs, and regulations governing interest rates. Financial inclusion of SMEs is central to addressing economic diversification and growth challenges faced by many nations. Given that SMEs constitute a significant portion of businesses in many regions, limited access to finance remains a major obstacle in numerous countries¹⁶.

Despite efforts to expand SME credit lines, this asset class remains inherently risky, and rapid growth could result in a buildup of unhealthy credit exposures. To balance this policy challenge, it is essential to implement robust institutional protections, such as effective financial supervision systems and frameworks, are essential for maintaining strict credit discipline and managing risks efficiently. Thoughtfully crafted government policies and regulatory structures are crucial in advancing and strengthening financial inclusion for SMEs. As previously highlighted, these frameworks are crucial for detecting and managing emerging risks while supporting inclusive financial development initiatives. Furthermore, enhancing the capacity of financial supervisors significantly aids SME inclusion efforts. Additionally, financial inclusion and anti-money laundering (AML) and counter-terrorism financing (CFT) measures can reinforce each other, since the use of authorised financial services increases the transparency and traceability of financial transactions¹⁷.

Capital markets have a significant potential To meet the specific financial requirements of small and medium-sized enterprises (SMEs), support can be provided either directly or indirectly through intermediaries that effectively handle the complexities of lending to smaller firms. These intermediaries often include banks that raise capital in financial markets and offer assistance during

various stages of an SME's lifecycle such as startup, growth, maturity, decline, and succession. As SMEs grow and build a credit history, their access to bank loans or asset-backed financing typically improves, with loan securitization enabling further lending opportunities. Established SMEs may also secure funds by issuing debt or equity through over-the-counter markets or stock exchanges. Increased market competition and economic diversification further promote SME financial inclusion and boost productivity. Key factors that encourage SME inclusion include reliable infrastructure, competitive markets, and a varied economy. In contrast, countries with large informal sectors often struggle to provide SMEs with access to formal financial services. A lack of strong competition among banks can reduce SMEs' ability to secure financing. Research has demonstrated that healthy banking competition positively influences SMEs' access to credit¹⁸.

Institutional elements are crucial for advancing financial deepening among SMEs. An examination of various related factors reveals that many significantly influence the ability of SMEs to access credit and realise their productive potential. Governments have frequently intervened directly to enhance SME financial inclusion, employing measures such as "targeted lending through state-owned banks, credit guarantee schemes, and regulation of interest rates"¹⁹. It remains important for state-owned banks tasked with supporting SMEs to maintain a well-coordinated role under strong regulatory supervision. Additionally, fintech innovations have emerged as effective alternatives to traditional bank lending, with new digital platforms enabling the expansion of "crowdfunding, peer-to-peer lending, and other contemporary financing methods"¹⁹. The expansion of fintech has been influenced by a mix of government actions and country-specific conditions. Governments have promoted fintech growth through various initiatives, including financial backing and creating "favourable regulatory and legal environments for incubators, accelerators, and foreign investors"¹⁹, alongside the presence of private investment. Worldwide,

it is widely recognised that improving financial inclusion for SMEs Enhance the broad stability of financial markets.

Stability within the “financial sector can enhance financial inclusion by fostering confidence in the overall financial ecosystem”²⁰. Efforts to advance financial inclusion and deepening must prioritise improving “financial literacy among SMEs”²⁰. SMEs equipped with sound financial knowledge are better positioned to take full advantage of financial services and improve their business outcomes. This includes understanding which financial products align best with their specific needs and being able to more effectively evaluate the risks linked to the services or products they select²¹. The ideas discussed in the previous two paragraphs are clearly not reflected in the real situation of Small and Medium Enterprises in Ibadan, Oyo State, which underscores the necessity of this research. Financial inclusion serves as a strategic intervention designed to address market inefficiencies that prevent financial markets from functioning effectively for disadvantaged and low-income populations²².

Financial inclusion involves providing formal “financial services to underserved individuals in a manner that is dependable, accessible, affordable, consistent, and adaptable”²³. The primary goal of financial inclusion is to benefit the large portion of the population, especially the poor, who previously lacked access to formal financial services²⁴. Financial inclusion provides additional and supportive approaches to reduce poverty, foster inclusive growth, and advance the achievement of the Millennium Development Goals (MDGs)²⁵. “Financial inclusion seeks to integrate those without bank accounts into the formal financial system, enabling them to access a variety of services such as savings, payments, transfers, credit, and insurance”²⁶.

Organizational performance can be assessed through three primary areas: financial metrics (including profit, return on assets, and return on investment), market indicators (such as sales volume and market share), and returns to shareholders (like total shareholder return and economic value added)²⁷. Nevertheless, financial metrics have been criticised for their limited ability to forecast future performance, tendency to encourage short-term or misguided actions, insufficient insight into underlying causes or remedies for issues, and failure to adequately account for intangible assets like intellectual capital that are hard to measure. Companies now complement financial indicators utilizing a diverse array of non-financial evaluation tools, which are considered to offer improved insight into strategic achievements and overall success²⁷. SMEs play a major role in the economies of many nations. Consequently, many governments and development agencies have prioritised supporting SMEs to foster wider engagement within the private sector²⁸.

To make significant progress in advancing financial inclusion in developing countries, financial institutions prioritise the low-income segment. This sector represents a vast segment for the world's leading companies to generate profits while contributing to the economic upliftment of impoverished communities²⁹. Serving this lower-income group presents considerable potential. Since 2002, Nigeria's financial sector has been transformed by technological innovations such as mobile phones, automated teller machines (ATMs), electronic banking, agency banking, and mobile money transfer services²⁹. Specifically, mobile phones in Nigeria have significantly expanded access to financial services for previously underserved populations by enhancing availability of credit and deposit options, enabling more effective credit distribution, facilitating money transfers, and advancing financial inclusion. Additionally, agency banking, microfinance institutions, and mobile banking services have played a major role in providing affordable financial services to millions of low-income individuals³⁰. Small and Medium Enterprises (SMEs) hold

critical importance for economies worldwide, particularly in developing countries. They constitute the majority of businesses globally and play a vital role in job creation and economic growth. SMEs generate over half of the world's employment and represent approximately 90% of all enterprises. In emerging markets, formal SMEs can contribute up to 40% of the gross domestic product (GDP), with even higher figures when informal sector SMEs are included. By 2030, it is estimated that 600 million new jobs will be needed to meet the demands of the growing global labour force, positioning SME growth as a key priority for many countries. In fast-growing economies, SMEs account for seven out of every ten formal jobs created. However, limited access to finance remains a significant obstacle to SME growth and is frequently cited as the second most significant challenge facing SMEs in developing and emerging markets³¹.

In Nigeria, there is no single, universally accepted definition that clearly separates small-scale from medium-scale enterprises. According to the Central Bank of Nigeria's Monetary Policy Circular Number 22, small-scale enterprises are those with annual sales not exceeding ₦500,000. The Federal Government's fiscal policy further outlines that for deposit money bank (DMB) loans, small-scale enterprises are capped at ₦500,000 in annual sales, while for merchant bank loans, they are defined as businesses with capital investments (excluding land) of up to ₦2 million or a maximum of ₦5 million. Likewise, the National Economic Reconstruction Fund (NERFUND) sets the small-scale enterprise limit at ₦10 million. Despite these differing benchmarks, SMEs remain a critical part of any economy, widely acknowledged for their important contributions to economic growth through job creation, technological advancement, product diversification, promotion of entrepreneurship, and support for integration with larger industries. It is evident that for sustainable economic growth and enhanced performance, the role of small and medium

enterprises cannot be ignored. Overall, SME definitions vary across countries and sectors, but common factors include employee numbers, revenue, or the value of non-current assets³².

The contribution of SMEs to sustainable economic growth in Nigeria is immensely significant. Their activities consistently form the essential foundation for meaningful and lasting development. SMEs lead the way in driving industrial and economic progress due to their substantial potential to support diversification and expand industrial output. It has been emphasised that SMEs are essential in driving constructive economic progress and working alongside large-scale industries to sustain the economy³³. Over the past five years, SMEs have accounted for 48% of Nigeria's gross domestic product (GDP), highlighting the vital role of the country's retail sector. According to the 2020 National SMEs Collaborative Survey, there are approximately 39.65 million micro, small, and medium enterprises in Nigeria, employing nearly 59.65 million people—representing 76.5% of the labour force. These enterprises contribute 46.31% to the nation's GDP and 6.21% to its export earnings³⁴. The classification of SMEs differs across countries. For example, the European Union (EU) classifies a small enterprise as one that employs less than 50 people and has both annual revenue and total assets not exceeding 10 million euros. A medium-sized enterprise in the EU employs fewer than 250 workers, with annual turnover limited to 50 million euros or a balance sheet total of no more than 43 million euros. In Great Britain, Small Scale Industries are defined by an annual turnover of up to two million pounds and a workforce of fewer than 200 employees, with no specific reference to capital investment in the criteria. Various academics have proposed differing SME definitions; some focus on capital assets, others on labour skills and turnover, while some consider legal status and production methods. However, defining firms solely by size can be problematic, as certain industries predominantly consist of small firms, whereas others may have none classified as small.

Central Bank of Nigeria (CBN) defines small-scale industry under as any manufacturing or service business with an annual turnover not exceeding ₦500,000, a limit set by the Agricultural Credit Guarantee Scheme (ACGS), and not more than ₦1 million. Small and medium enterprises make up approximately 90% of all businesses in the country³⁵. Small businesses also provide employment for 53% of the private sector workforce and contribute 47% of sales as well as 51% of the private sector's gross domestic product. It is widely acknowledged that SMEs constitute the largest segment of the business landscape in economies worldwide³⁶. However, SMEs often encounter major obstacles in obtaining credit and other financial services due to factors such as remote locations far from financial hubs, high costs, insufficient collateral, limited or no credit history, and various non-financial barriers.

Ironically, many SMEs in Nigeria are predominantly managed and financed by their owners or family members, with occasional support from friends and close contacts. However, this approach often fails to provide the substantial funding necessary for these businesses to scale up. Clearly, the sector's expansion in Nigeria is hindered by a lack of sufficient capital, which negatively impacts their growth prospects³⁷. Because of limited finance and lack of access to stable funding, many SMEs in the country either fail or remain stagnant at an early stage for extended periods. It is widely recognised that the necessary capital to sustain and grow these businesses is often lacking, leading many to shut down. Additionally, banks face difficulties in managing the high costs of lending to SMEs due to their weak capital foundations, inadequate financial documentation, poor business performance, and competitive market pressures³⁸. In 2020, PwC published a report highlighting that the biggest challenges for Nigerian SMEs were securing financing, finding customers, and dealing with inadequate infrastructure. Nigeria's situation warrants close attention, especially since about 96% of its businesses are SMEs—significantly

higher than the 53% in the USA and 65% in Europe. Globally, SMEs make substantial contributions to GDP—around 40% in Asian nations and 50% in Europe and America³⁸. However, in Nigeria, the sector's contribution is declining due to numerous challenges, falling well below anticipated levels.

SMEs in Nigeria face many of the same challenges experienced by their counterparts in both developing and developed countries. Most governments support their SMEs because of the vital role these enterprises play in economic development, typically offering assistance through access to resources and supportive services rather than direct protection or subsidies. Such support often includes commercial financing, venture capital, training and skills development, research and development assistance, infrastructure improvements, and tax incentives. These services are sometimes delivered by local government bodies and industry groups, occasionally in partnership with non-governmental organisations (NGOs)³⁹. The Nigerian government has established several institutions and initiatives to facilitate funding access for SMEs. These include the Nigerian Bank for Commerce and Industry (NBCI), founded in 1973, and the Nigerian Industrial Development Bank (NIDB), established in 1964⁴⁰. Additionally, the SMEs Apex Unit has been created to further support small and medium enterprises⁴⁰; Other government initiatives aimed at supporting SMEs include the State Ministry of Industry's SME programs, the Small and Medium Industries Equity Investment Scheme (SMIEIS), the Bank of Industry (BOI), the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and the Credit Guarantee Scheme designed specifically for SMEs, etc.⁴¹. Despite the good intentions behind these institutions created to assist SMEs, the sector has yet to establish a strong foothold within Nigeria's challenging business environment. This context underlines the government's recent launch of three key support programs: the Bank of Industry (BOI), the Small and Medium Enterprises Development Agency

of Nigeria (SMEDAN), and the Credit Guarantee Scheme. These initiatives have progressed significantly, with the Bankers Committee's decision to formalise the Small and Medium Industries Equity Investment Scheme (SMIEIS) receiving widespread approval. The Credit Guarantee Scheme is anticipated to improve and simplify SME access to credit, SMIEIS is expected to enhance equity financing options, and SMEDAN aims to offer vital non-financial assistance and support to enable SMEs to reach their full potential⁴².

SMEs equipped with sound financial knowledge are better positioned to take full advantage of financial services and improve their business outcomes. This includes understanding which financial products align best with their specific needs and being able to more effectively evaluate the risks linked to the services or products they select⁴³. SMEs represent a crucial segment of country's economy. According to the International Finance Corporation (IFC), about 96% of businesses in Nigeria are SMEs, and they account for nearly 90% of enterprises within the manufacturing and industrial sectors. However, despite their prevalence, the contribution of SMEs to Nigeria's gross domestic product (GDP) remains below expectations.⁴⁴

SMEs in Nigeria tend to be concentrated in specific clusters across various geopolitical zones. For example, leatherworking enterprises are prominent in Aba, Abia State (East), while Nnewi in Anambra State (East) is known for its automobile industry. The South-West region hosts ICT hubs in Lagos State and The tie-and-dye industries are prominent in Abeokuta and Oshogbo, located in Ogun and Osun States, respectively. In the northern region, Kano State is well-known for its leatherwork industry. The majority of SMEs are mainly concentrated in the eastern, western, and northern parts of the country. According to a survey conducted by the National Bureau of Statistics (NBS), Anambra State leads the nation in SME numbers, particularly within the automobile industry, compared to other regions in Nigeria⁴⁵. Recognising the critical importance of SMEs to

Nigeria's economy, successive governments since independence have implemented various initiatives aimed at stimulating their growth and improving performance. These efforts have involved significant financial investments targeting the development of the sector. However, despite this considerable expenditure, SMEs have yet to make their full potential contribution to the country's GDP. Many Nigerian SMEs remain vulnerable, with only a small number able to survive the numerous challenges they face, such as unstable government policies, poor infrastructure, rapidly increasing operational costs, and the lack of consistent government support⁴⁶. Nonetheless, a significant disparity remains between the funding provided by these institutions and the actual financial requirements of SMEs. The effectiveness with which banks and similar institutions carry out their function of channeling resources from surplus to deficit economic units is largely influenced by how developed the financial system is⁴⁷. The preceding discussion reveals that inadequate access to funds, underutilisation, and substandard quality of financing constitute major barriers and essential measures of financial inclusion, which have yet to be adequately addressed and continue to hinder the development of SMEs in Nigeria.

Financing Sources

(a) Venture Capital

Venture capital serves as an alternative funding source for SMEs worldwide. In both advanced and emerging economies, this type of financing provides investment funds to SMEs using equity or quasi-equity instruments that are not traded on the Nigerian Stock Exchange. Venture capital is often considered risk capital, focusing mainly on fast-growing companies in their early stages. Typically, venture capital is divided into two categories: seed capital and start-up or early-stage capital. In reality, venture capitalists also supply funding for business expansion, growth projects, and buyouts targeting SMEs⁴⁸. Venture capitalists act as financial intermediaries, offering an

alternative non-bank source of funding to SMEs. These investors supply both capital and strategic support to businesses seeking growth but lacking access to traditional equity markets. Venture capital involves reallocating investor funds into high-risk ventures, typically start-ups or early-stage companies. This form of financing is particularly common among small and emerging SMEs within well-developed financial markets⁴⁹.

(b) Trade Credits

Trade credit plays a vital role as a funding mechanism for SMEs. It occurs when SMEs acquire goods or services from suppliers with payment postponed to a later date. Typically, trade credit is short-term, with payment expected within 30 to 90 days. Failure to settle within this timeframe usually results in interest penalties. Apart from traditional bank loans, trade credit is widely used globally to finance SMEs and is recognised as a significant external funding source in both developed and developing economies. This form of financing arises naturally from everyday business transactions, making it a spontaneous funding option for SMEs. The cost of trade credit is generally incorporated into the price of goods sold on credit, which often makes it a relatively costly means of financing. Moreover, the duration of trade credit is often limited, particularly when suppliers are large firms that perceive SMEs as higher risk, restricting the extension of payment terms. When SMEs present greater risk, suppliers tend to be hesitant to prolong credit periods further. Despite some drawbacks, trade credit remains an essential funding avenue, especially for newly established SMEs⁵⁰.

(c) Crowd Funding

Crowdfunding is a method of raising capital online by collecting small contributions from a large number of people, often referred to as “the crowd,” to support a business venture. Though relatively recent, this approach has rapidly expanded, generating billions of dollars globally

through more than 500 crowdfunding platforms and launching over 400 campaigns each day. Funds raised via crowdfunding can be allocated either as debt or equity investments in the business seeking support. A key aspect of crowdfunding is the interactive nature of the online community, similar to a physical crowd, where enthusiastic backers frequently encourage others to participate. This dynamic enables individuals to discover and invest in projects or ideas that interest them, often making them willing to accept higher risks and lower returns than usual. Crowdfunding offers SMEs a valuable opportunity to engage directly with investors who are open to financing innovative and technology-driven ventures typical of small businesses. However, there are risks: if the funding target is not reached, no funds may be received. Additionally, reward-based campaigns often attract many supporters but yield small contributions since investors receive no ownership stake. Some crowdfunding platforms also charge substantial fees, which can reduce the overall funds available to the business⁵¹. Since 2015, there has been a noticeable rise in efforts by the Nigerian government and regulatory bodies to actively implement policies designed to enhance financial inclusion. The Central Bank of Nigeria (CBN) has played a leading role in fostering and backing financial products aimed particularly at low-income and underserved populations.

2.1.3 Small and Medium Scale Enterprises

There is no single, universally agreed-upon definition—whether operational or quantitative—for what constitutes a small-scale enterprise⁵². In Nigeria, a commonly agreed-upon definition for small-sized enterprises does not exist⁵³. The definition of small and medium-sized enterprises (SMEs) often varies depending on the context and the objectives of the defining body. According to the World Bank, SMEs are characterised by having up to 300 employees, annual sales not exceeding \$15 million, and assets capped at \$15 million. In the United Kingdom, small-scale industries are classified as those with annual revenues of £2 million or less and employing fewer

than 200 paid workers, without any mention of capital investment. Kenya defines small businesses as those employing fewer than five individuals, while medium-sized enterprises employ between 50 and 200 workers. In Vietnam, SMEs are identified as firms with a workforce ranging from 10 to 300 employees, whereas in Egypt, the classification covers businesses employing more than five but fewer than 50 people. Definitions also differ by country: Japan and the United States generally consider companies with 300 to 500 employees as SMEs, while Indonesia defines small businesses as those with fewer than 10 full-time staff. To capture industry-specific differences and guide SME-targeted policies, the U.S. Small Business Administration's Size Standard Office determines SME classifications, defining small businesses as those with fewer than 500 employees⁵⁴. The Central Bank of Nigeria (CBN) describes SMEs as small-scale enterprises operating with annual turnovers up to ₦500,000, aligned with the limit set by the Agricultural Credit Guarantee Scheme (ACGS), and up to ₦1,000,000. Meanwhile, in 2015, the National Council of Industry defined a small-scale business as one employing between 11 and 100 people, with total capital investment—covering working capital but excluding land costs—below ₦50 million.

Although the topic has been widely studied, there remains considerable debate surrounding the precise meaning of performance assessment⁵⁵. According to the cited source, evaluating the performance of small firms presents significant challenges. These difficulties differ from those encountered by larger companies, largely because few tools are tailored to small businesses, and most existing performance measurement systems were created with large organisations in mind. Despite this, SMEs are assessed using a combination of financial and non-financial metrics. Among the financial measures, profit and growth are key indicators, while profitability is typically evaluated using ratios such as return on assets, return on investment, and earnings per share⁵⁶. The

primary measures of growth include sales figures, workforce size, and overall business revenue⁵⁷.

Non-financial metrics encompass customer satisfaction, rates of customer referrals, speed of delivery, duration of waiting times, and employee turnover⁵⁸.

Growth and Sustainability of SMEs in Financial Inclusion in Nigeria

A 2022 survey by Enhancing Financial Innovation and Access (EFInA) revealed that out of 85 million Nigerians aged 18 and above, only 30.7 million have access to formal financial services, which include deposit money banks and other regulated institutions. This leaves over 54 million individuals either reliant on informal financial providers or completely unbanked. Among those formally served, 25.4 million access banking products through deposit money banks, primarily as employees or business owners, while the remaining 5.3 million utilise services offered by other formal entities such as finance companies and microfinance banks. Nigeria's rate of financial exclusion stands at 46.3%, significantly higher than that of South Africa (26.0%), Botswana (33.0%), and Kenya (32.7%).⁵⁹

A significant overlap exists between the use of formal and informal financial services. For instance, many market women who maintain standard savings accounts with deposit money banks often simultaneously participate in traditional savings groups, such as the "Esusu" system. Among the 25.4 million individuals served by formal institutions, more than one million utilise both deposit money banks and other formal financial providers, while approximately seven million combine informal financial services with conventional banking. Financial exclusion is notably more severe in certain economic sectors and rural areas compared to urban centres. Rural communities in Nigeria experience disproportionately higher levels of exclusion from financial services than urban populations. Additionally, the northern region, which has the largest unbanked population, suffers from a scarcity of bank branches—ranging from just 0.99 to 1 branch per

100,000 customers—whereas some southern areas boast more than five branches per 100,000 people⁶⁰.

Banks play a vital role in advancing financial inclusion, and their involvement is considered indispensable. It is widely believed that an inclusive financial system cannot be achieved without the active participation of banks, which act as key facilitators by providing essential and efficient financial services. Consequently, many countries design their financial inclusion policies to encourage banks to drive growth in rural regions. Nigerian banks are therefore expected to strengthen their capacities to support and accelerate financial inclusion nationwide. Capacity-building efforts should focus on training staff, particularly in rural development finance, and equipping them with relevant skills. Furthermore, banks should pursue innovative methods, supported by grants or special funds, to deliver services that reduce transaction costs and make better use of existing infrastructure and delivery channels rather than investing in expensive new facilities. Adaptation and introduction of suitable financial products, alongside investments in technology research—especially relating to transaction processes and the needs of rural and informal sectors—are also essential for banks to effectively promote financial inclusion⁶¹.

2.1.4 Role of Government in the Sustainability of SMEs

A supportive legal framework for lending can improve banks' profitability by facilitating lending activities, which in turn fosters growth and broadens banking service availability. The government's role primarily involves establishing an enabling environment that promotes positive and productive interactions between financial institutions and their customers. This includes strengthening land and property registration systems and enhancing the transparency and efficiency of judicial processes through regulatory bodies. Additional measures the government should pursue include maintaining interest rate subsidies for agricultural loans to benefit the

farming sector, and encouraging investments in communication networks, physical infrastructure, and essential services such as power and education. The establishment of specialised commercial courts to adjudicate banking disputes—especially those involving loans—would be a valuable reform, as such cases currently face prolonged delays within the general court system.⁶²

Specifically, the informal sector:

- (a) Offers a platform for ordinary citizens to participate in discussions and decisions affecting their lives, aligning with government goals in democratic settings to foster an engaged and vibrant civil society that actively addresses local and national challenges.
- (b) Consists largely of volunteer-driven, self-help groups that cultivate strong, cohesive communities, complementing governmental objectives to encourage collective action across various societal levels and diverse groups.
- (c) Includes social enterprises such as poverty alleviation groups, trade associations, and market cooperatives, which have innovatively delivered social and environmental benefits through business models. Their efforts contribute to providing financing and economic empowerment as a public good, supporting the government's commitment to equitable access to economic opportunities and social welfare.

Consequently, the government plays a vital role in promoting these social enterprises by implementing policies that enhance their value, improve access to information and advisory services, and facilitate their access to financing. Key steps toward this include legal reforms that simplify the formation and regulation of these groups. Policymakers and regulators must develop a comprehensive framework to nurture and expand partnerships between the informal sector and government. Such collaboration promises not only to advance societal development,

environmental sustainability, and innovative enterprise models but also to strengthen the foundations of a prosperous, inclusive, and equitable society⁶³.

Banks and other financial institutions face significant challenges in tapping into the vast, underserved markets in smaller towns and cities by delivering financial services tailored to their needs. To address this, banks must prioritise implementing core banking solutions (CBS) capable of handling the volume and specific nature of services required to serve low-income and rural customers effectively. Beyond installation, it is crucial to maintain a robust multi-channel delivery system—incorporating handheld devices, mobile platforms, cards, micro-ATMs, branches, and kiosks—that integrates smoothly with the banks' CBS infrastructure. On the government's side, policies should be enacted to promote and support technological innovation and research, aimed at making financial services both easily accessible and affordable. Furthermore, both government and financial institutions need to shift their perspective on financial inclusion, moving away from seeing it as merely a social responsibility or charitable effort, and instead recognising it as a viable business opportunity that also drives broader economic development⁶⁴.

The Nigerian economy has been bedeviled by the challenges faced by SMEs in accessing financial services and managing currency risks due to instability in its foreign currency rate market due to influence of exchange rate fluctuation and financial inclusion from high level of volatility⁶⁵. Exchange rate volatility refers to the ongoing fluctuations in the foreign currency markets, a topic that has gained significant attention in recent international finance studies due to its severe impact on the economies of developing countries such as Nigeria⁶⁶. In Nigeria, the introduction of the Structural Adjustment Programme (SAP) as part of the Economic Recovery Program (ERP) in 1986 marked the beginning of significant reforms in the financial sector. One key reform involved abandoning the fixed exchange rate system in favor of a flexible, free-floating currency regime in

the late 1980s. This shift was based on the belief that allowing exchange rates to fluctuate would reduce the country's cycle of economic instability and set it on a path to sustained growth. The anticipated benefits of such currency flexibility included price stability, increased investment, improved trade volumes, and better terms of trade.

Prior to the SAP, Nigeria's exchange rate policy appeared to deliberately maintain an overvalued Naira. For example, in 1981, the exchange rate stood at ₦1 to 90 U.S. cents, which made imports relatively cheap while discouraging non-oil exports. This contributed to Nigeria's heavy reliance on imported inputs instead of boosting exported goods. An economy where imports consistently exceed exports typically faces a trade deficit, leading to a depreciation of its currency relative to trading partners. Consequently, Nigeria's currency lost value against major currencies; for instance, the Naira currently exchanges at about ₦197 to the U.S. dollar and ₦281.29 to the British pound sterling⁶⁷.

Concerns regarding the effects of exchange rate volatility have grown significantly in both developed and developing countries such as Nigeria, primarily due to its influence on export performance⁶⁸, employment growth⁶⁹, trade⁷⁰, inflation⁷¹, investment⁷², and more general economic activity⁷³ and growth⁷⁴. Although exchange rate volatility has often been associated with macroeconomic instability, there has been limited investigation into the underlying causes and its effects on both domestic and external economic stability. Furthermore, discussions about Nigeria's exchange rate fluctuations are mostly limited to public commentary, lacking substantial empirical and theoretical analysis. To address these gaps and build on the limitations of prior research within the Nigerian context, this study adopts the optimal currency area (OCA) theory as its theoretical framework.

Over the past six decades, Nigeria's exchange rate policies and systems have experienced numerous transformations. Initially, in 1960, the Naira was pegged to the British Pound Sterling under a fixed parity arrangement. Following the Pound's devaluation in 1967, the United States dollar was incorporated into the parity system. However, the fixed linkage to the Pound was suspended in 1972 due to the US dollar's strengthening. In 1973, with the dollar weakening, Nigeria reinstated the fixed parity with the British Pound. By 1974, to cushion the effects of currency devaluation, the Naira was pegged simultaneously to both the US dollar and the British Pound. Throughout the 1970s, the Naira experienced consistent nominal appreciation, largely driven by rising global crude oil prices. This appreciation fostered excessive reliance on imports, discouraged non-oil exports, and triggered capital flight. The consequences included depletion of external reserves and balance of payments difficulties. Additionally, Nigeria's agricultural sector suffered a severe decline as the country's propensity to import increased markedly⁷⁵. In 1978, the Naira was pegged to a basket of twelve currencies representing Nigeria's key trading partners. However, this policy was abandoned in 1985, and the Naira was thereafter quoted solely against the US dollar. Prior to 1986, prevailing exchange rate policies tended to maintain an overvalued Naira⁷⁶.

In September 1986, as part of the Structural Adjustment Programme, the Naira was deregulated to tackle problems linked to its overvaluation. To support the objectives of the programme, the Second-tier Foreign Currency Market (SFEM) was established⁷⁷. The Second-tier Foreign Currency Market (SFEM) was tasked with creating a system for determining and allocating exchange rates to promote short-term stability and maintain long-term balance of payments equilibrium. Its key goals included establishing a realistic value for the Naira based on market demand and supply, boosting non-oil exports, ensuring efficient resource allocation, eliminating

currency smuggling by eradicating the unofficial parallel foreign exchange market, encouraging inflows of foreign currency while discouraging outflows, and maintaining the country's balance of payments position.

To achieve these objectives, the exchange rate system underwent several changes. These evolved from the Foreign Currency Market (FEM) to the Autonomous Foreign Currency Market (AFEM), then to the Dutch Auction System (DAS), and eventually to the wholesale Dutch Auction System. The FEM was introduced in July 1987 to address discrepancies between first- and second-tier market rates. In 1989, the Bureau de Change was established to expand the scope of FEM operations. The foreign exchange rate system was reinstated in 1994, followed by a policy shift in 1995 that introduced a guided deregulation approach known as AFEM. In 1999, the Interbank Foreign Exchange Market (IFEM) was reintroduced, merging the dual exchange rates by eliminating the official rate effective January 1, 1999. Due to rising demand pressures and the continuous decline of Nigeria's foreign reserves, the Dutch Auction System was brought back in 2002. Further market liberalisation occurred with the introduction of the wholesale DAS in 2006, aimed at establishing a more realistic Naira exchange rate. Currently, Nigeria's exchange rate regime fluctuates between a fully managed system and a freely floating one⁷⁸.

A review of available literature and data indicates that political considerations have played a significant role in shaping Nigeria's economic policies, particularly those related to exchange rate management and capital control⁷⁹. Policymakers often yield to political pressures, implementing policies that align more with the interests of their political backers than with economic fundamentals. Consequently, many of the exchange rate and capital control measures enacted by Nigeria's central bank since independence reflect political motives or convenience. The frequent shifts and contradictions in the country's foreign exchange policies largely mirror the prevailing

political circumstances at different times, resulting in instability and inconsistency across successive administrations. These observations suggest that exchange rate policies are susceptible to various political influences, including the timing of elections. The real exchange rate impacts key economic factors such as purchasing power, export costs, general price levels, and real wages—all of which are important to voters and can influence their electoral choices. As a result, governments often manipulate currency values to maintain an appreciated rate before elections, postponing any depreciation or devaluation until after the polls⁸⁰. Anecdotal data indicates that just 46 percent of adults worldwide have access to financial services. Enhancing this global average has thus emerged as a significant international challenge. The lack of financial access for billions of adults around the globe presents major obstacles to economic growth and development. This issue is not confined to developing nations; governments in emerging and high-income countries alike formulate and execute policies aimed at increasing financial inclusion among the majority of their populations⁸¹. Aside from the weaknesses and inefficiencies within the financial system that influence financial inclusion or exclusion, a more pressing factor is the subpar macroeconomic environment—characterized by low income levels and widespread poverty—which significantly diminishes the ability of many individuals to qualify for financial services⁸². Specifically, he highlighted several key challenges within the broader economic environment:

(a) A significant obstacle in advancing financial inclusion is ensuring that poor rural populations are effectively included, given their limited financial literacy. Most of the estimated 40 million financially excluded Nigerians are unaware of the financial services available and the benefits they offer. Furthermore, employees of financial institutions often lack sufficient knowledge to educate clients effectively. This gap in awareness has contributed to minimal improvements in financial literacy levels, posing a major barrier to progress in financial inclusion efforts.

(b) Another pressing issue affecting savings growth is the population's inability to save amid persistent double-digit inflation, which erodes the real value of money and results in negative real interest rates. This discourages potential savers from using formal banking channels, pushing them instead toward informal saving mechanisms.

(c) Rising poverty presents an additional challenge. Although Nigeria's economy reportedly grew at an average rate of 7.0% between 2009 and 2011, unemployment continues to rise, and progress toward achieving poverty-reduction goals, such as those outlined in the Millennium Development Goals, has been sluggish.

(d) Low and uncompetitive wages, especially in the public sector where many workers occupy lower-paying positions, contribute to financial exclusion. Even though salaries are deposited into bank accounts, these workers often withdraw their wages monthly with little or no capacity to save.

While considerable efforts have been made by the Central Bank of Nigeria and deposit money banks to implement policies promoting financial inclusion, several critical issues persist. Empirical evidence shows that despite the willingness of excluded individuals to participate in the financial system, barriers such as lack of awareness, low income or poverty, and geographical distance prevent many from accessing services offered by banks, microfinance institutions, and non-interest banks. Additionally, stringent documentation requirements, including Know Your Customer (KYC) rules, pose a significant hurdle for low-income and informal sector participants who often lack adequate identification documents. The absence of a reliable, functional national identity management system further exacerbates this challenge, severely limiting progress toward greater financial inclusion.

Currency volatility is a significant factor affecting the pricing approaches of businesses, particularly small and medium-sized enterprises (SMEs). Exchange rates, which represent the value of one currency against another, influence the competitiveness and profitability of firms engaged in international trade. Due to their limited resources and exposure to global markets, SMEs are especially vulnerable to these currency changes, which can affect their overall business outcomes⁸³. Exchange rate fluctuation describes the variation in the value of one currency compared to another. It represents the rate at which one currency can be traded for another in the foreign exchange market. Several factors drive these fluctuations, such as changes in currency supply and demand, interest rate differences, inflation rates, and the political and economic conditions of various countries⁸⁴. The exchange rate holds significant importance in global trade and finance, influencing a nation's export and import competitiveness, as well as the expenses related to foreign investment and travel. When exchange rates fluctuate widely, exports tend to become more costly while imports grow cheaper; conversely, less fluctuation often results in more affordable exports and pricier imports.

There are two main types of exchange rate systems: fixed and floating. In a fixed exchange rate system, the government or central bank pegs the currency's value to another currency or a group of currencies, requiring active intervention to maintain that rate. In contrast, a floating exchange rate system allows the currency's value to be determined by market supply and demand dynamics without government or central bank interference⁸⁵. Currency exchange rates are typically presented in two formats: direct quotation and indirect quotation. Direct quotation expresses the value of the domestic currency relative to a foreign currency, whereas indirect quotation shows the value of the foreign currency in terms of the domestic currency⁸⁶. The setting of exchange rates results from intricate interactions among multiple economic variables. Currency supply is affected

by elements like exports, capital movements, and foreign investment, while currency demand is shaped by imports, tourism, and speculative activities in the foreign exchange market⁸⁶.

Exchange rate fluctuations can affect an economy in both the short and long term. In the short term, they influence import costs, inflation, and the competitiveness of domestic industries. Over the long term, changes in exchange rates can impact a country's trade balance, economic growth, and financial stability. To maintain economic stability, governments and central banks need to manage currency values effectively, using measures like adjusting interest rates, intervening in foreign exchange markets, and applying capital controls to regulate exchange rate movements⁸⁷. Historically, currency values have significantly influenced business activities. Following World War II, the Bretton Woods system was created to stabilize exchange rates, thereby promoting smoother international trade and supporting global economic development⁸⁸. Nonetheless, the Bretton Woods system disintegrated in the early 1970s as a result of economic disparities and speculative pressure on currencies. Since that time, the majority of nations have shifted to floating exchange rate systems, allowing market dynamics to dictate currency values⁸⁹.

On a global scale, fluctuations in exchange rates impact companies involved in international trade. When a nation's currency loses value compared to those of its trading partners, its exports gain competitiveness by becoming more affordable. However, this also makes imports costlier⁹⁰. Changes in exchange rates affect multinational corporations' profitability by altering their income and expenses across various currencies⁹¹. Nigeria's economy relies heavily on oil exports, rendering it vulnerable to shifts in global oil prices. As a result, the Nigerian currency, the Naira (NGN), has experienced notable volatility over time. These exchange rate changes greatly affect Nigerian SMEs; for instance, when the Naira depreciates, companies reliant on imported materials face increased costs, which can weaken their competitive edge⁹².

Components of Exchange rate fluctuation

(a). Base currency

The base currency is the primary currency used within a nation or region for international trade and financial transactions. It serves as the standard benchmark for determining exchange rates and is typically issued by the country's central bank. In Nigeria, this role is fulfilled by the Nigerian Naira (NGN), which is essential for domestic economic activities and acts as the main medium of exchange for goods and services. Since 1973, the Naira has been Nigeria's official currency, replacing the Nigerian pound. It is issued and overseen by the Central Bank of Nigeria (CBN), the country's monetary authority. The Naira, symbolized by "₦," is subdivided into 100 smaller units known as kobo. Currently, coins are produced in denominations of 50 kobo, 1, 2, 5, and 10 Naira, while banknotes are available in 10, 20, 50, 100, 200, 500, and 1,000 Naira notes⁹³.

(b). Counter Currency

Counter currency refers to an alternative form of money used instead of a country's official currency. It is often created by individuals, groups, or communities to stimulate local economic growth, strengthen social bonds, and provide a challenge to the dominance of national currencies. These currencies come in various shapes, such as local or community currencies, complementary currencies, and digital tokens. Typically, they circulate within a defined geographic area or among a specific community, establishing a self-contained economic network that encourages local commerce and supports regional businesses. In the complex interplay of international trade and finance, counter currencies serve not only as numerical counterparts to base currencies but also as influential elements shaping Nigeria's economic environment. Understanding counter currencies within Nigeria offers valuable perspectives on the country's trade dynamics, economic vulnerabilities, and potential development opportunities. When considering currency pairs, the

counter currency moves inversely relative to the base currency, with its value quoted against the latter. In Nigeria, the United States dollar (USD) is the most prevalent counter currency. This reflects the USD's prominent role in global markets and Nigeria's longstanding economic connections to the Western world⁹⁴. Nevertheless, with the growth of other economies and shifting trade dynamics, the increasing prominence of alternative counter currencies such as the euro and the Chinese yuan must be acknowledged. The selection of a counter currency carries significant practical consequences for Nigerian businesses and consumers. When the US dollar strengthens against the Naira, it tends to reduce the cost of imports, which can lower prices for consumers and encourage international trade. On the other hand, this appreciation can make Nigerian exports less competitive by increasing their prices in foreign markets⁹⁵. On the other hand, a depreciated US dollar may advantage exporters by making their products more competitively priced abroad, but it can also drive inflation higher and reduce profit margins for companies that depend heavily on imported goods⁹⁶.

Vulnerability and Strength: The fluctuating interaction between the Naira and its counter currencies reveals specific weaknesses in Nigeria's economy. Heavy reliance on imports—especially fuel and machinery—renders the economy sensitive to changes in the value of these foreign currencies. This exposure can be reduced by broadening trade partnerships, boosting local manufacturing, and supporting export growth⁹⁷. Creating a more resilient and diversified economy will help shield Nigeria from external economic shocks and promote long-term sustainable development. Beyond just trade, the influence of the counter currency extends to public sentiment and behavior. A robust Naira tends to boost confidence and stimulate investment, whereas a weakening Naira can generate uncertainty and slow down economic engagement⁹⁸. Grasping these psychological aspects is essential for policymakers and business leaders, as it guides the

development of strategies to counteract negative sentiments and build confidence in the economy. Although the US dollar presently remains Nigeria's primary counter currency, future prospects suggest an expansion in options. As the global economy transforms, fostering diverse trade partnerships and encouraging the use of regional currencies may introduce new counter currency combinations. Such diversification can provide Nigerian businesses and individuals with increased adaptability and help reduce the risks tied to reliance on a single foreign currency⁹⁹.

Pricing in Business Operation

Pricing in business refers to the method of establishing the worth of a product or service and deciding on a price that aims to optimise profits while staying competitive within the market. This process takes into account multiple elements, including production expenses, consumer demand, competitive landscape, and prevailing market conditions, to develop a pricing approach that supports the company's goals¹⁰⁰. Determining prices is vital for companies since it has a direct impact on their income and profit levels. Pricing also affects how customers make purchasing decisions, the company's position in the market, and overall organizational performance. Consequently, setting prices requires thorough examination of internal elements and external market dynamics. A key part of pricing involves grasping the cost composition of a product or service, which encompasses fixed expenses—such as rent, salaries, and machinery—and variable expenses—like raw materials and direct workforce costs. Accurately assessing these expenses enables firms to set a minimum price that covers costs and reaches the point of no loss or gain¹⁰¹. An additional key factor to keep in mind is buyer preference. Comprehending how clients perceive the worth of an item or service is essential for determining an appropriate price. This insight can be gained using techniques like market analysis, questionnaires, or reviewing historical sales records. By grouping customers based on their payment readiness, companies can customize

pricing approaches for different groups¹⁰². Market rivalry plays an important role in establishing price levels. Analyzing the pricing strategies and value propositions of rivals allows companies to strategically place themselves. Certain businesses might use cost-driven pricing, adjusting their rates just higher or lower than their competitors, while others might choose value-based pricing, highlighting distinctive features or higher quality to support premium pricing. Additionally, broader market conditions—including the balance of supply and demand—affect pricing decisions. Prices may be raised when demand is strong or supply is limited to maximise profits. Conversely, during economic slowdowns or heightened competition, businesses might reduce prices to attract customers and increase market share¹⁰².

Components of Pricing.

(a). Cost-Based Pricing

Pricing based on expenses is an approach in which the amount charged for an item or offering is established by accounting for all expenses related to its production, distribution, and sales, plus a target profit margin. This method prioritizes covering the business's costs while securing profitability. Accurate cost calculation enables companies to set prices that meet their financial goals¹⁰³. In cost-based pricing, the determination of price mainly relies on the costs incurred during production. These expenses fall into two primary categories: fixed and variable costs. Fixed costs remain unchanged regardless of production volume and include items like rent, wages, and utilities. Variable costs, however, vary in direct proportion to output levels and encompass costs such as raw materials and direct labor¹⁰⁴. When applying cost-based pricing, companies generally choose between two approaches: cost-plus pricing and target return pricing. Cost-plus pricing sets the selling price by adding a markup percentage to the total production cost, ensuring all expenses are covered and a consistent profit margin is maintained across products or services. Alternatively,

target return pricing focuses on achieving a predetermined return on investment (ROI). This involves calculating the total capital invested in producing and marketing the product or service, then establishing a price that will deliver the targeted ROI. This method considers both fixed and variable costs as well as anticipated sales volume¹⁰⁵.

Cost-based pricing offers several benefits as well as drawbacks. A key advantage is its simplicity, allowing prices to be set based directly on the actual costs incurred, ensuring expenses are covered and profitability is sustained. This method is particularly helpful when market data is scarce or demand remains stable. However, it also has notable limitations. Cost-based pricing overlooks market conditions and customer preferences, focusing exclusively on costs without accounting for the product's perceived market value. Additionally, this approach can result in rigid pricing, making it difficult for businesses to adapt to shifts in the market or competitive pressures¹⁰⁶.

(b). Value-Based Pricing

Value-based pricing is a strategy where companies set prices according to the value their products or services deliver to customers. This approach seeks to secure an equitable portion of the value provided to customers while optimizing the business's profitability¹⁰⁷. Value-based pricing centers on grasping how customers perceive the worth of a product or service. When customers see that an offering provides substantial benefits or effectively addresses their needs, they are often willing to pay a premium. Consequently, companies must pinpoint the distinct value their products deliver and clearly convey this to their target audience¹⁰⁸. To apply value-based pricing effectively, companies should follow several essential steps. Initially, they need to divide their target market into segments based on criteria like demographics, psychographics, and purchasing patterns. Understanding these distinct customer groups allows businesses to customize their products and pricing strategies to better meet specific demands¹⁰⁹. After identifying the target market segments,

companies must evaluate customers perception of their products or services value. This assessment can be conducted using methods such as surveys, interviews, or conjoint analysis to gauge how customers prioritize various features and advantages¹¹⁰. Once the perceived value is established, companies are able to establish pricing that corresponds to this valuation. The cost must match what customers believe the product or service is worthwhile remaining competitive in the marketplace¹¹¹. Value-based pricing also enables flexible pricing approaches, allowing companies to modify prices in response to shifts in demand or changes in customer tastes¹¹². For effective value-based pricing, companies must consistently track and assess customer feedback alongside market conditions. This ongoing evaluation allows them to adjust their pricing tactics to address evolving customer demands and maintain a competitive edge¹¹³.

Financial inclusion is a strategic approach aimed at removing the barriers that prevent markets from functioning effectively for the benefit of the poor and marginalized populations¹¹⁴. Central Bank of Nigeria¹¹⁵, financial inclusion involves providing formal financial services to individuals lacking access in a manner that is dependable, convenient, affordable, consistent, and adaptable. Its primary goal is to benefit the large poor population who have not previously utilised formal financial systems¹¹⁶. Financial inclusion offers incremental and complementary solutions to tackle poverty, to promote inclusive development and to address MDGs¹¹⁷. Efforts to expand financial access aim to bring individuals without bank accounts into the official financial framework, providing them with entry to multiple offerings like deposit accounts, transaction services, fund transfers, loans, and risk protection. Additionally, the impact of financial inclusion is examined in terms of enterprise outcomes, including business performance levels and investments in human capital¹¹⁸.

In Nigeria, the Central Bank of Nigeria's (CBN) Credit Guidelines define a Small Scale Industry as any manufacturing or service business with an annual turnover not exceeding N500,000, a limit set under the Agricultural Credit Guarantee Scheme (ACGS), and capped at N1 million (one million Naira)¹¹⁹. SMEs are considered the largest business sector in economies worldwide. Despite their importance, SMEs often encounter considerable obstacles in obtaining credit and other financial services due to factors such as physical distance from financial institutions, high costs, and insufficient collateral, limited or absent credit histories, and other non-price related barriers¹¹⁹.

Small and Medium Scale Enterprise Performance

This pertains to the measurable achievements or effects of small and medium-sized enterprises (SMEs) assessed in relation to their planned targets and aims. The effectiveness of SMEs covers three primary dimensions of business outcomes: financial results (including earnings, asset returns, and investment yields), market-related performance (such as sales volume and market penetration), and shareholder gains (evaluated through overall shareholder returns and value created economically). Broadly, SME effectiveness involves defining expected results, formulating approaches to accomplish those targets, implementing the strategies, and evaluating whether the goals have been fulfilled¹²⁰.

Financial inclusion directly or indirectly on performance of SMEs

Financial inclusion (FI) is the process by which individuals and businesses, irrespective of their income, gain access to and can effectively utilise the financial services necessary to improve their quality of life¹²¹. Financial inclusion describes a situation where individuals can access a full spectrum of financial services affordably, conveniently, and with dignity and respect¹²². These services should be provided to consumers in a responsible, secure, and sustainable manner within

an appropriately regulated environment¹²³. Financial inclusion has attracted significant focus from both national and international policymakers as a vital element of development. For example, at the 2019 Pittsburgh Summit, the G20 designated financial inclusion as a core priority¹²⁴. Financial inclusion consists of four key components: access, quality, utilisation, and welfare¹²⁵. At the macroeconomic level, financial inclusion contributes to a broader deposit base, which strengthens the financial system and enhances its stability¹²⁶. The IMF states that constraints arising from various macroeconomic factors—such as stability, equity, and economic growth—affect the extent of financial inclusion at the national scale¹²⁷.

Advancements in information and communication technology have greatly enhanced digital financing. Governments, development agencies, and service providers have increasingly prioritised delivering financial services through digital platforms as a progressive move toward achieving greater financial inclusion¹²⁸. Services such as mobile banking have made it easier for financially excluded individuals to transfer money electronically. This approach helps reduce the risks of loss, theft, and financial crimes linked to cash handling. For those facing economic and social disadvantages, digital finance offers a more advantageous alternative¹²⁹. Efforts to promote financial inclusion will focus on overcoming challenges related to credit access, which often hinder SME growth. The Financial Inclusion Alliance (FIA, 2018) highlights that the use of smartphones and broadband Internet is becoming increasingly important in enabling access to secure and affordable financial services such as money transfers, credit, savings, and both domestic and international payments.

Mobile technologies have introduced a significant transformation in the financial system. The development and adoption of digital innovations through collaborative efforts can accelerate the delivery of financial services, advancing financial inclusion¹³⁰. Enhanced financial inclusion

drives and enables increased savings, easier access to payment systems, and the widespread use of smartphones and ATMs¹³¹. Sustainable economic growth depends on a large segment of the population having access to formal financial services. Increased financial inclusion is associated with greater investment, more job opportunities, higher incomes, and reduced poverty¹³². To improve financial inclusion for the broader population, especially those in rural areas, financial service providers must lower operating account fees¹³³. Formal financial institutions aiming to sustainably deliver adequate and efficient services to rural populations face significant challenges due to high transaction costs in sparsely populated areas and rigid, complex methods for assessing clients' risk profiles. Addressing ICT-related issues—especially concerning cash transfers, cost of capital, utilisation, and access to finance—will be vital for the growth and development of SMEs.

Dimensions of Financial Inclusion

(a) Physical Proximity

The initial factor in increasing the adoption of financial services is physical accessibility. In Nigeria, locations where individuals can deposit and withdraw cash are referred to as financial access points. Currently, these comprise mobile money agents, microfinance institution branches, bank branches, ATMs, and point-of-sale terminals¹³⁴. This refers to the physical distance separating customers from financial service providers. It encompasses the availability and ease of access to financial services, especially for individuals residing in remote or underserved areas. Simply put, when financial services are located nearby, people can access and utilise them more easily, which promotes greater financial inclusion. Beyond the previously mentioned examples, this also includes other financial service providers that are within reach of customers¹³⁵.

(b) Payment Infrastructure

Evaluating payment frameworks within the scope of financial accessibility, it denotes the networks and platforms that allow users to transfer and accept funds. This setup encompasses different elements like payment processors, sales terminals, mobile banking applications, and electronic wallets. These systems are created to enable easy and safe transactions, granting individuals the ability to use financial services even in remote or underserved locations¹³⁶. Such frameworks are essential for improving financial inclusion by offering people tools to electronically send, receive, and hold money, thereby decreasing dependence on physical cash and conventional banking methods. Serving as a crucial element of an efficient financial system, they offer a safer and more cost-effective payment solution. At a minimum, such reliable electronic payment systems enable people to support each other and their businesses, and at best, they facilitate access to a full range of financial services¹³⁷.

(c) Value Storage

In the realm of financial inclusion, value storage refers to an individual's ability to securely keep and manage their financial resources. This includes both traditional forms such as cash and bank accounts, along with modern options like mobile wallets and digital currencies. The primary objective of value storage in financial inclusion is to provide safe and convenient methods for saving and accessing money, regardless of a person's location or economic status¹³⁸. Electronic systems that provide secure value storage are therefore a fundamental part of the financial system. Ultimately, the ability to safely and conveniently store value enables individuals to utilise their funds to access a broader range of formal financial services, including credit, savings, insurance, and investments. Thanks to mobile money, millions of Nigerians now have access to such electronic value storage¹³⁹.

(d) Store of Information

In the realm of financial inclusion, value storage refers to an individual's ability to securely keep and manage their financial resources. This includes both traditional forms such as cash and bank accounts, along with modern options like mobile wallets and digital currencies. The primary objective of value storage in financial inclusion is to provide safe and convenient methods for saving and accessing money, regardless of a person's location or economic status¹⁴⁰. A dependable repository of data is essential for obtaining financial assistance. Important elements like guarantees, credit backgrounds, and individual as well as company records are fundamental in this procedure. Imbalances in information can obstruct both the availability and supply of financial offerings. When providers of financial services gain entry to centralized systems holding customer information, credit histories, and asset details, they are able to offer suitable solutions more effectively and precisely¹⁴¹.

2.1.5 Perceived Fluctuation Intensity

The rise or fall of prices that are consistent with the consumption traditions and consumer behavior are perceived as typical, objective and fair and, therefore, are not accompanied by pronounced emotional and sensory responses and changes in consumer sentiment. The mechanism of price fluctuations, triggered by the influence of multiple global factors, is quite complicated and mainly studied in terms of inflation, level and structure of commodity supply, seasonality of supply and demand, fluctuations in foreign currencies, etc. However, fluctuations in demand and consumer response to price volatility due to changes in traditions and behavior of Russian consumers have been poorly studied at the current stage¹⁴².

Fluctuations in prices that are not consistent with these traditions and expectations aggravate them. Therefore, the pricing policy based on the adequacy of price fluctuations and specifics of the consumption traditions and consumer behavior in a country or a particular region that are changing

under the influence of global factors will allow to avoid or minimize the occurrence of negative consumer responses and the formation of pessimism in the society in general. In general, this situation is characteristic of periods of stable development of not just the national economy, but also the global environment. A significant excess of the actual price indices from the level of their traditional expectations and typical fluctuations is observed during periods of unstable development of the national economy and the global environment¹⁴².

In standard finance theory, volatility is synonymous with risk and as such represents the dispersion of returns around their central tendency (i.e. mean), measured by the standard deviation of returns. Such a view, however, has been challenged in recent years, not just by other academic disciplines but within finance itself. Irregularity results not only in a higher correlation between perceptions of volatility and risk, but also in an increased similarity in the pattern of correlations with the independent variables, suggesting irregularity represents perhaps the risky aspect of volatility¹⁴³. Price perception is a perception or opinion related to price and that customers perceive a product's price as low, high, and reasonable, which can have a strong influence on purchasing goals and purchase satisfaction. Price perception can be determined by the perceived cost and perceived quality of the consumer when purchasing a product. Price perception can be measured using indicators influenced by: The price is compatible with the product quality, the price is compatible with the advantage, the price is competitive, the price is affordable¹⁴⁴.

Consumers' price level perceptions are important significant indicators. By contrast, compared to alternative supermarkets, the perception of prices as expensive by consumers may be an indicator of their perception of the quality of goods and services. Price level perception reflects how cheap or expensive the store is according to consumers' point of view. Consumers with low price sensitivity can positively evaluate the expensive perception of supermarkets and start thinking they

are not expensive. Consumers assume price level is an indicator of the quality of supermarkets and their goods and services. Thus, when they think they buy affordable good-quality goods, they are satisfied and express positive emotions. Each dimension of price level perception affects both consumers' positive emotions and negative emotions toward supermarkets¹⁴⁵.

Consumers' purchasing decisions depend on the emotions evoked by their price perceptions rather than the actual price of the products or services. Thus, it is assumed that consumers appraise price level as cheap or expensive and these appraisals affect their positive and negative emotions towards supermarkets. Consumers' PLP includes consumer beliefs (price evaluations and price justice), and consumer behavior (store selection, selection delay, and purchase amount). Thus, it is assumed that consumers appraise price level as cheap or expensive and these appraisals affect their positive and negative emotions towards supermarkets. PLP is a complex concept formed by different elements such as product quality, consumers' price-consciousness, promotion and psychological factors. Price perception shows the way consumers perceive price level at a specific store. Consumers may have positive and negative emotions triggered by price level perceptions. Consumers' PLP includes consumer beliefs (price evaluations and price justice), and consumer behavior (store selection, selection delay and purchase amount)¹⁴⁶.

2.1.6 Concept of Performance

Performance is a multifaceted concept encompassing both financial and non-financial indicators. Financial indicators commonly used include equity, current ratio, return on sales, and return on assets, while non-financial indicators may involve factors such as market share, customer satisfaction, and operational efficiency¹⁴³. Research has demonstrated a positive relationship between SME performance and access to reliable power. For instance, consistent energy supply enhances productivity and operational efficiency, thereby boosting overall business

performance¹⁴⁷. SMEs hold a vital position in Nigeria's economic development. Beyond driving industrialisation, they are key contributors to job creation and income distribution. However, the performance of SMEs is heavily influenced by the reliability of the electricity supply. Frequent power interruptions can halt production, damage machinery, and hinder businesses from meeting customer demands and delivery schedules. Consequently, a dependable power supply is essential for SMEs to sustain competitiveness and maintain productivity^{148, 149}.

The performance of small and medium-sized enterprises (SMEs) is crucial for their survival, growth, and competitiveness. Traditionally, accounting performance has been evaluated using financial statements such as the income statement and balance sheet, focusing primarily on financial indicators like returns and profits. Effective management of SMEs supports broader economic development, innovation, job creation, and social inclusion. Therefore, establishing and implementing robust internal governance practices—particularly those related to efficient accounting information systems—is essential. Accounting performance extends beyond generating high profits; it also involves improving the accuracy and timeliness of financial information to aid daily decision-making. Alongside financial measures like profits and returns, it encompasses non-financial value drivers such as customer and employee satisfaction, innovation, and quality. Due to the collaborative nature of efforts and contributions from multiple stakeholders within accounting information systems (AIS), measuring accounting performance precisely and objectively presents significant challenges¹⁵⁰. The success of manufacturing SMEs is influenced by multiple factors, including access to finance, investment in technology, management of human resources, and overall economic conditions. Addressing these elements through focused interventions and supportive policies can help promote the sustainability and growth of SMEs in the region¹⁵¹. Organisational performance is a central focus of numerous empirical studies and is

recognised as a multidimensional concept. It reflects a company's ability to succeed and adapt effectively to changes in its external environment. This performance includes both financial and non-financial aspects. Financial performance is measured by indicators such as sales turnover, growth in sales turnover, return on assets (ROA), and increases in ROA. Conversely, non-financial performance covers factors like employee satisfaction, customer satisfaction, and operational efficiency¹⁵².

The profitability of SMEs is a crucial indicator of their success, showing a consistent upward trend from 2012 to 2016. The employee count in small and medium-sized enterprises (SMEs) reflect their capacity to grow and maintain their operations, therefore playing a role in promoting economic stability and generating employment opportunities. The sales volume of small and medium-sized enterprises (SMEs) in Nigeria had a substantial growth, rising from 127 million Naira in 2012 to 1213 million Naira in 2016. This indicates a robust market presence and the capacity to efficiently fulfil customer demand. The market share of SMEs in the sector increased from 31.2% in 2012 to 52.7% in 2016, indicating their improved competitive position. The expansion illustrates ability of SMEs to attract and maintain a wider clientele, hence strengthening their market standing and competitiveness. The success of SMEs is greatly influenced by strategic procedures and a clear vision, resulting in enhanced profitability, market share, staff retention, and overall company sustainability¹⁵³.

Performance models act as the primary theoretical foundation for analysing the economic productivity of SMEs, particularly focusing on predicting their chances of survival or failure. Significant studies emphasise the significance of working capital management, managerial expertise, and financial literacy as factors that determine the success of SMEs. Failure prediction models often prioritise the prevention of insolvency. Contingency models provide an alternate

viewpoint by highlighting the favourable features of SME performance. These models include empirical research from several fields to find factors that contribute to positive results. Important internal factors that influence success include the proficiency of managers, strategic decision-making, financial knowledge, and effective resource allocation. External factors that influence or impact a firm include the overall business climate, the availability of funding options, and the policies implemented by the government. The primary external factors that are crucial to consider are the overall business climate, the competitive landscape, the availability of financial assistance from institutions, and the regulatory frameworks in place. The synthesis of contingency models offers a comprehensive framework that enhances previous performance models by classifying variables into internal and external factors. This technique seeks to better the academic and practical examination of small and medium-sized enterprise (SME) performance, providing guidance to management in order to improve their business results. The study proposes a research plan that emphasises the methodology, operationalisation of performance, and more empirical investigations to enhance the comprehension of positive performance in small and medium-sized enterprises (SMEs)¹⁵⁴.

The impact of exchange rate fluctuation on the operational costs and profitability of SMEs in Southwest Nigeria.

By 2050, Nigeria was projected to achieve the status of a developed nation economically¹⁵⁵. An effective exchange rate policy is crucial for realizing this goal, as it promotes rapid and sustainable economic growth and development. Conversely, a poorly managed exchange rate policy could hinder progress and negatively impact the economy¹⁵⁶. Therefore, the exchange rate serves as a global price indicator reflecting an economy's competitiveness. It significantly affects how income, expenditure, and the production of goods and services are distributed. Additionally, it

impacts the movement of goods, services, and capital within a nation and exerts considerable control over the balance of payments, inflation, and various other macroeconomic factors¹⁵⁷. Selecting and managing an appropriate exchange rate system is essential for achieving macroeconomic stability, growth, and development. The exchange rate significantly influences a nation's economic expansion and plays a crucial role in promoting diversification and industrialisation. It acts as a bridge between countries through international trade by representing the value of one country's currency in terms of another's. Essentially, the exchange rate is the price at which one unit of a nation's currency can be exchanged for another currency.

Typically, a country's exchange rate is determined within the foreign exchange (FOREX) market, where currencies are traded against each other. This market includes Bureau de Change operators, small and medium-sized enterprises, commercial banks, and is regulated by the Central Bank. Central banks regularly intervene by injecting liquidity to maintain market stability. Due to the inherent volatility in the foreign currency market, exchange rates are vital for facilitating international trade.

Exchange rates fluctuate over time as a result of factors such as currency demand and supply, inflation rates, and interest rate changes. These variations set the prevailing exchange rate at any given moment. For instance, the exchange rate between the Nigerian Naira and the US Dollar may vary as follows: N364 to \$1, N365 to \$1, N360 to \$1, N300 to \$1, N366 to \$1, and so forth¹⁵⁸.

Profitability of Small and Medium Enterprises (SMEs)

SMEs are widely recognised as fundamental drivers of diversification and industrialisation. The production activities of SMEs have direct impact on overall performance of the individual enterprise and the broader national economy. Since SME output significantly contributes to economic activity, any disruption or decline in their manufacturing processes can negatively

influence the country's economic development. In contemporary economies, SMEs serve as key catalysts, delivering numerous important benefits that drive economic transformation¹⁵⁹. One way this impact is demonstrated is through the results SMEs achieve. The output of an SME reflects its potential in both diversification and industrialisation efforts. Small and medium-sized enterprises, especially those receiving minimal foreign direct investment, are the backbone of developing economies. These enterprises generate employment for large segments of the local population and serve as vital drivers of economic growth and poverty alleviation. In the context of Nigeria, SMEs are often viewed as businesses operating within the informal sector. Manufacturing SMEs, in particular, are highly vulnerable to exchange rate fluctuations, which significantly affect their operations. Additionally, recent changes in the financial sector have increased SMEs' likelihood of accessing formal financing sources. The growing focus on SMEs is also motivated by the widespread academic acknowledgment of Nigeria's pressing need for economic transformation¹⁶⁰, especially the manufacturing sector, transforming it from low-value to high-value added industries that drive economic growth¹⁶¹. SMEs play a crucial role as key drivers of innovation in the transformation process¹⁶², and their role in the economic transformation cycle must be evaluated alongside exchange rate deregulation policies to determine the suitability of such measures for SMEs, given the unique market conditions in Nigeria.

2.1.7 Concept of Operational Cost

Operational costs refer to the financial outlays associated with the day-to-day functioning of a company or system. These costs include several elements such as component and conversion prices, investment costs, training, and capacity development fees, retrofitting and maintenance expenditures, and incentive mechanisms. These expenses are crucial for attaining various degrees of energy efficiency, such as upgrading basic equipment to more energy-efficient models.

Investment costs include expenses related to product design, prototyping, testing, and the training of technical people. Training and capacity building expenditures include the creation of instructional resources, the education of instructors, and the provision of fully equipped training facilities. Retrofitting and maintenance costs include the expenditures related to upgrading current equipment with energy-efficient alternatives, which need meticulous design, implementation, and adherence to national regulatory mandates. Incentive methods may subsidize a part of the costs associated with components, so alleviating the financial strain on firms and promoting the adoption of energy-efficient practices. Ensuring a feasible business model that encompasses operational expenses is essential for the long-term viability of projects and centers of excellence. Operational frameworks often include a combination of financing from many sources, such as national, regional, and global financial organizations. These factors underscore the complex and diverse character of operational expenses and stress the need of thorough planning and allocation of resources to achieve and sustain operational effectiveness¹⁶³.

Operational costs refer to necessary expenditures that arise from the regular operations of a firm and are not directly related to the creation of products or services. The research conducted on DARSA Fruit Chips in East Lampung Regency demonstrates that they have a substantial influence on the net revenue of SMEs. These expenditures include expenses related to sales, marketing, administrative responsibilities, and essential operational services required for the firm to operate. The correlation between operational expenses and net income is often inverse, as an escalation in operational costs results in a substantial decline in net income for small and medium-sized enterprises (SMEs). Operational costs include marketing expenditures, administrative charges, and other overhead costs that are unrelated to the manufacturing process. Effective control of these expenses is essential since they may accrue and substantially diminish a company's overall

profitability. Efficient management of operational expenses encompasses several tactics, including as budgeting and forecasting, process improvement, and cost monitoring. Businesses may efficiently control their operational costs and sustain profitability by using budgeting and forecasting techniques, optimizing administrative and operational procedures, and conducting frequent reviews and monitoring of spending¹⁶⁴.

Operational costs are essential expenditures incurred by a firm on a day-to-day basis, which are not directly associated with output. The expenses include remuneration, compensation, lease payments, utility bills, and other operational expenditures. These expenses have a substantial effect on the company's profitability since they directly influence its financial well-being. Rising operational expenses often result in a decline in profitability, but cutting costs may improve profit margins. This emphasizes the significance of effective management of operating costs in order to maintain and enhance profitability in the manufacturing sector. Operational costs may be classified into many categories, including administrative expenditures, rent and utilities, maintenance and repairs, insurance and taxes, and depreciation and amortization. Administrative costs include the remuneration for administrative workers, the procurement of office supplies, and several other basic company expenditures. The expenses for rent and utilities include the costs associated with leasing office space as well as the fees for utilities such as electricity, water, and other such services. Regular maintenance and repairs are essential for ensuring efficient operations. Insurance and taxes are components of operating expenses. Depreciation and amortization are accounting measures that reflect the decrease in value of tangible and intangible assets as time passes, even though no actual cash is involved. Efficiently managing operational costs entails maximizing these expenses while maintaining the company's operational quality and efficiency¹⁶⁵.

Efficient cost management is essential for maintaining competitive pricing and sustaining profitability. Managing operational expenses is essential for minimizing mistakes in service handling and ensuring precise financial reporting, which is crucial for strategic planning and decision-making. An effective operational cost accounting information system enhances internal control over operational expenses by assuring precise recording and reporting of financial transactions, facilitating efficient monitoring and control. A research conducted at a consulting business in Bandung revealed that the implementation of the operational cost accounting information system had a substantial and favorable effect on the internal management of operational expenses. To summarize, operational expenses play a crucial role in any organization, directly impacting its profitability and efficiency. Cost accounting information systems may effectively manage and control expenses, providing precise financial information, facilitating strategic decision-making, and improving internal control mechanisms. By comprehending and using these principles, organizations may enhance their operational effectiveness and attain their financial goals¹⁶⁶.

Operational costs, including wages, utilities, and maintenance, are crucial for an organization's efficiency. Effective internal controls, such as internal auditing, can significantly improve operational cost efficiency by ensuring smart resource use and minimizing waste. Internal auditing helps identify vulnerabilities in managerial operations and rectify shortcomings before they escalate beyond control, improving cost effectiveness. Implementing systems controls, such as password security and limited access, safeguards assets and mitigates the risk of unlawful transactions. Although there is a positive correlation between systems control and operational cost efficiency, it is not statistically significant in this context. Physical controls, such as door locks and asset accountability, also positively and statistically correlate with operational cost efficiency.

Personnel controls, which involve managing and supervising human resources, ensure optimal efficiency and adherence to policy. Implementing effective people controls reduces fraudulent activities and mistakes, leading to skilled and reliable staff, thereby enhancing operational efficiency. Ultimately, internal measures, including internal audits, physical controls, and human controls, all play a crucial role in enhancing operational cost efficiency within Kenyan parastatals¹⁶⁷.

Operating costs include a range of expenditures, including salaries for employees, supplies for the office, rental fees, payroll charges, raw materials, and maintenance costs. They differ from non-operating expenditures, which are associated with finance activities. In the construction and real estate industries, expenditures are classified as either project overhead costs or firm overhead costs. Project overhead costs are necessary for building projects, while firm overhead costs are non-variable expenditures associated with the general operation of the organization. Operational costs in the real estate sector include registrars' fees, property upkeep charges, and legal fees. Registrars' fees pertain to the process of officially registering real property with Land Registry Offices. On the other hand, property maintenance expenditures include the costs associated with maintaining the property, such as landscaping, garbage collection, and building repairs. Legal expenses are incurred for the provision of legal services necessary for property transfers. The operational expenses have a considerable influence on a company's financial performance, and it is vital to effectively manage and control them in order to preserve profitability and ensure sustainable corporate development. Failure to properly handle or accurately assess these expenses may result in financial hardship, which may put a company's ability to function and its standing in the market at risk¹⁶⁸.

The operational expenses in the hospitality industry are influenced by various factors such as service quality, resource utilization, adaptability, innovation, and market orientation. High service quality requires more investment in training, infrastructure, and maintenance to exceed customer expectations and improve performance. Efficient resource allocation is crucial for controlling operating expenses, as it maximizes the use of existing resources and enhances productivity. This includes staff training, maintaining advanced technology, and establishing performance assessment methods. Operational flexibility allows hotels to adapt to economic fluctuations, market requirements, and obstacles, resulting in cost reduction through resource reallocation. Innovation is vital for managing operational expenses, as it can lead to cost reductions, improved service quality, and more efficient resource use. Market orientation indirectly influences operational expenses by aligning strategy with market needs and ensuring resource efficiency¹⁶⁹.

Small and medium enterprises face significant operational costs due to various external factors. Taxation is a significant factor, as unfavorable tax policies can negatively impact a firm's net income. High compliance costs due to complex tax regimes can inflate operational costs, especially for SMEs lacking proper records and licensing documentation. Corruption within tax and regulatory authorities can also increase operational costs, especially in the informal "shadow" economy. The level of service provision relative to taxes paid also affects operational costs. Specific tax policies, such as value-added tax (VAT) and presumptive tax policies, have distinct impacts on operational costs. Operational costs also include costs of raw materials, debts, and capital structure. Tax policies that do not consider these aspects can lead to increased operational costs for SMEs. Understanding and managing operational costs is crucial for SMEs' sustainability and growth¹⁷⁰.

2.2 Theoretical Framework

2.2.1 Theoretical Framework to Assess the Impact of Exchange rate fluctuation on SMEs .

The impact of exchange rate fluctuation on the operational costs and profitability of Small and Medium-sized Enterprises (SMEs) in Southwest Nigeria can be effectively assessed using a combination of economic and financial theories. This theoretical framework integrates concepts from exchange rate theory, purchasing power parity (PPP), and the financial risk management theory to provide a comprehensive understanding of the phenomena.

2.2.1.1 Exchange Rate Theory

Robert Mundell is a prominent figure in current exchange rate theory. He, together with Marcus Fleming, is credited with the development of the Mundell-Fleming model. This model is a fundamental concept in the field of international macroeconomics, explaining the process by which exchange rates are established in an economy that is open to international trade. Mundell was awarded the Nobel Prize in Economics in 1999 for his work, which has had a significant impact on our comprehension of exchange rate fluctuations and the resulting policy consequences¹⁷¹. The theory of exchange rates is based on numerous basic assumptions. Firstly, it presupposes the efficiency of markets and the determination of exchange rates via the interplay of supply and demand for various currencies. These variables include elements such as interest rates, inflation rates, and economic growth expectations. The theory also posits that capital is characterized by its mobility, enabling it to move unhindered across national boundaries in order to exploit disparities in interest rates and investment returns. In addition, it assumes that economic actors possess rational expectations and behave in a manner that maximizes their utility, resulting in an equilibrium exchange rate that incorporates all relevant information¹⁷².

Detractors of exchange rate theory contend that it excessively simplifies the intricacies of actual currency markets. A notable critique is that the presumption of efficient markets is not universally valid, since markets may be impacted by speculative activity, government interventions, and unforeseen economic occurrences. In addition, opponents argue that exchange rate models often fall short in properly predicting short-term swings due to their incomplete consideration of elements such as market mood and geopolitical threats. In addition, the theory's dependence on rational expectations has been challenged due to the fact that market players often exhibit illogical behavior influenced by emotions and cognitive biases¹⁷³.

Furthermore, an additional level of critique centers on the theory's presupposition of capital mobility and rational expectations. Detractors contend that capital mobility may sometimes face limitations as a result of governmental policies or other regulatory obstacles, therefore distorting exchange rates and causing enduring imbalances¹⁷⁴. Moreover, the belief that individuals in the market had rational expectations has been challenged, since many studies have shown that market conduct may be irrational, influenced by herd mentality, panic, and speculative bubbles¹⁷⁵. Behavioral economists contend that psychological variables and illogical conduct have a substantial impact on currency markets, hence diminishing the effectiveness of conventional exchange rate models¹⁷⁶.

Another criticism is to the consequences of global financial imbalances and the significance of reserve currencies. For example, the US dollar's dominance as the principal reserve currency globally might result in uneven impacts on exchange rates. Countries that have substantial reserves in US dollars may see distinct fluctuations in exchange rates compared to countries holding reserves in other currencies, which might complicate the implementation of exchange rate theories¹⁷⁷.

Exchange rate theory is extensively used in both academic and commercial domains. Exchange rate theory is useful for comprehending the influence of currency changes on the operating expenses and profitability of small and medium-sized enterprises (SMEs) in Southwest Nigeria. For example, in the event that the Nigerian naira experiences a decline in value compared to the US dollar, small and medium-sized enterprises (SMEs) that depend on imported raw materials would encounter increased expenses, resulting in a reduction in their profit margins. On the other hand, if the naira becomes stronger, it might reduce the price of importing goods and perhaps lead to more profitability. Insights derived from exchange rate theory may be used by policymakers and corporate managers to make well-informed choices pertaining to pricing strategies, sourcing of raw materials, and risk management procedures. SMEs may enhance their ability to handle the financial risks linked to currency volatility by closely observing exchange rate patterns and using hedging strategies^{178, 179}.

2.2.1.2 Purchasing Power Parity (PPP) Theory

The idea of Purchasing Power Parity (PPP), first formulated by Gustav Cassel in the early 20th century, is a basic principle in the field of international economics. Cassel proposed the use of Purchasing Power Parity (PPP) to establish exchange rates between nations. According to his suggestion, the value of currencies should be based on the relative price levels of a similar set of products and services in each country¹⁸⁰. The PPP hypothesis is founded upon certain fundamental assumptions. Firstly, it presupposes that when there are no expenses associated with transportation and no obstacles to commerce, commodities that are similar should be sold at the same price in many nations, provided that the prices are stated in a universally accepted currency. This principle is sometimes referred to as the "law of one price." Another premise is that all commodities are capable of being traded, and there are no limitations on the exchange of products between nations.

The idea assumes that markets are competitive, meaning that prices change to reflect supply and demand situations without any involvement from the government. In addition, the buying Power Parity (PPP) theory posits that exchange rates will automatically adapt to offset disparities in price levels across nations, ultimately resulting in a state of balance where buying power is equalized across borders¹⁸¹.

Detractors of the PPP theory point out several constraints and difficulties in its implementation. An important critique is the reliance on the rule of one price, which often fails to hold in practice owing to factors like as transportation expenses, tariffs, taxes, and other impediments to trade. Various causes may result in substantial disparities in prices for similar items in different nations¹⁸². In addition, it should be noted that some commodities and services, particularly non-tradable services such as housing and healthcare, are not subject to trade. This might result in variations in price levels that are not taken into consideration by purchasing power parity (PPP).

Another criticism is that Purchasing Power Parity (PPP) theory presupposes the presence of perfect competition in markets, disregarding the impact of monopolies, oligopolies, and other market defects that might affect pricing. In addition, short-term fluctuations in exchange rates are often impacted by speculative trading, disparities in interest rates, and the movement of capital. These factors are not sufficiently accounted for by the PPP theory¹⁸³. Empirical data has shown that the theory of purchasing power parity (PPP) is more reliable over a longer period of time compared to the short term. In the near term, exchange rates may vary considerably from the values anticipated by PPP owing to various reasons¹⁸⁴.

Some opponents argue that the validity of PPP might be influenced by structural variations across countries. For example, variations in the way people consume, the technology used in manufacturing, and the types of products and services produced might result in long-lasting

departures from purchasing power parity (PPP). This concept by emphasizing that nations with more productivity in commodities that can be traded internationally tend to have higher prices for items and services that cannot be traded, resulting in deviations from purchasing power parity (PPP) referred to as the Balassa-Samuelson effect. This phenomenon indicates that when nations progress and their production rises, their currencies have a tendency to appreciate in real terms, diverging from the projections made by purchasing power parity (PPP)¹⁸⁵.

Furthermore, experts in behavioral finance contend that psychological considerations and market emotion have substantial influence on the establishment of exchange rates, a phenomenon that the PPP theory fails to consider. Investor views, expectations, and speculative activity may impact exchange rates, causing them to fluctuate and deviate from the equilibrium indicated by PPP¹⁸⁶. Political instability, economic crises, and policy changes may lead to sudden fluctuations in exchange rates, which are not anticipated by the PPP theory. Critics highlight the challenge of precisely assessing pricing levels across various nations. Differences in the items people consume, the ways data is collected, and the rates at which prices change might result in mistakes when comparing price levels. This makes it more difficult to apply purchasing power parity (PPP)¹⁸⁷.

Although PPP theory has its constraints, it is extensively used in many economic evaluations and policy formulation. The purpose of this benchmark is to evaluate whether a currency is overpriced or undervalued by comparing the current exchange rate to the exchange rate suggested by purchasing power parity (PPP). Having a clear comprehension of Public-Private Partnerships (PPP) will greatly assist small and medium-sized enterprises (SMEs) in Southwest Nigeria to make well-informed choices when it comes to pricing strategies and the procurement of raw materials. For example, if the local currency is deemed to be overvalued based on purchasing power parity (PPP), it might result in increased expenses for imported items, which would impact the operating

costs and profitability of small and medium-sized enterprises (SMEs). On the other hand, a currency that is not appreciated highly enough may indicate that the price of exports is more competitive. Policymakers use PPP as a means of assessing the competitiveness of their economies and implementing necessary modifications to fiscal and monetary policy. By closely monitoring departures from purchasing power parity (PPP), policymakers may apply appropriate policies to stabilize exchange rates and effectively manage inflation. PPP is a valuable tool for international organizations to aid in financial planning and forecasting. It enables them to predict changes in exchange rates and protect themselves against possible hazards.¹⁸⁸.

2.2.1.3 Financial Risk Management Theory

The idea of financial risk management has been developed and enhanced by a multitude of economists and financial specialists over the years. Harry Markowitz, a prominent figure, made significant contributions to the field. His research on portfolio theory and diversification established the foundation for contemporary risk management tactics. Markowitz's Modern Portfolio Theory (MPT) developed the notion of efficient diversification, highlighting the significance of managing risk and return in investment portfolios¹⁸⁹. Notable individuals in this discipline include Robert Merton and Myron Scholes, who made substantial contributions by creating models to determine the prices of options and effectively manage financial risk¹⁹⁰.

The idea of financial risk management is based on many fundamental assumptions. Firstly, it presupposes that risk can be quantified and assessed using statistical and mathematical models. This encompasses the computation of measures such as Value at Risk (VAR), which assesses the probable decline in the value of a portfolio within a certain timeframe for a particular level of confidence. Furthermore, the theory posits that markets are mostly efficient, implying that asset prices accurately include all accessible information. This premise justifies the use of past data and

statistical techniques to forecast future risks and rewards. Another presumption is that investors exhibit rational behavior and have a preference for avoiding risk, aiming to optimize their returns by using diversification and hedging techniques. Detractors of financial risk management theory contend that it excessively simplifies the intricacies of actual financial markets. A significant critique is that the theory's dependence on past data for forecasting future hazards might be deceptive, particularly during times of market instability or structural alterations. Historical data may not always provide a precise depiction of future risks, especially when confronted with black swan events—uncommon and unforeseeable incidents with significant implications¹⁹¹.

Another criticism is to the underlying assumption of market efficiency. Detractors contend that markets are not always efficient, since they may be swayed by irrational conduct, market manipulation, and information asymmetry. Studies in behavioral finance have shown that cognitive biases and emotional considerations may result in illogical decision-making, which contradicts the idea of rational investors¹⁹². Moreover, VAR models have been criticism for their tendency to underestimate the likelihood of significant losses and for misleading investors and risk managers into a false perception of safety¹⁹³. Moreover, the intricacy and dependence on quantitative models in financial risk management might result in excessive faith in the correctness of the models. The 2008 financial crisis exposed the inadequacies of these models, since several financial institutions miscalculated the risk associated with mortgage-backed securities and other intricate derivatives, resulting in substantial losses and systemic breakdowns¹⁹⁴.

Financial risk management theory offers useful methodologies and structures for the identification, evaluation, and reduction of financial hazards, despite its inherent limits. Efficient risk management is essential for small and medium-sized enterprises (SMEs) in the Southwest region of Nigeria to successfully navigate exchange swings and other financial concerns. SMEs may

safeguard themselves against unfavorable fluctuations in exchange rates, interest rates, and commodity prices by using tactics including diversification, hedging, and utilizing financial derivatives. An example of a practical use is using forward contracts and options as a means to mitigate exposure to currency risk. By securing fixed exchange rates for future transactions, small and medium-sized enterprises (SMEs) may reduce the negative effects of exchange rate fluctuation on their operating expenses and profitability. In addition, small and medium-sized enterprises (SMEs) may use scenario analysis and stress testing techniques to assess the possible consequences of severe market events on their financial standing. This enables them to create contingency plans and enhance their financial resilience¹⁹⁵. The idea of financial risk management also highlights the need of creating a strong risk management framework, which involves setting risk limits, consistently monitoring risk exposures, and regularly reporting to stakeholders. This technique guarantees that risks are detected and handled in a proactive manner, hence decreasing the probability of unforeseen financial disruptions.

2.2.2 Theoretical Framework to Evaluate Financial Inclusion among SMEs and Its Effects on Performance

Evaluating the level of financial inclusion among Small and Medium-sized Enterprises (SMEs) in a region and its effects on their performance requires an integrated theoretical framework. This framework combines elements from the financial inclusion theory, resource-based view (RBV), and institutional theory. These perspectives collectively provide a comprehensive understanding of how access to financial services influences the operational and financial performance of SMEs.

2.2.2.1 Financial Inclusion Theory

The concept of financial inclusion has been developed and advocated by several researchers and international organizations over the years. Thorsten Beck, a well-known advocate of this idea, has

conducted considerable research that emphasizes the significance of financial development and inclusion in promoting economic growth and alleviating poverty. Beck, together with other researchers such as Asli Demirgüç-Kunt and Patrick Honohan, has established the foundation for comprehending the ways in which having access to financial services may enhance the capabilities of people and organizations, resulting in wider economic advantages¹⁹⁶.

The notion of financial inclusion is based on three fundamental assumptions. Firstly, it presupposes that having access to a diverse array of financial services, such as savings, credit, insurance, and payment services, empowers people and enterprises to enhance their financial welfare¹⁹². This access facilitates the process of consuming goods and services, mitigating risks, and capitalizing on development prospects. Furthermore, the idea posits that financial services have to be accessible at a reasonable cost, easy in terms of availability, and customized to cater to the requirements of various populations, particularly those who are underserved and disadvantaged. Moreover, it assumes that having a strong understanding of financial concepts and principles is essential, as it enables individuals to make well-informed choices about financial goods and services. According to the idea, it is crucial to have a regulatory and institutional framework that supports and promotes an inclusive financial system. This framework should aim to safeguard consumers and maintain the stability of financial institutions¹⁹⁷.

Detractors of financial inclusion theory contend that it may oversimplify the intricacies associated with broadening the availability of financial services. An important critique is that just expanding access to financial services does not inherently result in enhanced economic results. Critics argue that a lack of sufficient knowledge and assistance in financial matters may result in the improper use of financial goods, which in turn can lead to excessive debt and financial hardship¹⁹⁸. Furthermore, there is apprehension that financial inclusion programs may concentrate quantity

over quality, placing emphasis on the amount of newly established accounts rather than guaranteeing that these accounts are actively used and advantageous.

Another criticism is the possibility that financial inclusion initiatives may fail to address underlying problems that impede access to financial services, such as gaps in income, discrimination based on gender, and geographical inequalities. Critics contend that the effectiveness of financial inclusion in accomplishing its objectives may be compromised if these underlying causes are not addressed¹⁹⁹. Moreover, several opponents emphasize the potential for regulatory arbitrage, which refers to the possibility of financial institutions taking advantage of loopholes in the regulatory system to provide inferior goods, therefore causing damage to customers²⁰⁰.

Critics further highlight that financial inclusion might unwittingly promote unscrupulous lending practices. When financial institutions attempt to broaden their client base without strict supervision, there is a possibility of granting credit to people and enterprises that lack the means to repay it, resulting in increased rates of non-payment and financial instability²⁰¹. In certain cases, efforts to promote financial inclusion might result in an increase in unregulated informal financial services, which can pose hazards to customers.

Another critique is that the emphasis on digital financial services as a method to attain financial inclusion may exclude those who do not have access to technology or lack the necessary technical skills to use these services proficiently. The presence of a digital gap may worsen pre-existing disparities, especially in areas where access to the internet and mobile phones is restricted²⁰². In addition, the fast growth of digital financial services gives rise to apprehensions about data privacy and cyber security, as an increasing number of individuals and enterprises become susceptible to digital fraud and identity theft. Some opponents contend that financial inclusion initiatives should

be complemented by more extensive economic and social changes. Financial inclusion alone may not be enough to promote long-term economic growth without also addressing essential concerns such as education, healthcare, and infrastructure²⁰³. Critics argue in favor of a comprehensive strategy that combines financial inclusion with other development measures in order to create a fairer and more equal economy.

Despite the objections, the notion of financial inclusion has been extensively implemented in both policy-making and practical applications, resulting in a substantial influence on the global financial environment. Implementing the financial inclusion principle will provide improved accessibility to vital financial services for small and medium-sized enterprises (SMEs) in Southwest Nigeria, hence fostering their growth and prosperity. Using financial instruments such as microloans, savings accounts, and insurance, small and medium-sized enterprises (SMEs) may effectively mitigate risks, allocate funds towards productive assets, and enhance their overall financial well-being.

Government policies and activities that focus on boosting financial inclusion, such as establishing a supportive regulatory framework, backing fintech advancements, and improving financial literacy programs, may greatly advantage small and medium-sized enterprises (SMEs). Mobile banking and digital financial services provide cost-effective and simple means of accessing financial goods, particularly for small and medium-sized enterprises (SMEs) located in distant regions. In addition, enhancing the financial literacy of small and medium-sized enterprise (SME) owners and managers may enhance their ability to make informed financial choices, thereby increasing their likelihood of achieving success²⁰⁴.

In addition, international organizations and development agencies often construct initiatives using the notion of financial inclusion to provide assistance to small and medium-sized enterprises

(SMEs). These initiatives generally consist of actions aimed at enhancing the capabilities of These initiatives aim to enhance small and medium-sized enterprises' (SMEs) ability to access and utilise financial services by offering financing options and technical assistance. By fostering an inclusive financial environment, they contribute to the sustainable growth and development of SMEs, which play a vital role in driving economic progress and creating employment opportunities in the region.

2.2.2.2 Resource-Based View (RBV)

The Resource-Based View (RBV) hypothesis was largely formulated by Jay Barney in the early 1990s. The author's groundbreaking publication, "Firm Resources and Sustained Competitive Advantage," established the fundamental principles for comprehending how companies attain and maintain a competitive edge by using their internal resources. According to Barney's Resource-Based View (RBV), resources and competencies that possess the qualities of being valuable, rare, inimitable, and non-substitutable (VRIN) are crucial for attaining long-lasting competitive advantage²⁰⁵.

RBV is founded upon many fundamental assumptions on the characteristics of resources and their function in generating a competitive edge. Firstly, it presupposes that organizations exhibit diversity in terms of the resources and competencies they possess. The presence of heterogeneity is essential as it provides an explanation for the superior performance of some businesses compared to others. Furthermore, the Resource-Based View (RBV) theory posits that resources are not highly mobile and cannot be readily transferred between organizations. This implies that enterprises have difficulties in replicating the resources and competencies possessed by their rivals. Furthermore, the Resource-Based View (RBV) theory assumes that companies aim to attain and maintain a competitive edge by using their distinct resources and skills, which must satisfy the VRIN requirements in order to be successful²⁰⁶.

Detractors of the Resource-Based View (RBV) contend that the theory is fraught with several constraints and instances of vagueness. A significant critique is on the lack of clarity in identifying the parameters of a resource and determining its worth, scarcity, uniqueness, and irreplaceability. Detractors contend that these criteria possess a subjective nature and provide challenges in their consistent application across many situations²⁰⁷. In addition, RBV has faced criticism for its introspective orientation, which may lead to overlooking the significance of external elements like as industry dynamics and competitive pressures that may have a pivotal impact on a firm's performance²⁰⁸.

Another criticism is that the Resource-Based View (RBV) theory tends to place too much emphasis on the significance of unchanging resources, possibly disregarding the dynamic capacities that companies need to adjust to evolving circumstances. The notion of dynamic capabilities to fill this void has been established, highlighting the need for companies to consistently enhance and refresh their resources in order to sustain a competitive advantage in rapidly changing markets²⁰⁹. In addition, several opponents argue that the Resource-Based View (RBV) fails to sufficiently explain the methods by which enterprises might get or cultivate VRIN resources initially, resulting in a lack of comprehension about the procedures and investments necessary for resource accumulation²¹⁰.

In addition, RBV has faced criticism for its underlying premise that corporations can efficiently use their resources without much external interference. Critics contend that the theory fails to adequately acknowledge the significance of external networks, alliances, and partnerships in the process of producing and using resources. Inter-firm partnerships may provide access to resources and competencies that a single business may not have, hence improving its competitive advantage²¹¹. This viewpoint proposes that the Resource-Based View (RBV) should include ideas

from network theory in order to provide a comprehensive understanding of how companies get a competitive edge.

Another critique is the inherent lack of flexibility in the VRIN criteria. Critics contend that the attributes of value, rarity, inimitability, and non-substitutability might be subject to change over time as a result of technical progress, fluctuations in consumer tastes, and competitive forces. The resource-based view (RBV) does not adequately consider the dynamic nature of competitive advantage, thereby causing enterprises to excessively depend on their current resources without adjusting to external changes²¹². This constraint emphasizes the need of integrating a dynamic viewpoint into the Resource-Based View (RBV) in order to more effectively capture the changing characteristics of competitive advantage.

In addition, RBV has faced criticism for its restricted suitability for small and medium-sized firms (SMEs). Smaller organizations often have difficulties in identifying and using VRIN resources due to their limited resource base compared to bigger firms. Opponents contend that RBV should be modified to account for the distinctive limitations and possibilities encountered by small and medium-sized enterprises (SMEs), including their ability to quickly adapt, capacity for innovation, and concentration on specialized markets²¹³. RBV may provide SMEs aiming to establish a competitive edge with more relevant information.

RBV's emphasis on internal resources may sometimes result in overlooking the significance of environmental sustainability and social responsibility. Critics contend that companies should not just prioritize using their resources to gain a competitive edge but should also take into account their influence on the environment and society. Incorporating sustainability and corporate social responsibility into the Resource-Based View (RBV) framework may enable companies to attain enduring success while making a beneficial impact on wider societal objectives²¹⁴.

Despite receiving criticism, the Resource-Based View (RBV) has been extensively used in the field of strategic management and business practice. It offers a valuable framework for examining and using a company's resources to gain a competitive edge. In the context of small and medium-sized enterprises (SMEs) in Southwest Nigeria, the Resource-Based View (RBV) may be used to identify and cultivate resources that have the potential to enhance performance and facilitate development. SMEs may separate themselves from rivals and maintain a competitive edge by prioritizing the development and cultivation of precious, unusual, inimitable, and non-substitutable resources.

For instance, a small and medium-sized enterprise (SME) that has a distinctive technical invention or exclusive expertise might use these resources to get a competitive advantage in the market. In addition, establishing a strong brand reputation and fostering consumer loyalty may be important assets that are hard for rivals to imitate. Small and medium-sized enterprises (SMEs) may improve their human capital by investing in employee training and development. This will help them build a professional and knowledgeable staff, which in turn contributes to the success of the company²¹⁵.

Furthermore, the Resource-Based View (RBV) may provide guidance to small and medium-sized enterprises (SMEs) when making strategic decisions, assisting them in prioritizing investments in areas where they own or can cultivate valuable, rare, inimitable, and non-substitutable (VRIN) resources. Through a comprehensive internal study, subject matter experts (SMEs) may pinpoint their primary strengths and concentrate on improving these aspects to establish a lasting competitive edge. This strategy not only facilitates resource allocation but also supports long-term strategic planning, therefore guaranteeing that SMEs maintain their competitiveness in their specific markets.

2.3 Empirical Review

2.3.1 Exchange rate fluctuation, Operational Costs and Profitability of SMEs

The ‘impact of exchange rate volatility on the performance of small and medium-sized enterprises (SMEs) in the United Kingdom has been examined’²¹¹. The research focuses on the potential effects of Brexit, which is expected to introduce more volatility and uncertainty in exchange rates. The study uses empirical methods to determine the exchange rate (XR) risks faced by UK SMEs and distinguishes between exposures that improve performance and those that hinder it. It seeks to understand the disparities in XR exposures between SMEs oriented towards exports and those focused on domestic markets. The study examines a subset of SMEs in the United Kingdom from 1998 to 2014, considering a broad spectrum of economic circumstances, including financial crises and Brexit-related uncertainty. The technology employs a dual-phase process to quantify and examine XR exposures, using weekly data and a rolling window of one year to estimate foreign exchange rate (XR) exposures. The exposures can be classified into positive and negative exposures, with a mixed panel effects model to quantify industry-level exposures and standard firm-by-firm regressions to evaluate individual firm exposures. The study demonstrates that variations in exchange rates have a substantial adverse effect on SMEs in the UK, both at the industry level and for individual firms. Small and medium-sized enterprises (SMEs) experience more frequent substantial exposures to extended reality (XR) compared to large organizations, with GBP appreciations having a greater detrimental effect on performance compared to depreciations. The influence of the euro is relatively minor and less substantial when compared to

the US dollar and other currencies, suggesting that the UK's integration into the European Union has reduced some of the possible negative consequences of fluctuations in the euro²¹⁶.

The volatility of foreign currency has a substantial influence on businesses, especially in developing economies such as Nigeria. Manufacturing enterprises in Nigeria encounter difficulties as a result of the instability of the Nigerian Naira in relation to prominent currencies such as the US Dollar. This instability impacts transaction pricing, profitability, resource allocation, and investor sentiment. The devaluation of the Naira has sparked worries over the competitiveness and operational efficacy of these enterprises in the global market. Gaining a comprehensive understanding of the impact of foreign currency translation on financial performance is essential for the development of effective risk management and strategic planning. This study assessed the impact of foreign currency translation on the financial performance of selected manufacturing firms in Nigeria, with a particular emphasis on variations in exchange rates, transaction rates, and interest rates²¹⁷.

The study utilised secondary data over the period of 2013 to 2022, examining variables including actual translation rate, actual inflation rate, actual interest rate, and exchange rate. The findings revealed a substantial inverse correlation between the exchange rate and the performance of the chosen companies. The volatility in exchange rates had a substantial adverse effect on the profit after tax (PAT), indicating that unfavourable swings in currency rates have a harmful influence on the profitability of the company. The correlation between interest rates and PAT was found to be statistically insignificant. The correlation between translation rates and PAT was found to be statistically negligible, indicating that the effect of translation rates on business performance is minimal. The study found that adverse fluctuations in foreign currency exchange rates have a detrimental impact on the performance of manufacturing companies in Nigeria. It suggests

implementing measures to protect against exposure to foreign exchange rate risks and adopting strong risk management strategies to minimise the effects of macroeconomic instability, specifically inflation.

This study examined the mechanisms by which changes in exchange rates impact economic growth in 125 countries between 1997 and 2017²¹⁸. The study utilises data from the World Bank. The study aims to investigate the direct influence of exchange rate fluctuations on economic growth, assess the indirect effects of exchange rate fluctuations through channels such as foreign direct investment (FDI) and international trade, and offer insights and policy recommendations for effectively managing exchange rate fluctuations to maximise economic growth. The study utilises a fixed effect panel model to address variations across specific countries and potential problems related to endogeneity. The dependent variable is the real GDP growth rate, while the key explanatory variable is the exchange rate growth rate. The model incorporates interaction terms between the growth rate of the exchange rate and both foreign direct investment (FDI) and trade volume. These interaction terms are included to represent the indirect impacts. The Two-Stage Least Squares (TSLS) method is employed to estimate parameters and tackle endogeneity. The key findings indicate that variations in exchange rates have a substantial adverse effect on economic growth. Specifically, a 1% increase in the growth rate of exchange rates leads to an average reduction in the growth rate of around 2.3 percentage points. Moreover, a favourable valuation of the home currency impedes exports while simultaneously lowering the cost of imports, resulting in a decline in economic expansion.

Fluctuations in currency exchange rates significantly influence Nigeria's economic stability, especially given the nation's heavy reliance on imported goods and crude oil exports. The

Structural Adjustment Program (SAP), introduced in 1986, aimed to open up the economy and boost exports by devaluing the national currency. Nonetheless, this often caused economic disruptions and imbalances in the country's payments with the rest of the world. This research intends to examine how exchange rate movements affected Nigeria's balance of payments (BOP) from 2010 through 2019. It will use previously collected data sourced from the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS). The investigation employs an ex post facto methodology, focusing on historical data analysis to explore the relationships among variables. Descriptive statistics and Pearson's correlation coefficient were applied, with SPSS version 23 serving as the primary software for data analysis. Findings reveal that exchange rate shifts negatively impact Nigeria's BOP, showing an inverse association between currency fluctuations and both the current and financial accounts of the BOP. Increased exchange rate instability generally causes declines in the balances of the current account and financial account. However, no significant correlation exists between exchange rate changes and the capital account of the BOP. Currency volatility discourages export activities, raises import expenses, and hampers investment domestically and internationally, culminating in an imbalanced balance of payments characterized by deficits in both the current and financial accounts²¹⁹.

The study examined alternative exchange rate policies, such as floating, fixed, and pegged exchange rates, and assesses their benefits and drawbacks under several economic circumstances. The analysis is supported by secondary data obtained from scholarly publications, reports, and articles. The methodology involves conducting a comprehensive analysis of exchange rate theories and their economic consequences by examining relevant literature. Additionally, empirical data from various countries is analysed to observe the practical effects of exchange rate fluctuations. Furthermore, case studies are evaluated to gain insights into the practical implementation of

exchange rate policies. The study's key findings indicate that exchange rate variations have a major impact on export pricing. For instance, Japan experienced a decline in export volume as a result of higher reprocessing costs. Currency depreciation typically results in decreased consumption in nations such as Hungary, the Czech Republic, Bolivia, and Malaysia. It has been observed that as the value of a country's currency, like the Chinese RMB, increases, it can lead to an improvement in productivity. This creates a positive cycle where both productivity and the real exchange rate are boosted. Finally, an increase in the exchange rate has a favourable impact on tourism by enhancing the appeal of the location to international travellers, as seen by the growth in tourist arrivals in Vietnam following an increase in its exchange rate²²⁰.

The research titled "Effect of Exchange Rate on Pricing in Business Operations of SMEs in Enugu State" examines the influence of currency exchange rate changes on the pricing tactics employed by small and medium-sized enterprises (SMEs) in Enugu State, Nigeria. Exchange rates play a vital role in international trade and economics, and it is critical for small and medium-sized enterprises (SMEs) to comprehend their impact. This is because SMEs are directly affected by global markets and have limited resources. The study encompassed seven small and medium-sized manufacturing enterprises (SMEs) that are officially recognised with the Manufacturing Association of Nigeria. A total of 1,360 employees were polled as part of the research. A survey study design was employed, wherein primary data was gathered through the distribution of structured questionnaires among specifically chosen SMEs. The results indicated that variations in the primary currency have a substantial impact on cost-based pricing in small and medium-sized enterprise (SME) activities. Specifically, alterations in the Naira currency influence the expenses of inputs, prompting adjustments in pricing strategies to ensure profitability is maintained. In contrast, the counter currency (USD) did not have a notable impact on value-based pricing. This

implies that elements such as consumer perception, brand image, and competitive positioning are more influential in deciding value-based prices²²¹.

This study investigates the influence of currency devaluation on the operational effectiveness of firms in the North-western region of Nigeria, with a specific focus on enterprises located in Kano and Kaduna states. Currency devaluation refers to the intentional reduction of a country's currency value in relation to another currency. This practice has been frequently carried out since the implementation of the Structural Adjustment Program in 1986. There has been a recent decrease in worldwide oil prices, which has led to fresh demands for additional devaluation. This has sparked substantial discussions among policymakers, experts, and business leaders. The research seeks to empirically assess the impact of macroeconomic modifications on the performance of local businesses. The study employs a descriptive design, utilising both primary and secondary data sources. The collection of primary data would involve conducting surveys specifically aimed at high-level executives inside chosen organisations. On the other hand, secondary data will be obtained via publications released by the Central Bank of Nigeria (CBN). The survey instruments based on the Balanced Scorecard framework by Kaplan and Norton will be used to measure the dependent variables, which indicate company performance. The study posits that there is a multifaceted correlation between currency devaluation and business success, which is influenced by factors such as firm structure, market conditions, and the broader economic environment. Conducting empirical testing will provide a clearer understanding of these processes. The research seeks to offer practical and effective guidance to policymakers and business leaders on how to effectively address the difficulties and advantages arising from the devaluation of currency in Nigeria²²².

This study examines the influence of changes in foreign exchange rates on the financial performance of mining companies that are listed on the Lusaka Securities Exchange (LuSE), with a specific emphasis on First Quantum Minerals (FQM). The changes are impacted by a multitude of market elements, including supply and demand, economic indicators, interest rates, political stability, and market mood. To optimise profitability, FQM, operating in Zambia's mining sector, must create appropriate risk management methods by understanding the essential relationship between currency volatility and financial performance. The report examines the financial performance of mining companies listed on LuSE from 2018 to 2022, with a specific attention on three forms of foreign exchange risks: translation exposure, transaction exposure, and economic vulnerability. The financial performance measures analysed encompass the equity and return on assets (ROA) of First Quantum Minerals. A hybrid methodology was utilised, incorporating both quantitative and qualitative research techniques. The results suggest a small nevertheless favourable correlation between a company's financial success and its level of exposure to translation, transaction, and economic risks. Translation exposure and financial success (ROA and ROE) have a favourable link, albeit it is not statistically significant. Similarly, the correlation between transaction exposure and economic exposure with financial success is positive, but not statistically significant. The modified R-squared score of 0.925 suggests that around 92.5% of the fluctuations in the firm's financial performance can be attributed to changes in these exposures. Nevertheless, the ANOVA analysis indicated a p-value of 0.806, indicating that the impacts of these exposures on financial performance did not reach statistical significance. The analysis determines that although fluctuations in foreign exchange rates have a minor beneficial effect on the financial performance of mining businesses such as First Quantum Minerals, these associations lack statistical significance. To effectively manage foreign exchange risks, it is necessary to have

a strong risk management framework, sufficient resources, well-defined roles and duties, and improved communication and coordination within the organisation²²³.

The study titled "Effects of Foreign Exchange Rate Fluctuation on the Financial Performance of Supply Chain for the Mining Companies" examines the correlation between exchange rate volatility and the financial performance of mining businesses in Zambia, with a specific focus on First Quantum Minerals (FQM). This study investigates the effects of changes in exchange rates on the financial performance of companies listed on the Lusaka Securities Exchange (LuSE), focusing on a case study involving FQM. The study utilises a mixed-methods approach, incorporating both quantitative and qualitative data. The collection of primary data involved conducting surveys and structured interviews with employees and executives of the specific organisations. On the other hand, secondary data was obtained from the annual reports of First Quantum Minerals and other pertinent financial documents. The sample size was chosen using the Yamane formula, yielding 333 respondents from a target population of 2,000 employees²²⁴.

The results suggest that there is an intricate correlation between fluctuations in exchange rates and the financial performance of mining businesses. Translation exposure, as determined by total sales, exhibited a favourable link with financial success metrics such as ROA and ROE, however this correlation was not statistically significant. The association between financial performance and transaction exposure, which is evaluated based on accounts receivables, as well as economic exposure, which is measured by total assets, was shown to be positive but not statistically significant. The report emphasises various difficulties in effectively managing foreign exchange exposures, including insufficient resources and coordination among organisations. Overall, foreign exchange rate variations have a limited and insignificant effect on the financial performance of

mining enterprises. To effectively manage foreign exchange risks, it is necessary to have a strong risk management framework and sufficient resources.

This study analyses the effects of foreign exchange rate disturbances on the stock market performance of five manufacturing companies that are listed on the Nigerian Exchange Group (NGX). These companies play a crucial role in promoting economic growth and are highly responsive to fluctuations in currency values. The study encompasses a sample of five organisations, chosen through a process of random sampling, and the time frame extends from June to September 2023. Financial performance is assessed by analysing key indicators such as stock market price and trade volume to gauge the effects of exchange rate disruptions. The study utilises secondary data obtained from reports of the Nigerian stock market and applies ordinary linear regression models to analyse the data. The findings indicate that exchange rate interruptions have an insignificant adverse influence on the stock market price of the chosen companies, and do not have a noticeable detrimental effect on the volume of stock transactions. Exchange rate disruptions account for a significant proportion of the fluctuations in stock market price (65.1%) and transaction volume (57.6%), while other factors contribute to the remaining variations. The study finds that fluctuations in foreign exchange rates do not have a major adverse impact on the market performance of the chosen manufacturing enterprises listed on the NGX. The results indicate that although changes in exchange rates do affect stock prices and trade volumes, the impact is not statistically significant enough to justify serious worry. The study suggests that the Nigerian government should establish coherent policies to effectively handle and alleviate disruptions caused by fluctuations in foreign exchange rates. Additionally, it recommends that manufacturing firms should hire experts to accurately forecast exchange rate movements and develop strategies to minimise potential financial risks²²⁵.

Research on the influence of enduring changes in the currency rate on the economic performance of Nigeria has been examined. Since the implementation of the Structural Adjustment Program (SAP) in 1986, the country has encountered substantial difficulties as a result of unpredictable fluctuations in exchange rates. Despite the concerted efforts of monetary authorities to stabilise the exchange rate and enhance economic performance, the outcomes have been unpredictable and lacking consistency. The study used the Autoregressive Distributed Lag (ARDL) methodology to examine the immediate and long-term effects of these variables on economic growth. The results indicate that changes in the exchange rate exert a substantial and enduring adverse effect on Nigeria's economic growth. The GDP growth is negatively influenced by the currency rate, net foreign direct investment, and inflation rate, however the interest rate has a notable positive effect. The analysis demonstrates that around 92.82 percent of the imbalance from the previous era is rectified in the present period, indicating a robust inclination towards achieving long-term equilibrium. High levels of fluctuation in exchange rates have a negative impact on economic growth. This is because they create uncertainty for businesses, reduce their ability to compete, and decrease productivity and profitability. In order to promote economic expansion, Nigeria must achieve stability in its exchange rate by implementing credible reforms. The detrimental long-term consequences of variations in currency rates highlight the significance of preserving a stable and predictable foreign exchange environment. The report suggests implementing policies that focus on diversifying exports, specifically in the agriculture and agro-investment sectors. This will help enhance foreign exchange revenues and decrease reliance on oil exports. Furthermore, it is imperative for the government to enact measures to alleviate the detrimental impacts of exchange rate volatility on the economy²²⁶.

The study examines the effects of currency exchange rate fluctuations on Nigeria's foreign commerce between 2000 and 2019, with a specific focus on the country's reliance on imported goods and its susceptibility to sudden changes in exchange rates. The analysis utilises data from the statistical bulletins of the Central Bank of Nigeria to examine the relationship between the fluctuation of exchange rates and the economic performance of Nigeria. The research design entails the examination of past events by utilising pre-existing data and employing the Ordinary Least Square (OLS) method for conducting regression and correlation analysis. Data analysis was performed using version 20 of the Statistical Package for Social Sciences (SPSS). The results reveal that fluctuations in the exchange rate have a significant negative effect on Nigeria's GDP and balance of payments. A volatile currency exchange rate can result in an unfavourable balance of payments, indicating the difficulties in sustaining a positive trade balance. Exchange rate swings have a moderate impact on inflation rates, however the correlation is not as robust as it is with GDP and balance of payments. The relationship between exchange rate fluctuations and changes in GDP, inflation, and balance of payments is substantial, as these variables account for 81% of the variation in exchange rate variations. In order to counteract the negative consequences of these swings, the study suggests that the Nigerian government should implement measures to stabilise the exchange rate, stimulate the diversification of exports, and promote the use of locally sourced raw materials. Furthermore, it proposes offering financial assistance to exporters and enforcing stringent exchange rate regulations in order to fortify the naira and enhance the economy²²⁷.

The effect of shifting exchange rates on SMEs in Nigeria is examined in the Impact of Exchange Rate on the Performance of Small and Medium Enterprises in Nigeria. The study emphasizes the necessity to comprehend how exchange rate changes affect the survival and GDP contributions of SMEs in Nigeria by highlighting the history of exchange rate volatility in the nation and its effects

on macroeconomic stability. An econometric regression model is used in the study to examine how independent variables affect the performance of SMEs. The data collection offers a historical perspective on trends and impacts and covers the years 1980 to 2016. The results show that the performance of SMEs in Nigeria is positively impacted by the exchange rate, money, managerial abilities, market size, infrastructure, and education. Improved SME performance can be attributed to a number of factors, including a strong exchange rate, sufficient capital, competent management, a sizable market, sturdy infrastructure, and high levels of education. On the other hand, greater taxes have a detrimental impact on SME performance, indicating that properly balancing tax policy is necessary to promote the expansion of small businesses. All independent variables are statistically significant and follow predicted a priori correlations, as shown by the regression analysis. The study comes to the conclusion that factors such as stable currency rates, more access to money, enhanced managerial abilities, bigger markets, stronger infrastructure, and higher educational attainment are essential for the strong performance of SMEs in Nigeria²²⁸.

The research focused on Small and Medium-sized Enterprises (SMEs) and looks at how interest rate and currency rate volatility affect the performance of the informal sector in Nigeria. An essential component of the Nigerian economy is the uncontrolled informal sector, which encompasses industries such as agriculture, services, transportation, manufacturing, construction, and commerce. SMEs have a major impact on GDP and jobs. The research intends to address the difficulties that SMEs encounter as a result of macroeconomic instability and provide policymakers insights. The study uses yearly time-series data on interest rates and exchange rates to calculate their volatility, covering the years 1981 to 2018. The Autoregressive Distributed Lag (ARDL) bound test for cointegration, unit root tests, descriptive statistics, correlation, and the Autoregressive Conditional Heteroscedasticity (ARCH) regression model are among the

econometric tests and models used in the technique. The empirical findings show a substantial long-term correlation between the success of SMEs and interest rate and exchange rate volatility. The variables' cointegration, or long-term movement together, is supported by the ARDL bound test. Both interest rates and exchange rate volatility have a favorable effect on SME performance, according to the ARCH model, with exchange rate volatility having a far greater effect. In order to improve SME performance in Nigeria, the research highlights the need of stable macroeconomic policies²²⁹.

The effect of currency depreciation on small and medium-sized enterprises (SMEs) in Beirut, Lebanon, is examined in this research. SMEs play a vital role in the development of the local economy by fostering employment growth, economic expansion, and social progress. SMEs play a crucial role in the local economy of Beirut because of its advantageous location, highly trained labor force, and vibrant business environment. But they also have to deal with things like hard-to-get financing, red tape, complicated regulations, inadequate infrastructure, unstable political environments, unpredictable economic times, and depreciating currency. Currency devaluation, which is usually done by the central bank of a nation, may boost economic development and promote export competitiveness but it can also raise import prices, increase inflation, and lower domestic consumers' buying power. These higher expenses have a substantial effect on SMEs, who often depend on imported equipment, components, and raw materials, which lowers their profitability and reduces their competitiveness. The study uses a descriptive research approach, sampling 150 participants from the target group of 200 SMEs in Beirut. Questionnaires were utilized to gather data, and correlation and regression analyses were performed to ascertain the association between SME performance and currency depreciation. The results show that devaluing a currency raises the cost of imports, which raises manufacturing costs and creates inflationary

pressures, decreasing the profitability and competitiveness of SMEs. Financial institutions are less willing to lend money to SMEs due to the uncertainty created by exchange rate swings, which restricts SMEs' access to capital. SMEs struggle to continue growing, staying profitable, and fulfilling their financial commitments²³⁰.

The trend of foreign direct investment (FDI) is increasing due to economic liberalization and globalization. Nigeria is a growing nation with a wealth of natural resources, which has made it a desirable location for foreign direct investment. Although the Nigerian government has put in place a number of strategies to attract foreign direct investment, currency rate volatility remains a major obstacle. The research looks at how exchange rate swings affect foreign direct investment (FDI) in Nigeria and how much these investments add to the GDP of the nation. It makes use of secondary data from the Central Bank of Nigeria (CBN) website and spans a 26-year period from 1990 to 2015. The study employs regression and correlation analyses to determine both the direction and strength of relationships between variables, as well as to assess the impact of GDP and exchange rates on foreign direct investment (FDI). With a correlation value of 0.742, the results show a substantial positive association between FDI and currency rates in Nigeria. Increased exchange rates draw in greater foreign direct investment (FDI), but GDP has very little effect. FDI increases by around ₦4,619.96 million for every unit rise in the exchange rate. The report also notes a notable increase in foreign direct investment (FDI) between 2005 and 2014, which coincided with increasing exchange rates. In conclusion, there is a positive association between exchange rates, FDI, and GDP, and exchange rates are a major factor in luring FDI to Nigeria. The Nigerian government should completely liberalize the exchange rate system, maintain policy stability, and strengthen the business climate in order to attract foreign direct investment and guarantee sustained economic development. In order to draw in and keep foreign investment,

it will be essential to address infrastructural deficiencies and make sure that regulations are consistent and investor-friendly²³¹.

The influence of exchange rate fluctuations on the performance of small and medium-sized companies (SMEs) in Nigeria is investigated in the paper "Exchange Rate Fluctuation and the Performance of SMEs in Nigeria". The writers draw attention to the high expenses of importing raw materials, which are made worse by exchange rate fluctuations. Comprehending this correlation is crucial for formulating policies and devising financial strategies. The research looks at the short- and long-term consequences of exchange rate volatility on SMEs, using data from 1986 to 2017. The Unit Root Test, GARCH Model, Bound Co-integration Test, and Auto Regressive Distributed Lag (ARDL) Approach are some of the methodologies used. Exchange rate fluctuations (EXCF), interest rates (INTR), inflation rates (INFL), trade openness (TOPN), real gross domestic product (RGDP), and money supply (MSUP) were among the variables considered in the models. The results show a substantial long-term association between exchange rate swings and the success of SMEs, with a negative relationship suggesting that persistent volatility has a detrimental impact on SMEs' performance. The short-term negative impacts of exchange rate volatility are shown by the fact that a 1% rise in fluctuations results in a 0.96% decline in SME performance. The performance of SMEs was also impacted differently by trade openness and inflation. The study highlights how SMEs' dependence on imported raw materials makes them particularly vulnerable to fluctuations in currency rates. The results imply that maintaining exchange rate stability is essential to the long-term viability of Nigerian SMEs' operations²³².

A research was conducted on the Impact of Exchange rate fluctuation on International Business and Cost Effectiveness in Nigeria" looks at the connection between exchange rate volatility and the financial success of multinational corporations in Nigeria. The study's foundation is transaction

cost theory, which describes how companies try to keep internal administrative procedures and external exchange expenses to a minimum. The research is to assess the impacts of exchange rate variations on the financial performance of foreign companies doing business in Nigeria, with a focus on return on assets (ROA) during a ten-year period (2012–2022). Using secondary data sources from the Statistical Bulletin of the Central Bank of Nigeria and annual reports of certain multinational firms, namely the Dangote Group Plc, the researchers used a descriptive and ex post facto study approach. The data was analyzed using the Ordinary Least Square (OLS) Linear Regression model. According to the research, variations in currency rates have a major influence on the financial performance of multinational companies operating in Nigeria. Specifically, the inflation rate has a negative impact on return on assets (ROA) whereas the exchange rate has a positive but statistically insignificant effect. On the other hand, interest rates positively impacted ROA in a statistically meaningful way. To improve their capacity to handle currency volatility, the researchers advise multinational firms to put in place strong frameworks for managing foreign exchange risk, which should include hedging, insurance, and foreign currency diversification strategies. They also advise regular training on foreign exchange risk management²³³.

The Effect of Exchange Rate Fluctuations on Nigeria's Balance of Payment has been examined. The study looked at how exchange rate volatility affects Nigeria's economic performance with a particular emphasis on the balance of payments. The study, which looks at data from 1987 to 2011, tries to evaluate how changes in exchange rates affect Nigeria's balance of payments while taking GDP and import/export rates into consideration. The Central Bank of Nigeria (CBN) and other pertinent organizations provided secondary data for the study, which uses an ex-post facto research approach. The balance of payment (BOP) is the dependent variable in the ordinary least squares (OLS) regression model, which is the main analytical technique used. It includes variables such as

exchange rate (ER), export rate (EXPR), and import rate (IMPR). With a coefficient of EXR = 0.082 and a t-value of 0.304, the empirical study shows that changes in exchange rates have a positive but non-significant effect on Nigeria's balance of payments. The model's goodness of fit indicates that a substantial portion of the variation in the dependent variable can be accounted for collectively by the independent variables. Nonetheless, the inclusion of control variables such as import, and export rates is taken into account by the modified R-squared value of 61.2%. According to the study's findings, Nigeria's balance of payments is very vulnerable to fluctuations in currency rates due to its significant dependence on the oil industry. The continuation of this vulnerability in spite of the numerous currency rate control regimes put in place throughout time emphasizes the need of a diverse economic base to lessen the negative consequences of such volatility²³⁴.

The influence of currency rate volatility on the financial performance of small and medium-sized firms (SMEs) in Ghana is examined in the paper "The Effect of Exchange Rate Fluctuation on the Profitability of Small-Scale Enterprise in Ghana: A Case Study of Budget City Limited". Using Budget City Limited as a sample instance, the researchers concentrated on understanding these dynamics. The study looks at how much SMEs' operating expenses, competitive strategies, cash flow, and profitability are impacted by the Ghanaian Cedi's devaluation relative to key foreign currencies. The research uses data from 2010 and 2011 and is carried out by Budget City Limited, which is situated in Obuasi. The results show that exchange rate swings have a big effect on Budget City Limited's operating expenses. The corporation often turns to parallel markets where exchange rates are higher because it finds it difficult to secure the necessary quantity of foreign currency from banks. Because of this dependence on the black market, the price of imported raw materials rises, driving up the cost of manufacturing. The company's direct expenditures and administrative

expenses climbed dramatically between 2010 and 2011, according to the examination of cash outflows, as a result of increasing rates on the parallel market. The paper also emphasizes how the company's profitability and competitive strategies are adversely impacted by the Cedi's devaluation. The management of Budget City Limited recognizes that strong risk mitigation techniques are required, and that these tactics should include improved financial planning and the investigation of hedging possibilities to stabilize expenses²³⁵.

With an emphasis on the effects of external economic variables and Nigeria's significant dependence on imports and exports, the research explores the link between exchange rate volatility and the financial performance of Small and Medium Enterprises (SMEs) in Nigeria. In the context of developing nations, the study attempts to provide a thorough grasp of how exchange rate swings impact SME borrowing, investment choices, and total economic output. The research employs a strong econometric methodology and covers numerous Asian economies from 2002 to 2015 using firm-level data from the ORBIS database. When available, real data is used in the technique together with proxy measures for foreign currency debt at the company level. To guarantee robustness, the research takes into account control factors including business size, profitability, and collateral. According to the results, there is a notable asymmetry in the influence of exchange rate changes on firm leverage. Specifically, depreciations have a greater effect on lowering leverage than appreciations, which only slightly raise it. Depreciations have a greater impact on businesses in non-tradable industries than on those in tradable ones. Foreign currency interventions (FXI), which are policies intended to mitigate exchange rate swings, have a detrimental effect on firm leverage in developing economies such as Nigeria. According to the research, macro prudential measures that restrict the buildup of unhedged foreign currency debt during economic

booms and the monitoring of enterprises' foreign exchange exposure should lessen the negative consequences of exchange rate volatility on SMEs²³⁶.

The link between exchange rate variations and inflation in the Sub-Saharan African (SSA) area is examined in the research "Effect of Exchange Rate Movements on Inflation in Sub-Saharan Africa". It draws attention to exchange rate pass through, or the great degree to which consumer prices are susceptible to fluctuations in exchange rates. A large dataset, spanning from January 2013 to March 2022, is used in the study. It includes monthly exchange rate series, the consumer price index (CPI), and a number of external economic variables. To give a comprehensive understanding of the exchange rate pass through mechanism in the area, it also takes into account regional demand circumstances, climate-related occurrences, and other pertinent factors. To evaluate the influence of exchange rate fluctuations on inflation, the research uses local projection techniques that consider any nonlinear or state-dependent effects. Lagged dependent variables are included into the empirical technique to address any endogeneity issues. The results show that domestic inflation in SSA is greatly increased by depreciations in exchange rates. One percentage point rise in the rate of depreciation causes an increase in inflation of 0.22 percentage points after a year and 0.31 percentage points after two, which is how the pass-through impact is measured²³⁷.

2.2.2 Financial Inclusion and SMEs Performance

According to the report, SMEs most often utilise point-of-sale and mobile financial services as their agency banking channels. Adoption is influenced by a number of elements, such as economic incentives, technological risks, resource availability, and expansion of mobile financial services, dependability, and convenience of transactions. Agency banking and the financial inclusion of SMEs have a favourable and statistically significant association, according to inferential statistics. By bringing banking closer to marginalised areas and fostering financial inclusion, agency banking

increases access to financial services. Lack of financial literacy, financial institutions' unwillingness to provide long-term financing, high transaction costs, a shaky economy, mistrust of the financial system, absence of official identity papers, and poor ICT infrastructure are major obstacles to financial inclusion. The research concludes that agency banking, by offering SMEs simple and affordable banking services, greatly improves financial inclusion. Subsequent investigations need to delve into the viewpoints of diverse stakeholders engaged in agency banking to enhance comprehension and refine financial inclusion methodologies in Zimbabwe²³⁸.

The role of digital micro-financial services in enhancing financial inclusion for Small and Medium Enterprises (SMEs) in Pakistan has been examined. The study focusses on the difficulties SMEs have getting financing since banks are reluctant to provide them loans. The paper examines the effects of digital micro financial services on SMEs in Pakistan by a thorough analysis of the body of current literature and secondary data. The results demonstrate that, in comparison to conventional cash handling techniques, digital micro financial services have greatly enhanced the financial management capacities of SMEs in Pakistan. These services allow businesses to handle transactions more effectively, save expenses, and increase security. More SMEs are now able to access formal financial systems because to the growth of digital financial services, which has also promoted broader financial inclusion. The survey does, however, also point out a number of obstacles that prevent SMEs from using digital financial services widely. These include low levels of technology knowledge and financial literacy among SMEs, poor infrastructure, expensive transaction fees, and security concerns. The results indicate that while there has been a notable advancement in the promotion of digital financial inclusion, more focused initiatives are necessary to fully achieve the potential advantages for small and medium-sized enterprises (SMEs) and the wider economy. In emerging nations like Pakistan, promoting a more accessible financial market

via digital micro financial services may be very important for accelerating economic development and lowering poverty²³⁹.

A research conducted in Eswatini looked at the contribution that MSMEs (micro, small, and medium-sized enterprises) make to economic growth. MSMEs are essential to the production of wealth for households, the creation of jobs, and the elimination of poverty. However, they have a difficult time getting financing, which limits their ability to develop and contribute more as a whole. Using information from the FinScope MSME 2017 survey for Eswatini, the study investigates how financial inclusion might improve the performance of MSMEs by providing incentives. The effect of financial inclusion on the performance of MSMEs is examined using a quantitative method in this study utilising the generalised ordered logit model and the re-centered influence function (RIF) regression framework. Results indicate that MSMEs' yearly turnover profit is significantly impacted by financial inclusion, especially when it comes to the 50th and 75th percentiles. Minimal adjustments to bank account accessibility, company savings, formal and informal savings programs, and formal savings practices greatly improve MSMEs' performance at these percentiles. The research also demonstrates that MSMEs are more likely to fall into emerging and developed company categories when they have access to financial inclusion, which decreases the risk that they would be categorized as least developed. According to the study, in order to increase the quantity and quality of loans available to MSMEs, specialised organisations such as partial credit guarantee programs are necessary. To improve MSMEs' sustainability, a mix of non-financial and financial help appropriate for their stage of growth is advised. To sum up, both official and informal financial inclusion greatly improves MSMEs' performance in Eswatini, offering stakeholders and policymakers insightful information on how to support a healthy MSME sector²⁴⁰.

Encouraging equitable development in countries requires financial inclusion since it gives people, organisations, and enterprises access to financial services. SMEs, on the other hand, are essential to economic growth and the creation of jobs, but financial institutions often show reluctance to lend money to them, particularly in developing nations like Pakistan. The influence of digital micro financial services on SMEs' access to financing in Pakistan is examined in this research, which also emphasises how these services have made financial transactions and management easier for SME owners. The study uses a qualitative methodology to examine how digital financial services affect SMEs in Pakistan by drawing on secondary data sources and previously published works. The results demonstrate how digital financial services, which provide affordability, convenience, and security, have greatly enhanced SMEs' capacity to handle their money. These services include debit and credit cards, e-wallets, mobile and online banking, and e-wallets. In contrast to other emerging nations, the uptake of digital financial services has been sluggish. Poor network coverage, high transaction costs, a lack of understanding, and worries about cyber-security are some of the obstacles preventing SMEs from adopting digital financial services more widely. Moreover, despite strong demand for financial goods that adhere to Shariah, Islamic banks have shown a reluctance to lend to small and medium-sized enterprises. The National Financial Inclusion Strategy is to guarantee that 50% of the adult population in Pakistan is financially included by 2020. The government and financial institutions in the country are striving to advance financial inclusion. To make it easier for SMEs and female entrepreneurs to get financing, the State Bank of Pakistan has started a number of programs and initiatives. The results indicate that improving financial inclusion via digital financial services may have a major impact on economic development. These benefits include expanding job opportunities, improving SME access to formal financial institutions, and diversifying credit portfolios, all of which promote financial

stability. Policies aimed at bolstering the SME sector and promoting inclusive economic development should keep endorsing digital finance activities²⁴¹.

The research investigates the contribution of female entrepreneurs to Indonesia's economic development as well as the connections among financial inclusion, technology adoption, and financial literacy. It focusses on how these elements affect the performance of SMEs run by women, emphasising the value of technology adoption and financial literacy in boosting financial inclusion and raising these SMEs' general performance. Using a quantitative methodology, the study gathered information from 250 female SME owners in Banyumas Regency, Central Java, Indonesia. Utilising Partial Least Squares (PLS) analysis in conjunction with Structural Equation Modelling (SEM), the research examines the connections between SME performance, financial inclusion, technology uptake, and financial literacy. General financial awareness, financial planning, the use of technology in marketing, and accessibility to financial institutions are among the criteria that are assessed. Because more financially literate women SME owners are more likely to obtain and utilise financial services, key results show that financial literacy positively promotes financial inclusion. Adoption of current technology, such as e-commerce platforms, has a good impact on financial inclusion as well since it increases the likelihood of engagement between financial institutions and women SME owners. The lack of evidence, however, suggests that financial literacy does not always equate to better performance, even if it is essential for financial inclusion. This is especially true for SME performance. Adoption of technology boosts SME performance greatly because digital technologies enable women-led SMEs to increase their market reach and efficiency. The performance of SMEs is favourably impacted by financial inclusion because it gives women who own small businesses access to financial services, which helps them get money for operations and produce better financial results. The association between financial

literacy and SME performance is finally mediated by financial inclusion, underscoring the significance of financial inclusion as a channel by which financial literacy and technology adoption might improve SME performance. This all-encompassing strategy may greatly aid in the growth and prosperity of women-owned SMEs in Indonesia²⁴².

The effect of financial inclusion on the performance of SMEs in Ibadan, Nigeria, is examined in the paper "Financial Inclusion and Performance of the Small and Medium Enterprises in Ibadan, Oyo State, Nigeria. Particularly in developing nations, financial inclusion is essential for economic growth and development. SMEs are important for promoting economic diversity, improving indigenous technology, and generating jobs. Government efforts to increase financial access have not eliminated problems including expensive borrowing, restricted credit availability, and low financial literacy. The research focusses on small and medium-sized enterprises (SMEs) in Oyo State's Ibadan Southwest Local Government Area, particularly grocery shops, fashion businesses, and business centres. It assesses how these SMEs' performance is impacted by their access to and use of financial services, with the goal of determining how various facets of financial inclusion influence growth and operational efficiency. The results show that the performance of SMEs in Ibadan is greatly impacted by financial inclusion. SME performance is greatly improved by indicators like the quantity of access points, ATMs, and commercial bank branches within a certain radius. Due to greater access to loans and other financial goods, SMEs with better access to financial services often perform better. According to the study's findings, strengthening financial inclusion—specifically, by facilitating greater access to and use of financial services—is essential for raising SME performance. It suggests that in order to assist the development of SMEs, the government and financial institutions should develop comprehensive plans that prioritise sustainable finance, financial literacy, and the use of technology to enhance financial services²⁴³.

The influence of digital financial inclusion strategies on the financial expansion of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Kenya has been examined. The study focusses on mobile phone banking, electronic money banking, agency banking, and digital banking applications as the four main pillars of digital financial inclusion. It looks at how they affect the financial development of MSMEs over a five-year span (2016-2020). Using secondary data from the Kenya National Bureau of Statistics (KNBS), Central Bank of Kenya (CBK), and FinAccess Business Survey, the research uses a descriptive survey and inferential statistics technique. Data on MSMEs' financial performance from 2016 to 2020 was examined in the research. The data were summarised using descriptive statistics, and the significance of the independent variables (mobile banking, electronic banking, agency banking, and banking apps) with respect to the dependent variable (financial growth of MSMEs) was tested using inferential statistics, such as regression analysis. The results demonstrate that the financial expansion of MSMEs in Kenya is favourably impacted by all four of the components of digital financial inclusion, with mobile phone banking having the greatest influence. The report suggests that in order to further help MSMEs' growth and Kenya's economic development, governments should encourage and improve digital financial services. It is recommended that future studies examine other financial inclusion-related issues and how they affect MSMEs²⁴⁴.

With particular emphasis on Small and Medium-sized Enterprises (SMEs) in Indonesia, the research "The Influence of Digital Financial Literacy on Indonesian SMEs' Financial Behaviour and Financial Well-Being" examines the function of digital financial literacy (DFL) in the modern business environment. Business operations have undergone a fast digital change, which highlights the need for SMEs to negotiate digital financial landscapes in order to improve their financial stability and development potential. The study expands on earlier research by emphasising the role

that digital financial literacy plays in supporting SMEs' financial well-being. The research looked at SMEs in Medan, Surabaya, Makassar, and Bali, four important cities, and offered a thorough review of the existing level of digital financial literacy among SME owners. In order to objectively assess SMEs' financial performance, the quantitative approach used online questionnaires to gather information from 186 respondents, confirming that the businesses had been in existence for more than a year. The study utilised the Partial Least Squares Structural Equation Modelling (PLS-SEM) approach to examine the relationships between variables and test the hypotheses. The results show a strong correlation between SMEs' financial well-being and their financial behaviour when it comes to digital financial literacy. The improvement of financial behaviour is greatly impacted by digital financial literacy, and this has a major influence on SMEs' financial well-being. The favourable impacts of DFL on financial outcomes are amplified by financial behaviour, which acts as a mediator between digital financial literacy and financial well-being. These results have significant ramifications for stakeholders in SMEs, financial institutions, and regulators. In order to enable SMEs to successfully use digital financial instruments, the report emphasises the necessity for focused education and training initiatives to increase digital financial literacy²⁴⁵.

A research titled "Assessing the Influence of Digital Finance and Financial Inclusion on SMEs Performance: The Moderating Role of Technological Adaptation" looks at how these two factors affect the ways in which small and medium-sized businesses (SMEs) in Pakistan perform. SME access to financial services is often severely hampered, even though SMEs are essential for economic expansion, employment generation, and poverty reduction. The goal of the study is to comprehend how these variables affect SME performance and how these interactions are mediated by technological adaptability. Utilising a quantitative research approach, 212 SMEs in Pakistan were given surveys as part of the study. After conducting a pilot study to improve the survey

instrument, the main online survey was used to gather data. SPSS was used for statistical analysis, while Hayes's PROCESS macro was used for moderation analysis. The results demonstrate the beneficial effects of digital finance and financial inclusion on SME success. Compared to their less adaptable peers, SMEs who embrace technological adaptation gain more from digital banking and financial inclusion. SMEs with better access to financial services perform better, and there is a favourable association between financial inclusion and SMEs' productivity, according to key results. The success of SMEs is associated with digital finance since it makes financing more accessible and reduces transaction costs. The link between digital finance, SME performance, and financial inclusion is moderated by technological adaptability. SMEs that are more adept at adjusting to new technology stand to gain more from digital finance and financial inclusion. According to the study's findings, digital finance and financial inclusion are essential for improving SME performance, especially when SMEs are flexible enough to adopt new technology. To encourage the expansion of SMEs, policymakers and financial institutions should prioritise expanding access to financial services and promoting the use of digital technology²⁴⁶.

The purpose of this research is to assess how financial inclusion and financial literacy affect the operations of Micro, Small, and Medium-Sized Enterprises (MSMEs) in North Sumatra, Indonesia. MSMEs are important for GDP, employment, and exports, but they have difficulties with financial inclusion and literacy. While financial inclusion refers to the availability and use of financial services, financial literacy refers to the information and abilities required to make wise financial choices. Both elements are essential to MSMEs' performance and long-term viability. A thorough picture of the MSME sector in the area was provided by the research, which included 517 MSMEs from 33 regencies/cities in North Sumatra. Using purposive sampling, the study used a quantitative associative research strategy to gather data from 517 MSMEs. Using SmartPLS

version 3 software, the Partial Least Square (PLS) approach was used to perform the analysis. The results verify that MSME performance is highly impacted by financial inclusion and financial literacy. Better company results are correlated with higher levels of financial literacy and inclusiveness, highlighting the need of ongoing efforts to improve these aspects. The report recommends that in order to support MSMEs' performance and promote economic stability and development, the government and stakeholders should put in place specially designed initiatives to increase financial literacy and inclusion among them²⁴⁷.

Financial inclusion is crucial for economic growth, especially in developing countries like Egypt. The 2008 global financial crisis highlighted the need for financial stability and inclusive financial systems. In Egypt, financial inclusion has gained prominence with initiatives aligned with the 2030 sustainability strategy, aiming to integrate marginalized individuals and SMEs into the financial system. This study focuses on identifying key determinants of financial inclusion for SMEs in Egypt, including supply-side factors such as access to financial services and marketing awareness campaigns, demand-side factors like the usage of financial services, and macroeconomic risks impacting financial inclusion. The research employs a twofold methodological approach, using an online questionnaire distributed to Egyptian banking executives managing SME portfolios. Descriptive and inferential statistical analyses were conducted, with Principal Component Analysis (PCA) employed to identify primary factors determining financial inclusion and logistic regression to pinpoint significant variables. The PCA results identified three main pillars: integrated marketing tools to increase awareness and access to banking services, the usage of these services, and the assessment of macroeconomic risks that hinder financial inclusion. The study highlights the multifaceted nature of financial inclusion for SMEs in Egypt, emphasizing the importance of addressing macroeconomic risks, enhancing the usage of financial services, and

leveraging integrated marketing campaigns to promote financial literacy and access. These findings provide a foundation for policymakers and financial institutions to develop targeted strategies to improve the financial inclusion of SMEs, fostering economic growth and resilience²⁴⁸.

The impact of mobile banking in promoting financial inclusion among small and medium-sized firms (SMEs) in Kenya is examined in the paper effect of Mobile Banking on Financial Inclusion among Registered SMEs in Kisii was examined. The disruptive innovation hypothesis, which contends that new technologies have the power to dramatically change market dynamics and increase accessibility to financial services, serves as the foundation for this study. The research focused on how mobile banking makes it easier to access financial services including loans, savings, investments, and insurance. It looked at the effect of mobile banking on financial inclusion among 2,246 registered SMEs in Kisii County. In order to account for non-sampling errors, the sample size for the descriptive research design was increased to 486 SME owners/managers from the original aim of 340. A systematic questionnaire was used to gather the data, and inferential and descriptive statistics were used to analyse the results. The results demonstrated a robust positive link between financial inclusion and mobile banking, suggesting that SMEs that make use of mobile banking services stand to gain more from them in terms of financial inclusion. Fund transfers via mobile banking are common, and they also help with account management and have a big influence on the uptake of mobile banking. Regression study revealed that mobile banking has a significant influence; it could account for 85.8% of the variance in financial inclusion among SMEs in Kisii County. In conclusion, since mobile banking is so convenient and easily accessible, it is essential for SMEs to promote financial inclusion. The results provide backing for the creation of strategic initiatives aimed at augmenting the uptake of mobile banking and advancing financial inclusion and economic growth²⁴⁹.

The influence of agency banking on the financial inclusion of Small and Medium Enterprises (SMEs) in Zimbabwe is examined in the paper "Leveraging SMEs Financial Inclusion through Agency Banking in Zimbabwe". MSMEs account for 60% of the GDP and employ the majority of people in Zimbabwe, hence their dependence on the country's economy is strong. The research intends to evaluate the role of agency banking in this context, especially in light of the COVID-19 epidemic and continuing attempts to improve financial access via creative financial models. The government has been implementing a financial inclusion plan since 2016. The study focusses on a population of SME managers and owners who are registered with the Small and Medium Enterprise Development Corporation (SMEDCO) and banking agents who provide services to the region. It is directed at SMEs in Harare Industrial South-Central. The study used a mixed-methods approach, integrating both quantitative and qualitative research techniques. Key informant interviews and questionnaires were used to gather data, and Cronbach's alpha was used to assess reliability. The survey found that SMEs used point-of-sale and mobile finance services extensively. The expansion of mobile financial services, regulatory considerations, resource accessibility and availability, and dependability were all significant reasons in the acceptance of agency banking. The simplicity of transactions, social impact, financial incentives, and technological risks like theft and hacking were also important variables. The research comes to the conclusion that agency banking is an essential instrument for improving SMEs' financial inclusion in Zimbabwe and suggests using a special model to achieve so. The results provide significant perspectives for future scholars and policymakers seeking to enhance financial inclusion and bolster economic expansion via inventive financial remedies²⁵⁰.

Access to financial services has a substantial influence on the sustainability and development of small and medium-sized firms (SMEs), making financial inclusion a crucial problem for them. The

National Financial Inclusion Strategy, credit lines, and interest-free loans are just a few of the measures that the Central Bank of Nigeria (CBN) has put in place to increase financial inclusion. However, a lack of financial knowledge means that many SMEs continue to be financially excluded. The purpose of this research is to look at how financial literacy influences the link between financial inclusion and the performance of small and medium-sized enterprises in Nigeria. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)-registered SMEs with a minimum of five years of operation are the focus of the study. A method known as targeted sampling was used to choose 250 SME managers or operators. To analyse the data, structural equation modelling, or SEM, was used. The results demonstrate a strong positive correlation between SME success and financial inclusion, and a strong positive correlation between SME performance and financial literacy. According to the research, increasing SME operators' financial literacy may increase the advantages of financial inclusion. According to the study's findings, SMEs can only fully benefit from financial inclusion if they possess a high level of financial literacy. It suggests that in order to provide small company owners with financial literacy workshops, seminars, and short courses, accounting professional organisations and small business regulators should work together. Policymakers may assist SMEs in navigating financial difficulties and using financial instruments for sustainable development by promoting financial literacy²⁵¹.

In order to better understand how exchange rate fluctuation affects Nigerian SMEs, this research looks at key economic metrics including profitability, growth, and sustainability. The study employs an econometric regression model, using information from pertinent economic databases, government publications, and financial records, to examine the connection between exchange rate swings and SME success. The results demonstrate how declining exchange rates squeeze profit

margins by raising the price of imported machinery and raw materials. As their goods become more competitive in global marketplaces, export-oriented SMEs could profit from a declining value of the national currency. The research also shows that SMEs can handle currency rate risks more effectively if they have greater access to financial instruments and hedging techniques. To assist SMEs deal with the difficulties presented by exchange rate volatility, financial literacy and access to foreign currency hedging alternatives are essential. The resilience of SMEs may be greatly increased by policy measures targeted at enhancing access to financial resources and stabilising the currency rate. The study's conclusion highlights how crucial stable currency rates are to the long-term expansion of SMEs in Nigeria. Insights for policymakers, financial institutions, and managers of small and medium-sized enterprises may be obtained by implementing supportive policy frameworks and strategic financial management to reduce these risks. The empirical data in this research offers insightful information to financial institutions, policymakers, and managers of small and medium-sized enterprises (SMEs), highlighting the need of strong financial systems and exchange rate stabilisation policies to promote the expansion and development of the SME sector²⁵².

With a focus on Addis Ababa, this research investigates the variables impacting financial inclusion in small and medium-sized companies (SMEs) in Ethiopia. The goal of the study is to determine and examine the elements that influence financial inclusion for these businesses, taking into account institutional frameworks, market possibilities, supply and demand dynamics, loan costs, and collateral requirements. The study uses a mixed research strategy, gathering data from primary and secondary sources and integrating quantitative and qualitative methodologies. Important discoveries show that government rules, credit processing times, audited financial accounts, and institutional variables all have a detrimental effect on people's ability to get financing. Access to

capital is favourably impacted by supply-side characteristics such raw material availability, managerial aptitude, and strategic company planning. Demand-side elements that support financial inclusion include money availability, bank lending policies, and the availability of suitable machinery and equipment. Financial inclusion is favourably impacted by market opportunity, availability of market knowledge, promotion awareness, and flexibility in changing settings. The capacity to provide collateral has a beneficial influence on financial inclusion, whereas high borrowing prices have a negative impact. The research concludes that financial inclusion among SMEs in Ethiopia is heavily influenced by a number of institutional, supply-side, demand-side, market opportunity, cost of borrowing, and collateral requirement variables. Policymakers should concentrate on creating a functional and effective financial market system that offers SMEs inexpensive and long-term financial services in order to support swift and equitable economic development. To achieve greater financial inclusion for SMEs in Ethiopia, it is imperative to improve the institutional environment, lower borrowing costs, and raise financial literacy²⁵³.

The importance of financial inclusion in the expansion of MSMEs in Uganda has been examined. The study makes use of information from 762 businesses in a variety of industries that was included in Uganda's 2013 World Bank Enterprise Survey. With a focus on the distinct effects that these variables have on enterprises of different sizes, the research intends to investigate how financial inclusion and the business climate affect the development of firms of different sizes. The World Bank Enterprise Survey data is used in the study's company-level analysis, which enables a thorough investigation of how the business climate affects firm development. The researchers use many aspects of the business environment to minimise omitted variable bias and employ sector-survey interaction dummies to reduce measurement errors. Employment growth between 2010 and 2013, determined by calculating the change in the average number of workers over these

years, is used to quantify the growth of a firm. According to the research, medium-sized businesses in Uganda experience greater and longer-lasting benefits from financial access than do bigger businesses. The findings imply that MSMEs have more financial constraints than do big companies, and that economic activity may be redirected from large companies to MSMEs via informality and a lax regulatory framework. Implications for policy emphasise the need of strengthening the overall business climate, especially regarding the formalisation of micro enterprises, as well as expanding financial inclusion for MSMEs²⁵⁴.

The factors influencing the adoption of financial technology (FinTech) and decentralised finance (DeFi) among small and medium-sized enterprises (SMEs) in Morocco are examined. The purpose of the study is to provide insight into the state of digital financial services today and investigate the possibility of implementing DeFi in Morocco. In Morocco, financial inclusion is still a major problem as many people and SMEs find it difficult to use conventional banking services. Technological breakthroughs that allow for autonomous financial activity without middlemen, such DeFi and blockchain technology, provide special prospects for financial inclusion. Utilising a quantitative research approach, the study collects data from Moroccan SMEs via self-administered questionnaires. The dissemination of Innovation Theory, which describes the traits of technology adopters and the gradual dissemination of technology within a social system, serves as the foundation for the theoretical framework. Cochran's algorithm was used to calculate the sample size, yielding 385 SMEs. Using the Statistical Package for Social Sciences (SPSS) program, descriptive statistics and Pearson correlation were used in the data analysis. The results show strong relationships between a number of variables and the uptake of DeFi and FinTech. In particular, the adoption of FinTech and DeFi by SMEs is strongly positively correlated (0.323) with their perceived advantages. Additionally, the report reveals that although 23% of SMEs are

somewhat acquainted with the phrase, 77% of SMEs are not. Regarding the viability of implementing DeFi, the majority of SMEs are undecided, with 22% expressing confidence and 5% expressing reservations about its future. The research suggests that a number of important elements, including as perceived advantages, trialability, compatibility, complexity, and observability, are impacting the adoption of FinTech and DeFi among Moroccan SMEs²⁵⁵.

With a focus on how these services make it easier for SMEs in Pakistan to get financing and foster a more diverse financial market, the research investigates the effects of digital micro financial services on financial inclusion. Utilising a secondary data analysis methodology, the study assesses how digital financial services like e-wallets, online banking, and mobile banking may help SMEs manage and access their finances more effectively. The results show that digital financial services, which provide affordability, convenience, and security, have greatly improved the financial situation of SMEs in Pakistan. These services might lower transaction costs, improve financial accessibility, and encourage underprivileged SMEs to participate in the financial system. Digital technology adoption in the banking industry has the potential to have a significant positive impact on the economy, creating jobs and increasing GDP growth. The survey does, however, also point out a number of obstacles to the broad use of digital financial services in Pakistan, including insufficient financial literacy among SME owners, a lackluster technology infrastructure, the high expense of digital services, and security issues. Despite these challenges, the National Financial Inclusion Strategy and other government initiatives to support digital financial inclusion hold out hope for resolving these problems and creating a more welcoming financial climate for SMEs. The study's conclusion highlights how crucial digital financial services are to improving financial inclusion for Pakistani SMEs. Policymakers and financial institutions may assist the expansion of

the SME sector and advance general economic development by resolving these issues and encouraging the use of these services²⁵⁶.

The research looks at how financial inclusion affects the growth of entrepreneurship in Nigeria, emphasising how important it is as a catalyst for both economic expansion and the reduction of poverty. Financial inclusion is essential for investment, credit creation, and capital accumulation—all of which promote the production of wealth on a worldwide scale. Financial exclusion is a major problem even with initiatives like the National Financial Inclusion Strategy, which the Central Bank of Nigeria introduced in 2012. This is especially true in developing nations like Nigeria, where a sizable portion of the populace lacks access to official financial services. The research examines the link between financial inclusion and the growth of entrepreneurship in Nigeria, concentrating on factors such loans to small businesses, deposits to rural regions, and the ratio of loans to deposits. The results show that financial inclusion has a major and favourable influence on Nigerian entrepreneurship growth. The first lag of the loan-to-deposit ratio has a positive and significant effect; loans to small-scale enterprises positively affect entrepreneurial development; deposits from rural areas (DRA) increase by 0.622025 units; and loans to rural areas (LRA) positively impact entrepreneurial development. With an adjusted R-squared value of 71%, the independent variables account for 71% of the variance in entrepreneurial development, with additional stochastic factors accounting for the remaining 29%. The research comes to the conclusion that financial inclusion greatly boosts Nigerian entrepreneurship and raises living standards. It suggests that in order to stimulate economic development, commercial banks should prioritise lending to small businesses and rural regions, increase the amount of deposits from these areas, and make full use of the loan-to-deposit ratio²⁵⁷.

Research on how firm innovation in China is affected by conventional and digital financial inclusion has been conducted. Economic growth is seen to be greatly influenced by financial inclusion, which is the availability and use of financial services by all societal sectors. The report examines statistics on innovation output and efficiency with a focus on Chinese firms between 2011 and 2020. For conventional financial inclusion, the researchers utilised an index system based on the availability and use of financial services; for digital financial inclusion, they used an index from the Digital Financial Research Centre. Econometric models were used in the research to take time and industry impacts into consideration. Enterprise size, sales growth rate, return on equity, and regional GDP were examples of control variables. The results show that although digital financial inclusion has a favourable impact, conventional financial inclusion reduces company innovation output. However, the present state of innovation efficiency is hampered by both conventional and digital financial inclusion. The detrimental effects of conventional financial inclusion are caused by things like money being diverted to less profitable ventures and traditional financial institutions' risk aversion. Digital financial inclusion facilitates increased R&D investment and helps remove financing limitations by using technology to lower costs and improve service efficiency. According to the research, in order to maximise the results of innovation, policy measures had to be customised for various kinds of firms. Improving digital financial inclusion may be a better strategy than more conventional approaches to support corporate innovation. The report concludes by highlighting how crucial financial inclusion is to encouraging corporate innovation. Although there are drawbacks to conventional financial services, digital financial inclusion has potential for fostering creative endeavours. In order to improve corporate innovation skills, policymakers should concentrate on growing digital financial services, especially in emerging nations like China²⁵⁸.

The effect of financial inclusion on the expansion of SMEs in the Lango sub-region is examined in the paper "Financial inclusion and the growth of small medium enterprises in Uganda: empirical evidence from selected districts in Lango sub-region". SMEs have a critical role in employment, GDP growth, and economic expansion. The research examines a number of industries, including manufacturing, services, production, and goods, with a particular emphasis on SMEs that operate in the districts of Lira, Apac, and Dokolo. The study included 320 SMEs from the target population of 1900 business units using a cross-sectional research approach. Factor analysis and structured questionnaires were used to gather data. Key results showed that although SMEs greatly contribute to networking, close customer contact, and high-level connection with prospective consumers, their impact on raising family income was less pronounced. SMEs had to contend with harsh competition, a little market, unstable energy, and discriminatory treatment by local government agencies. Financial inclusion made it easier to transfer banks, use ATMs, and make payments to service providers, which made corporate operations simpler. However, a number of financial services were challenging to use, suggesting that SME owners need to become more financially literate and improve their user-friendly interfaces. Only 13.1% of the expansion and operations of SMEs can be attributed to financial inclusion, according to the research, which identified a modest but significant correlation between the two. In conclusion, financial inclusion greatly aids in the expansion of SMEs, but its effects are comparatively limited since financial services are expensive and may be challenging to use. In order to boost borrowing and innovation among SMEs, the research highlights the need for ongoing financial services sensitisation that goes beyond loans, the promotion of digital financial services, and the lowering of capital costs²⁵⁹.

The research "The Pillars Determining Financial Inclusion among SMEs in Egypt: Service Awareness, Access and Usage Metrics, and Macroeconomic Policies" looks at the variables that

affect small and medium-sized businesses' (SMEs') access to finance in Egypt. For emerging nations such as Egypt, financial inclusion is vital since it boosts their financial sectors and encourages economic development. The study's primary goal is to determine the keystones that, when combined with an emphasis on macroeconomic risks and both supply-side and demand-side variables, might improve financial inclusion for SMEs in Egypt. Demand-side factors include SMEs' actual use of financial services, while supply-side factors include marketing awareness campaigns' efficacy and financial services' accessibility. Macroeconomic risks that may affect SMEs' access to financial services are also evaluated in the research. A unique dataset obtained from bankers overseeing SME portfolios' answers to a questionnaire was employed in the study technique. The primary drivers of financial inclusion were determined through the application of principal component analysis (PCA) and logistic regression. Meanwhile, a variety of topics were covered in the questionnaire, including macroeconomic risks, usage of financial services, effectiveness of marketing tools, and access to financial services. According to the research, 86.6% of the variation in the degree of financial inclusion for SMEs in Egypt may be attributed to the interaction between these factors. The results indicate that in order to support SMEs' financial inclusion, governments and financial institutions should concentrate on enhancing access to financial services via efficient marketing, promoting the use of these services, and mitigating macroeconomic risks²⁶⁰.

2.4 Summary of Gaps

The empirical evaluations have highlighted many deficiencies in the research of the hotel business in Abeokuta South. These gaps include the absence of sector-specific strategies and insights, which are vital for comprehending the impact of exchange rate volatility on operations, including operational expenses, pricing strategies, and overall profitability. Customised approaches that

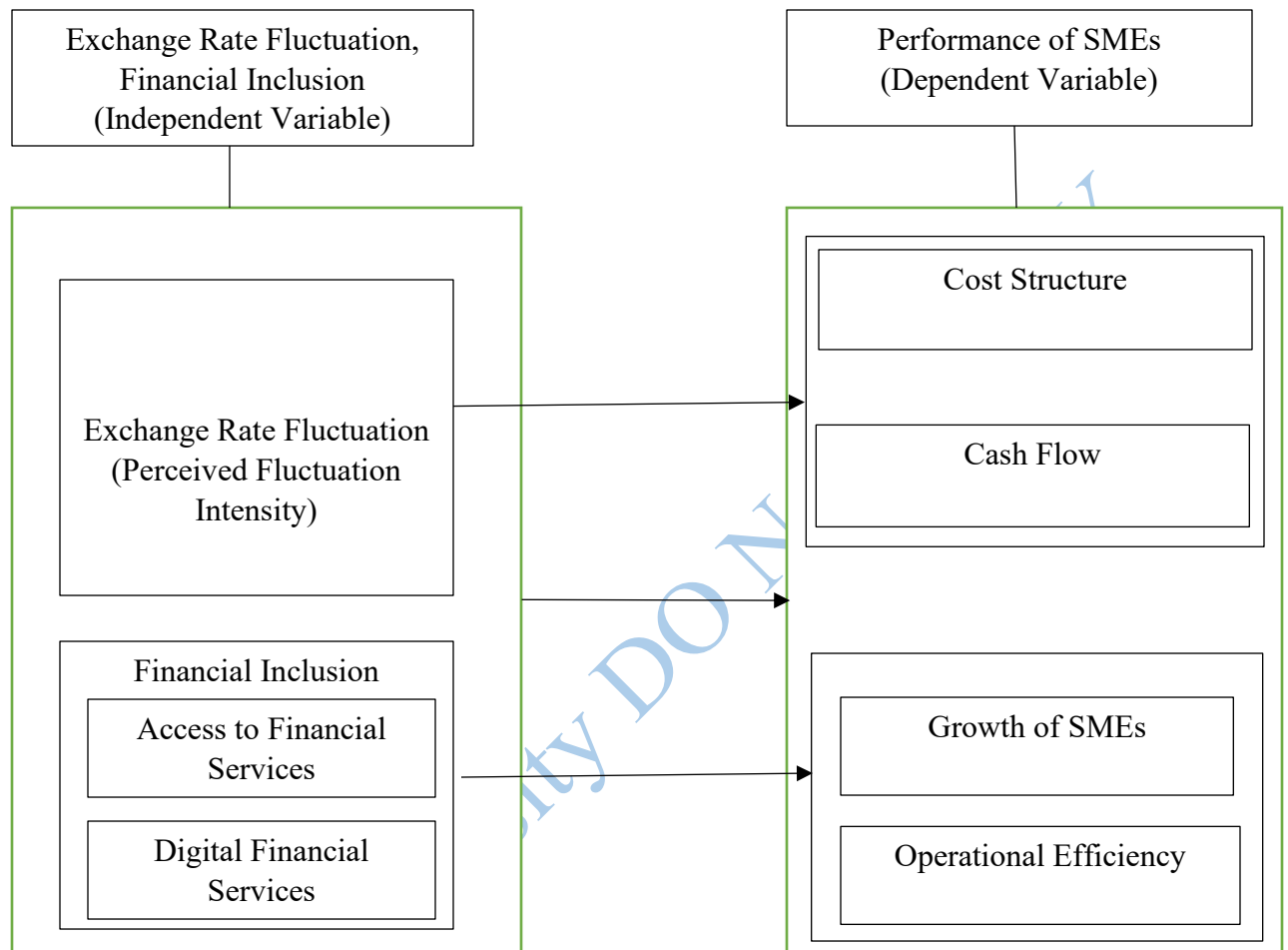
specifically target these distinct difficulties are crucial for the long-term viability of hotels in this area, guaranteeing their capacity to successfully handle economic volatility. Another notable deficiency is the lack of comprehensive and specific strategies and frameworks for effectively managing risks. In the context of the hotel business in Abeokuta South, implementing clear and realistic risk management measures is essential in order to effectively minimise the negative impact of exchange rate fluctuation. This includes the use of hedging tactics, the utilisation of financial instruments, and the implementation of dynamic pricing models specifically designed for the hotel industry. Implementing such methods would enhance hotels' capacity to effectively mitigate financial risks and provide stability in the face of economic instability. There is a shortage of enduring and viable remedies.

In the context of the hotel industry in Abeokuta South, sustainable strategies might include the implementation of measures such as service diversification, promotion of local tourism, and establishment of partnerships aimed at reducing reliance on imported commodities. Long-term solutions are crucial for guaranteeing the resilience of hotels in the face of economic problems and their sustained success. The research lacks sufficient focus on enhancing financial knowledge and inclusiveness, which is a crucial aspect. Enhancing financial literacy is essential for enhancing financial management and optimising risk reduction, allowing hotels to allocate resources towards expansion and enhance their financial resilience. The problems of digital financial services and technical adoption are acknowledged, but specific solutions to address these issues are not presented. The evaluated studies often lack a comprehensive examination of how the economic and regulatory environment affects the financial performance of small and medium-sized enterprises (SMEs). Gaining a comprehensive understanding of how local economic policies and regulations impact their operations is crucial for strategic planning and assisting hotels in

successfully navigating regulatory obstacles. The empirical evaluations do not sufficiently address solutions for managing operational costs.

In order to deal with the unpredictable exchange rate fluctuation, it is essential to implement efficient cost management strategies for hotels located in Abeokuta South. By using these cost management measures, hotels may effectively retain profitability and operational efficiency even in the face of economic headwinds. Ultimately, it is essential for the long-term viability of the hotel industry in Abeokuta South to address these deficiencies by conducting focused research, implementing practical risk management techniques, adopting sustainable practices, promoting financial literacy, embracing digital financial services, comprehending the economic and regulatory landscape, efficiently managing operational costs, and developing a deeper understanding of macroeconomic influences.

2.5 Conceptual Framework



Source: Researcher's Model, 2025

Figure 3.1: Conceptual Model Diagram

The above conceptual model illustrates the hypothetical assumptions of the study on exchange rate fluctuation and financial inclusion impacts on performance of SMEs in Southwest Nigeria. From the assumption the relationship in the curves to be studied were drawn from the research hypothesis stated in chapter one, page 11 of the present study.

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Chapter Three

Methodology

The research design outlines the overall strategy and approach for the study. It includes the research methods, data collection techniques, and analytical procedures that will be employed to achieve the study's objectives.

3.1 Research Design

The study employed a mixed-methods research design, integrating both quantitative and qualitative approaches to provide a comprehensive analysis. Mixed-method approach combines both qualitative and quantitative methods to gather and analyze data. The qualitative phase involved conducting focus group discussions with managers or owners of SMEs in South West, while the quantitative phase involved field survey questionnaire distributed among SMEs operating in South West, Nigeria. The mixed-method approach allows the researchers to gain rich qualitative insights and statistical evidence on exchange rate fluctuation, financial inclusion and performance of Small and Medium Scale Enterprises in South West Nigeria¹. The rationale behind the research design is to combine insights from both qualitative and quantitative methods, offering a more comprehensive and cohesive understanding of the research subject. This integration allows for research questions that may not be suited to a single approach, such as exploring both exploratory and confirmatory research questions in a single study².

3.2 Population of the Study

The target population includes SMEs operating in South West Nigeria, encompassing a variety of sectors such as manufacturing, services, trade, and agriculture. The total population of SMEs in the South-west geopolitical zone in Nigeria is 149,317, which have registered with SMEDAN as follows: Ekiti-State; 17,510, Ondo-State; 7,899, Osun-State; 18,969, Oyo-State; 31,739, Ogun-

State; 31,133, and Lagos-State; 42,067³. Therefore, the population of this study consist of 149,317 SMEs in South-west Nigeria. That is an owner or a manager representing each registered SMEs in South-west Nigeria.

3.3 Sample and Sampling Technique

The study's sample size was drawn from the population of male and female SME owners in South West Nigeria. The sample size was calculated using the Taro Yamane (1967) statistical formula, which is presented below:

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

Where

n = Sample Size Desired

N = Overall Population

e = Tolerated/assumed error limit 0.05 on the basis of 95% confidence level

Therefore,

$$\begin{aligned} n &= \frac{149,317}{1 + 149,317 (0.05^2)} \\ &= \frac{149,317}{374.2925} \\ &= 398.89 \end{aligned}$$

Rounding up to the nearest whole number, the sample size n is approximately 399. Therefore, the sample size for a population of 149,317 SME owners, using Taro Yamane's formula with a 5% margin of error, is 399.

The study will utilised stratified random sampling and purposive sampling technique. Stratified random sampling will be used to ensure representation across different sectors and sizes of SMEs.

Purposive sampling will be employed to select SME owners and key informants who have significant experience with financial inclusion and exchange rate fluctuation.

3.4 Description of the Research Instrument

This study aims to examine the impact of exchange rate fluctuation and financial inclusion on the performance of SMEs in Southwest Nigeria. The research instruments used for this study consist of a structured questionnaire with close-ended questions and a focus group discussion guide. The combination of these instruments provides a comprehensive understanding of the phenomenon from both quantitative and qualitative perspectives. A structured questionnaire was designed and utilized as the primary research instrument. The research instrument used for this study was a structured questionnaire comprising four main sections: Demographic Information, Impact of Exchange rate Fluctuation, Financial Inclusion, and Performance of SMEs.

Section A: Demographic Information

This section gathers basic demographic data about the respondents and their businesses, including age, gender, educational background, type of business, years in operation, number of employees, and annual revenue.

Section B: Impact of Exchange Rate Fluctuation

This section assesses how exchange rate fluctuation affect SME operations. It includes questions on the frequency and extent of impact, and Likert scale statements to gauge perceptions of cost increases and pricing strategy adjustments.

Section C: Financial Inclusion

This section explores the level of financial inclusion among SME owners. Questions cover access to financial services, usage of digital financial tools, and the perceived benefits of financial inclusion on business operations.

Section D: Performance of SMEs

This section measures the performance of SMEs in terms of profitability, growth, and sustainability. It includes self-assessment questions on business performance and Likert scale items on profit increase, customer base expansion, and financial stability.

The focus group discussions are designed to delve deeper into the qualitative aspects of the challenges faced by SMEs. Also, focus group discussions will be conducted with SME owners from various sectors. Each group will consist of 6-8 participants and sessions will be facilitated by trained moderators. The questionnaire and focus group discussion guide were developed based on a review of existing literature.

3.5 Validity of the Instruments

Validity refers to the capacity of gathered facts to precisely depict the intended scope of inquiry. It includes different forms of validity, such as face validity, content validity, construct validity, criterion validity, and dependability. For the purpose of the present study, face validity will be used. Face validity refers to the subjective assessment of how well a measure is related to a certain concept, based on the opinions of individuals who are not specialists in the field, such as test takers and representatives from the legal system. The evaluation assesses the questionnaire's feasibility, readability, uniformity of style and formatting, and clarity of language. Researchers evaluate the significance, rationality, and comprehensibility of the components of the tool, guaranteeing that the data is pertinent, logical, and unequivocal⁴.

3.6 Reliability of the Research Instrument

The reliability test assesses the degree to which the measurement results will remain consistent or stable when the measurement is repeated multiple times for the same symptoms using the same measuring device. Reliability calculations should only be conducted on questions that have already been validated. The reliability of test findings obtained using Cronbach's alpha with a questionnaire measurement instrument can be determined by examining the value of Cronbach's alpha. If the alpha value is equal to or greater than 0.70, the results are considered reliable⁵.

3.7 Data Collection

The questionnaire will be administered with the aid of two assistants. To ensure clarity, the researcher will explicitly elucidate the aim of the study to the participants. The goal of self-administration has two main purposes: to maximize the response rate and to allow respondents to seek clarification on any unclear or confusing areas. In order to attain a significant response rate, the researcher will enlist the services of a research assistant who will be responsible for both supervising the physical dissemination of the questionnaire and gathering them on the designated distribution days. Furthermore, focus group discussion will be conducted to further explore collective experiences and insights from SME owners.

3.8 Data Analyses

The collected data will be subjected to statistical analysis using the Statistical Package for the Social Sciences (SPSS) version 21.0. Data analysis utilizes descriptive and inferential statistics. Descriptive statistics involves the utilization of frequencies and percentages to analyze the biographical data and answer research questions. Hypothesis 1: Changes in exchange rates significantly affect the cost structure of SMEs.

For the first hypothesis, correlation techniques will be applied to examine the association between variations in exchange rates and elements of cost structure (cost of goods sold, operational costs, input expenses) by employing Pearson's or Spearman's correlation metrics. Additionally, multiple regression methods will be utilized to evaluate the magnitude and direction of the effect that exchange rate fluctuations exert on different cost components. Correlation analysis will also be conducted to explore the link between variables related to exchange rate volatility (such as exchange rate patterns and projections) and factors influencing investment decisions (including capital spending, technology investments, and plans for expansion). Moreover, multiple regression analysis will be applied to model how exchange rate volatility impacts the investment choices of small and medium enterprises (SMEs), while accounting for other pertinent variables.

The third hypothesis will be tested using regression analysis to measure how changes in exchange rates affect variability in cash flow, liquidity ratios, and management of working capital. Regarding the fourth hypothesis, correlation techniques will be used to investigate the relationship between accessibility to financial services (such as bank account ownership and availability of credit) and indicators of growth (including revenue increase and market growth). Furthermore, regression analysis will be performed to quantify the influence of financial service accessibility on SME growth, controlling for additional relevant factors.

The fifth hypothesis will be examined through correlation analysis to evaluate the connection between the use of digital financial services and enhancements in operational performance (such as transaction speed, processing effectiveness, and error minimization). Regression models will also be employed to quantify the impact of digital financial services on these operational efficiency metrics, while controlling for other variables. Similarly, the sixth hypothesis will be assessed by applying correlation analysis to investigate the relationship between financial literacy variables

(like educational attainment and participation in financial education programs) and the quality of decision-making (including investments aimed at growth, risk management, and accuracy in budgeting). Regression analysis will further be used to model how financial literacy influences financial decisions, taking other significant factors into account. Finally, the combined and relative effects of exchange rate volatility and financial inclusion on all SME performance metrics will be evaluated using Multivariate Analysis of Variance (MANOVA).

3.9 Ethical Approval

The study will guarantee the confidentiality and privacy of small and medium-sized enterprise (SME) participants and their sensitive information. All participants engaging in surveys, interviews, and focus groups will be required to provide informed consent. In order to reduce researcher bias and ensure objectivity in data collection and analysis, the research work will employ several strategies to minimise researcher bias and guarantee objectivity in the gathering and interpretation of data. The measures encompass several elements such as well-defined study design and protocols, standardised methods, random sampling techniques, extensive training for data collectors, utilisation of different data sources, pilot testing, and impartial phrasing of questionnaires, pre-testing, and the application of statistical tools. Validation and verification encompass the processes of peer review, cross-verification, and meticulous documentation. Reflexivity is crucial since researchers must recognise and confront their own biases in the research report. The research will also engage key ethical considerations such as obtaining informed consent from participants and ensuring the confidentiality of their information.

Endnotes

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Chapter Four

Results and Discussion of Findings

This section provides an examination and interpretation of the gathered data aimed at understanding how major financial and economic elements influence the success of Small and Medium-sized Enterprises (SMEs) in the southwestern region of Nigeria. It particularly reviews the background details of the participants, such as their age group, sex, educational background, and size of their businesses, and analyzes the relationships between these attributes and SMEs' interactions with currency value changes, availability of financial resources, and adoption of digital finance technologies. Additionally, the section investigates the effects of currency fluctuations on SMEs' operational performance, expense management, and investment decisions. Moreover, it assesses the role of financial knowledge and access to monetary services in shaping SMEs' financial choices and developmental trajectories. The findings presented here are critical in understanding the challenges SMEs face in the current economic climate and provide valuable insights into the strategies that can help them navigate financial volatility and improve their operational efficiency. The total sample size for the study is 399 but 273 copies of the questionnaire were returned and deemed for analyses. As such, the percentage rate of responses analysed for the study is 68.42% which is deemed acceptable in research¹.

4.1 Demographic Data Analysis

Table 1: Demographic variables of the Respondents

SN	Description	Frequency	Percentage (%)
1	Age		
	Under 25	9	3.3
	25-34	100	36.6
	35-44	103	37.7
	45-54	19	7.0
	55-64	30	11.0

	65 and above	12	4.4
	Total	273	100
2	Gender		
	Male	179	65.6
	Female	94	34.4
	Total	273	100
3	Education Background		
	No Formal Education	13	4.8
	Primary	40	14.7
	Secondary	88	32.2
	First Degree	132	48.4
	Total	273	100
4	Number of Employees		
	1.-10	245	89.7
	11-20	14	5.1
	21-30	9	3.3
	41-50	5	1.8
	Total	273	100
5	Years in Operation		
	1-5 years	135	49.5
	6-9 years	22	8.1
	10 years and above	66	24.2
	5	50	18.3
	Total	273	100
6	Industry Sector		
	Agriculture	19	7.0
	Manufacturing	43	15.8
	Retail/Wholesale	129	47.3
	Services	36	13.2
	Information Technology	28	10.3
	Healthcare	18	6.6
	Total	273	100
7	Ownership Structure		
	Sole Proprietorship	216	79.1
	Partnership	30	11.0
	limited Liability Company	27	9.9
	Total	273	100
8	Family Business		
	Yes	18	6.6

	No	255	93.4
	Total	273	100
9	Business Training and Development		
	No	252	92.3
	Yes	21	7.7
	Total	273	100

Field Survey, 2025

Table 1 reveals the distribution of demographic variables of the respondents. The age distribution of SME operators in Southwest Nigeria shows that the majority are within the productive working-age bracket. Most respondents are between 35–44 years (37.7%) and 25–34 years (36.6%), indicating that SME activities are predominantly driven by young to middle-aged adults. A smaller proportion of respondents are either under 25 (3.3%) or above 65 (4.4%), suggesting limited participation of the very young or elderly in small and medium-scale enterprise ownership. Gender-wise, the data reveals a male-dominated SME landscape, with 65.6% of respondents being male and 34.4% female. While women represent over one-third of the total respondents, the gap points to potential gender-related barriers in accessing resources, financial services, or entrepreneurial opportunities. This calls for targeted policies to enhance female participation in the SME sector.

The educational background of the respondents indicates a relatively high level of formal education among SME operators. A majority of 48.4% hold a first degree, while 32.2% have completed secondary education. Only a small fraction of respondents (4.8%) have no formal education. This suggests that education plays a significant role in entrepreneurial engagement, likely influencing business decisions, financial literacy, and adaptation to market fluctuations. In terms of business size, the overwhelming majority of respondents (89.7%) operate micro-enterprises employing between 1 to 10 people. Very few have scaled beyond 20 employees,

reflecting the limited growth and expansion of SMEs in the region. This points to the need for better support systems to help businesses scale up sustainably.

Regarding years in operation, 49.5% of the businesses have been operating for 1–5 years, indicating a high level of new or recently established ventures. 24.2% have survived beyond 10 years, showing some degree of longevity and stability. However, the entry "5 = 50 = 18.3%" appears inconsistent and may require clarification, possibly being a data entry error related to years in operation. The industry distribution shows that Retail and Wholesale trade dominates (47.3%), followed by Manufacturing (15.8%) and Services (13.2%). Other sectors like Agriculture (7.0%), Information Technology (10.3%), and Healthcare (6.6%) have lower representation. This indicates a concentration of SMEs in trade-related activities, while more capital- or skill-intensive sectors are less explored.

Ownership structure analysis reveals that 79.1% of businesses are sole proprietorships, signifying that most SME owners prefer individual ownership. Only 11.0% operate as partnerships, and 9.9% as limited liability companies, highlighting limited formalization in business structure. This could affect access to funding, risk-sharing, and long-term sustainability. When asked about family business involvement, only 6.6% of respondents affirmed that their enterprises were family-run, whereas 93.4% indicated otherwise. This suggests that most SMEs in the region are not family businesses but are likely founded and run by individual entrepreneurs. Lastly, the data shows a significant gap in capacity development, as 92.3% of respondents have not received any form of business training or development, with only 7.7% indicating they had. This highlights a crucial area for intervention, as training and development are essential for improving business practices, adaptability to economic shifts like exchange rate fluctuations, and overall SME performance.

4.2 Presentation of Data

4.2.1 Research Questions

Table 2: Exchange Rate

SN	Description	Frequency	Percent (%)
1	Exchange Rate Fluctuates		
	No	54	19.8
	Yes	219	80.2
	Total	273	100
2	The Interest Rates are on a High Side		
	Yes	273	100.0
	Total	273	100
3	There is higher Inflation in the economy		
	Yes	273	100.0
	Total	273	100
4	Imports into the Country Exceed Exports		
	Yes	273	100.0
	Total	273	100

Field Survey, 2025

Table 2 shows that a large portion of participants (80.2%) agree that the currency value varies, whereas just 19.8% hold a different view. This indicates a widespread recognition among SME operators of the volatility in Nigeria's currency value, which likely affects their cost of doing business, especially for those involved in importation or procurement of foreign inputs. In terms of interest rates, 100% of respondents agree that interest rates are on the high side. This consensus highlights a critical financial barrier for SMEs, as high borrowing costs can discourage loan uptake, hinder business expansion, and reduce investment in productivity-enhancing assets. Inflation is also unanimously acknowledged as a concern, with all respondents (100%) agreeing that there is higher inflation in the economy. This reflects the prevailing economic conditions where rising prices of goods and services erode consumer purchasing power, increase operational costs, and pose challenges to business sustainability. Lastly, all respondents (100%) agree that

imports into the country exceed exports, signaling a trade imbalance. This perception underscores the vulnerability of the Nigerian economy and SMEs to external shocks, such as foreign exchange pressure, import dependency, and limited export opportunities. It also points to structural challenges that may hinder domestic production and global competitiveness.

What is the relationship between exchange rate fluctuation and the investment decisions of SMEs?

Table 3: Exchange Rate fluctuation Investment Decisions of SMEs

		Not at all (%)	Slightly (%)	Moderate (%)	Significantly (%)		Very significantly (%)
1	How significantly do exchange rate fluctuations influence your capital expenditure decisions	0 (0.0%)	1 (0.4%)	6 (2.2%)	67 (4.5%)		199 (72.9%)
			SD (%)	D (%)	N (%)	A (%)	SA (%)
2	Do you consider exchange rate forecasts when planning for new technology investments		0 (0%)	0 (0%)	13 (4.8%)	72 (26.4%)	188 (68.9%)
3	Have exchange rate changes affected your expansion plans		0 (0%)	0 (0%)	8 (2.9%)	43 (15.8%)	222 (81.3%)

Field Survey, 2025

Table 3 clearly show that exchange rate fluctuations have a strong influence on the investment behavior of SMEs in Southwest Nigeria. The data demonstrates that exchange rate fluctuations significantly influence the capital expenditure (CapEx) decisions of SMEs. A substantial 72.9% of respondents stated that exchange rate fluctuations “very significantly” affect their CapEx decisions, while 24.5% said they are “significantly” affected. Only a marginal 2.6% reported “moderate” or “slight” influence, and none indicated “not at all.” This reveals that currency instability plays a major role in whether SMEs choose to invest in infrastructure, equipment, or other long-term assets, likely due to the uncertainty in pricing and returns.

Similarly, a vast majority of SMEs appear to factor exchange rate forecasts into their strategic investment planning. Specifically, 68.9% “strongly agreed” and 26.4% “agreed” that they consider exchange rate trends when planning for new technology investments. Only 4.8% remained neutral, and none disagreed, suggesting that forward-looking exchange rate assessments are increasingly being used as risk management tools to inform technology and innovation-related decisions. In addition, exchange rate changes have a marked effect on the expansion plans of SMEs. A large 81.3% “strongly agreed” and 15.8% “agreed” that fluctuations in exchange rates have impacted their ability to expand operations. Again, no respondents disagreed, while only 2.9% remained neutral. This reinforces the idea that unfavorable exchange rates can delay or even derail plans for scaling up, opening new branches, or entering new markets, particularly for businesses that depend on imported goods or foreign capital. As such, there is a strong and direct relationship between exchange rate fluctuations and the investment decisions of SMEs. Fluctuating exchange rates significantly influence capital spending, delay expansion efforts, and push entrepreneurs to closely monitor currency trends when considering technology upgrades or long-term investments. This shows that financial stability, particularly in exchange rates, is critical for fostering confidence and enabling sustainable SME growth in Nigeria.

What impact do exchange rate fluctuation have on the cash flow management of SMEs??

Table 4: Exchange Rate Fluctuation and Cash Flow Management of SMEs

		Never (%)	Rarely (%)	Sometimes (%)	Often (%)	Always (%)
1	How often do exchange rate changes cause variability in your cash flow	0 (0%)	0 (0%)	25 (9.2%)	45 (16.5%)	203 (74.4%)
		No Impact (%)	Low Impact (%)	Moderate Impact (%)	High Impact (%)	Very High Impact (%)
2	How do you rate the impact of exchange rate volatility on your liquidity ratios	0 (0.0%)	3 (1.1%)	57 (20.9%)	48 (17.6%)	165 (60.4%)
		Very Ineffectively (%)	Ineffectively (%)	Neutral (%)	Effectively (%)	Very Effectively (%)
3	How effectively do you manage working capital in response to exchange rate fluctuation	124 (45.4%)	94 (34.4%)	55 (20.1%)	0 (0%)	0 (0%)

Field Survey, 2025

Table 4 clearly showed that exchange rate fluctuations significantly affect the cash flow and liquidity of SMEs in Southwest Nigeria, while also revealing challenges in their ability to manage working capital effectively in response. A striking 74.4% of respondents indicated that exchange rate changes “always” cause variability in their cash flow, while 16.5% stated it happens “often.” Another 9.2% reported experiencing it “sometimes,” and none selected “rarely” or “never.” This clearly shows that most SMEs experience regular disruptions in their cash inflows and outflows due to changes in currency value. These disruptions can make it harder to predict revenue, settle expenses, or manage short-term financial obligations efficiently. When asked to assess the impact of exchange rate volatility on their liquidity ratios, a combined 78% (60.4% very high impact and 17.6% high impact) reported that it affects their liquidity significantly. Only 20.9% reported a

moderate impact, and a very small 1.1% described the impact as low. No respondent said there was no impact. This indicates that fluctuations in exchange rates do not only affect sales and operational costs but also influence the financial stability of SMEs, possibly pushing them toward cash shortages or difficulty meeting immediate liabilities.

Interestingly, despite the severe effects of exchange rate volatility, SMEs report a lack of effective strategies to manage their working capital in response. Specifically, 45.4% said they manage it “very ineffectively”, and 34.4% said “ineffectively.” Only 20.1% remained neutral, and none of the respondents claimed to manage their working capital “effectively” or “very effectively.” This points to a serious gap in financial management capabilities, particularly in responding to external economic shocks like currency fluctuations. In essence, exchange rate fluctuations create major cash flow variability and negatively impact liquidity for SMEs. However, many SMEs struggle to respond effectively, lacking the financial tools or strategies to manage their working capital in volatile conditions. This suggests an urgent need for financial training, currency risk management education, and possibly better access to hedging instruments or stable financing options.

How does access to financial services impact the growth and expansion of SMEs?

Table 5: Access to Financial Services and Expansion of SMEs

		SD (%)	D (%)	N (%)	A (%)	SA (%)
1	Does your business have a bank account	97 (35.5%)	0 (0%)	13 (4.8%)	72 (26.4%)	176 (64.5%)
		Never (%)	Rarely (%)	Sometimes (%)	Often (%)	Always (%)
2	How often do you use credit facilities to finance your business growth	55 (20.1%)	13 (4.8%)	44 (16.1%)	57 (20.9%)	104 (38.1%)
		Not Accessible (%)	Slightly Accessible (%)	Moderate (%)	Highly Accessible (%)	Very Highly Accessible (%)
3	How accessible are financial products like loans, savings, and insurance to your business	161 (59.0%)	91 (33.3%)	0 (0%)	14 (5.1%)	7 (2.6%)
		No Impact (%)	Low Impact (%)	Moderate Impact (%)	High Impact (%)	Very High Impact (%)
4	How do you rate the impact of access to financial services on your business growth rate	52 (19.0%)	97 (35.5%)	72 (26.4%)	48 (17.6%)	4 (1.5%)

Field Survey, 2025

Table 5 data reveals a complex but insightful relationship between SMEs' access to financial services and their ability to grow and expand in Southwest Nigeria. The findings point to both opportunities and substantial limitations in the financial ecosystem available to small businesses. A significant number of SMEs have formal financial inclusion, with 64.5% of respondents strongly agreeing that their businesses have bank accounts, and 26.4% agreeing. Interestingly, 35.5% strongly disagreed, which seems contradictory unless interpreted as a data or labeling inconsistency. However, the high percentage of agreement suggests that a majority of SMEs are

integrated into the formal banking system, a foundational step for accessing broader financial services like loans, overdrafts, and digital banking. When it comes to the actual use of credit facilities to finance growth, 38.1% of respondents reported “always” using them, and 20.9% said “often.” This implies that nearly 59% of SMEs rely heavily on external financing for expansion. Still, a considerable portion either “never” use credit (20.1%) or do so rarely (4.8%), which could reflect limited access, distrust in financial institutions, or high borrowing costs.

Accessibility of financial products such as loans, savings, and insurance appears to be a major challenge. A combined 92.3% of respondents stated that these services are either “not accessible” (59.0%) or only “slightly accessible” (33.3%) to their businesses. Only 7.7% reported that such services are “highly” or “very highly accessible.” This sharp contrast between the need for and access to financial services indicates that while businesses may have accounts, they are largely excluded from more meaningful and growth-enhancing financial products. Regarding the impact of access to financial services on business growth, only a small fraction (1.5%) believed that it has a “very high impact,” and 17.6% said “high impact.” In contrast, 35.5% said the impact is “low,” and 19% claimed there is “no impact” at all. This suggests a disconnect—likely due to the limited access and underutilization of credit and insurance products—between having financial services available and actually leveraging them for business expansion.

In nut shell, while a fair number of SMEs in Southwest Nigeria are formally banked, true financial inclusion remains limited. Most businesses struggle to access essential financial products that would support their growth, such as affordable loans and insurance. As a result, even though many acknowledge the potential benefits of financial services, they are unable to fully realize this potential due to poor accessibility and perhaps lack of tailored offerings. Addressing these gaps

through targeted policies, inclusive lending programs, and SME-friendly financial services is crucial for driving sustainable growth and expansion.

What is the effect of digital financial services on the operational efficiency of SMEs?

Table 6: Digital Financial Services and Operational Efficiency of SMEs

		SD (%)	D (%)	N (%)	A (%)	SA (%)
1	Does your business use mobile banking	54 (19.8%)	42 (15.4%)	0 (0%)	105 (38.5%)	72 (26.4%)
2	Have you adopted digital payment systems in your business operations	0 (0%)	32 (11.7%)	0 (0%)	88 (32.2%)	153 (56.0%)
		Not Accessible (%)	Slightly Accessible (%)	Moderate (%)	Highly Accessible (%)	Very Highly Accessible (%)
3	How accessible are online financial services to your business	48 (17.6%)	59 (21.6%)	32 (11.7%)	57 (20.9%)	77 (28.2%)
		No Impact (%)	Low Impact (%)	Moderate Impact (%)	High Impact (%)	Very High Impact (%)
4	How has the use of digital financial services affected your operational costs	4 (1.5%)	0 (0%)	14 (5.1%)	102 (37.4%)	153 (56.0%)

Field Survey, 2025

Table 6 revealed that digital financial tools—such as mobile banking and digital payment systems—are increasingly being adopted by small and medium enterprises (SMEs) in Southwest Nigeria, and they play a significant role in enhancing operational efficiency. The adoption of mobile banking is growing among SMEs, with a majority of respondents confirming its use. Specifically, 38.5% agreed and 26.4% strongly agreed that their businesses utilize mobile banking services. However, a notable 19.8% strongly disagreed and 15.4% disagreed, showing that while uptake is significant, a portion of SMEs are still not leveraging mobile banking. This may be due to digital literacy gaps, infrastructure limitations, or trust issues in online transactions. Regarding the adoption of digital payment systems, the trend is even more positive. A combined 88.2% of

respondents confirmed adoption, with 56.0% strongly agreeing and 32.2% agreeing that they use digital payments in their business operations. Only 11.7% disagreed, and none were neutral or strongly disagreed. This high adoption rate reflects a shift toward cashless transactions and improved ease of payments for both businesses and their customers.

The accessibility of online financial services, such as internet banking, mobile apps, and e-wallets, shows a balanced spread. While 28.2% described these services as “very highly accessible” and 20.9% as “highly accessible,” others found them less reachable—17.6% said “not accessible” and 21.6% said “slightly accessible.” This indicates some progress in digital inclusion but also highlights ongoing challenges in internet access, digital infrastructure, or service coverage. The impact of digital financial services on operational costs is very positive. A combined 93.4% of respondents stated that digital services have a “high” (37.4%) or “very high” (56.0%) impact on reducing operational expenses. Only 1.5% felt there was no impact, and 5.1% reported a moderate impact, underscoring the cost-saving benefits of going digital—such as reduced cash handling, faster transaction times, and lower administrative costs. In summary, digital financial services have significantly improved the operational efficiency of SMEs in Southwest Nigeria. Through mobile banking and digital payment systems, businesses are reducing costs, streamlining transactions, and improving customer convenience. However, challenges remain in ensuring equal accessibility and addressing digital literacy or infrastructure barriers to enable more inclusive digital adoption across the SME sector.

How does financial literacy influence the financial decision-making of SME owners?

Table 7: Financial Literacy and Financial Decision-Making of SME Owners

		Very Low (%)	Low (%)	Moderate (%)	High (%)	Very High (%)	
1	How would you rate your level of financial literacy	6 (2.2%)	38 (13.9%)	108 (39.6%)	112 (41.0%)	9 (3.3%)	
		SD (%)	D (%)	N (%)	A (%)	SA (%)	
2	Have you adopted digital payment systems in your business operations	0 (0%)	32 (11.7%)	0 (0%)	88 (32.2%)	153 (56.0%)	
3	Have you participated in any financial education programs	0 (0%)	9 (3.3%)	16 (5.9%)	139 (50.9%)	109 (39.9%)	
		Not Aware (%)	Slightly Aware (%)	Moderate (%)	Highly Aware (%)	Very Highly Aware (%)	
4	How aware are you of the financial products available to your business	0 (0%)	243 (89.0%)	0 (0%)	30 (11.0%)	0 (0%)	
		Very Poor (%)	Poor (%)	Fair (%)	Good (%)	Excellent (%)	
5	How do you rate the quality of your financial decisions	0 (0%)	48 (17.6%)	78 (28.6%)	75 (27.5%)	72 (26.4%)	
			Never (%)	Rarely (%)	Sometimes (%)	Often (%)	Always (%)
6	How often do you invest in growth opportunities based on financial literacy	0 (0%)		0 (0%)	55 (20.1%)	163 (59.7%)	55 (20.1%)

Field Survey, 2025

It is evident from Table 7 that financial literacy plays a significant role in shaping how SME owners make financial decisions, including their use of digital tools, awareness of financial products, participation in education programs, and ability to seize growth opportunities. The self-assessed financial literacy levels of SME owners are generally favorable. 41.0% rated their financial literacy as “high” and 39.6% as “moderate,” while only 13.9% and 2.2% rated it as “low” and “very low” respectively. A small 3.3% rated their literacy as “very high.” This indicates that most SME owners possess a reasonable level of understanding of financial concepts, though there remains room for improvement toward achieving excellence in financial knowledge and management.

Adoption of digital payment systems appears to align with financial literacy levels. A combined 88.2% of respondents have adopted digital payment systems, suggesting that financial literacy positively correlates with technology adoption in financial operations. Business owners with stronger financial knowledge are likely better positioned to understand and trust digital systems, recognizing their benefits in improving transaction speed, reducing costs, and expanding customer reach. Participation in financial education programs is also encouraging. A total of 90.8% of respondents have engaged in such programs—with 50.9% agreeing and 39.9% strongly agreeing that they have participated. Only 3.3% disagreed and 5.9% remained neutral. This level of engagement shows growing awareness of the importance of financial education in enhancing business decision-making capabilities, budgeting, risk management, and investment planning.

However, awareness of available financial products is surprisingly low. A staggering 89.0% of respondents indicated they are only “slightly aware” of the financial products accessible to their business, and only 11.0% claimed “high awareness.” No respondent selected “moderate” or “very high” awareness. This gap suggests that despite financial literacy and educational program

participation, product-specific knowledge—such as loans, insurance, or investment options—remains weak, possibly due to poor outreach by financial institutions or lack of tailored communication. When asked about the quality of their financial decisions, responses were spread but leaned positively: 27.5% rated their decisions as “good”, 26.4% as “excellent,” and 28.6% as “fair.” However, 17.6% still rated theirs as “poor,” suggesting that while financial literacy influences good decision-making, some SME owners may struggle with implementation or face external challenges that compromise outcomes.

Lastly, financial literacy directly impacts investment behavior. A significant 59.7% “often” invest in growth opportunities based on their financial knowledge, and another 20.1% “always” do so. Only 20.1% reported “sometimes” investing, and none selected “rarely” or “never.” This clearly shows that financial literacy empowers SME owners to recognize, evaluate, and act on viable opportunities that can drive expansion and competitiveness. In essence, financial literacy enhances the financial decision-making capabilities of SME owners by promoting better budgeting, encouraging digital tool adoption, supporting investment planning, and strengthening confidence in financial operations. However, low awareness of specific financial products remains a challenge, indicating a need for improved financial product education and outreach by financial institutions and policymakers.

4.2.1 Hypotheses

H01: There is no significant relationship between Exchange rate fluctuation and the investment decisions of SMEs.

Table 8: Relationship between Exchange rate fluctuation and investment decisions of SMEs was Analysed Using Correlations

Correlations

		Exchange Rate Fluctuation	Investment Decisions
Exchange Rate Fluctuation	Pearson Correlation	1	-.152*
	Sig. (2-tailed)		.012
	N	273	273
Investment Decisions	Pearson Correlation	-.152*	1
	Sig. (2-tailed)	.012	
	N	273	273

*. Correlation is significant at the 0.05 level (2-tailed).

The result output indicates that there is a statistically significant relationship between the two variables. The Pearson correlation coefficient is -0.152, which suggests a weak negative correlation between exchange rate fluctuations and investment decisions. In other words, as exchange rate fluctuations increase, the investment decisions of SMEs tend to decrease, but the relationship is relatively weak. This implies that while there is a connection, it is not particularly strong. The significance value (p-value) of 0.012, which is less than the commonly used threshold of 0.05, indicates that the correlation is statistically significant. This means that the observed relationship between exchange rate fluctuations and investment decisions is unlikely to be due to chance. As a result, we can confidently reject the null hypothesis (H_0) and conclude that a significant relationship exists between these two variables. In essence, while there is a statistically significant relationship between exchange rate fluctuations and investment decisions, the strength of this relationship is weak. Therefore, while exchange rate fluctuations do influence SMEs' investment decisions, their impact is not large or highly influential.

The descriptive analyses presented in Table 5 further support the findings from the correlation analysis, confirming that exchange rate fluctuations significantly influence the investment decisions of SMEs in Southwest Nigeria. The data from Table 4 reveals that a vast majority of respondents—72.9%—believe exchange rate fluctuations "very significantly" impact their capital

expenditure (CapEx) decisions, with an additional 24.5% stating that they are "significantly" affected. This substantial response aligns with the correlation analysis, which found a statistically significant relationship between exchange rate fluctuations and investment decisions, though with a weaker, negative correlation. The strong influence reported in Table 4 suggests that SMEs face considerable challenges in making long-term investments in infrastructure, equipment, or other capital assets, mainly due to the uncertainty created by fluctuating exchange rates.

Furthermore, the finding that 68.9% of SMEs "strongly agree" and 26.4% "agree" that exchange rate trends play a role in their strategic investment planning reinforces the idea that exchange rate fluctuations are not only a present concern but are actively considered when planning for new technology investments. This forward-looking approach underscores the importance of exchange rate forecasts in managing risks, which is in line with the negative correlation found in the statistical analysis, where SMEs with exposure to exchange rate volatility tend to reduce investment in the face of uncertainty. The impact on expansion plans, with 81.3% of SMEs "strongly agreeing" and 15.8% "agreeing" that exchange rate fluctuations hinder their ability to expand, further illustrates the strong role exchange rate fluctuations play in shaping investment decisions. The fact that none of the respondents disagreed with this statement, combined with the finding that only a small percentage remained neutral, highlights the overwhelming effect exchange rate volatility has on business growth strategies. This aligns with the weak negative correlation in the statistical findings, which suggest that SMEs with greater sensitivity to exchange rate fluctuations are likely to delay or abandon expansion plans.

H02: Exchange rate fluctuation have no significant impact on the cash flow management of SMEs.

Table 9: Relationship between Exchange Rate fluctuation and Cash Flow Management of SMEs was Analysed Using Linear Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df 1	df2	Sig. F Change
1	.173 ^a	.030	.026	.424	.030	8.326	1	271	.004

a. Predictors: (Constant), Cash Flow Management

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.498	1	1.498	8.326	.004 ^b
	Residual	48.751	271	.180		
	Total	50.249	272			

a. Dependent Variable: Exchange Rate Fluctuation; b. Predictors: (Constant), Cash Flow Management

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	3.952	.079		49.803	.000
	Cash Flow Management	.046	.016	.173	2.885	.004

a. Dependent Variable: Exchange Rate Fluctuation

The findings from the linear regression study indicate that managing cash flow has a statistically meaningful, though modest, effect on changes in exchange rates within small and medium-sized enterprises (SMEs). The summary of the model presents a correlation coefficient (R) of 0.173, demonstrating a slight positive linear association between these variables. Moreover, the coefficient of determination (R-squared) of 0.030 reveals that only 3% of the variation in exchange rate changes is accounted for by cash flow management, suggesting a limited explanatory role. The Adjusted R-squared value of 0.026 supports the conclusion that the model's ability to explain the data is constrained when considering the number of predictors and sample size. The standard error of estimate, measured at 0.424, represents the average distance between the actual data points and the predicted regression line.

The ANOVA analysis confirms that the regression equation is statistically significant, with an F-statistic of 8.326 and a p-value of 0.004. Since this p-value is below the 0.05 significance level, it provides strong evidence that cash flow management is connected to fluctuations in exchange rates. The significant F-value implies that the model accounts for a meaningful share of the variance in exchange rate movements. In the coefficients table, the unstandardized coefficient for cash flow management is 0.046, indicating that for every one-unit increase in cash flow management, exchange rate fluctuations increase by 0.046 units. The standardized beta coefficient of 0.173 further reflects a mild positive correlation between these factors. The t-statistic of 2.885 and associated p-value of 0.004 reinforce the conclusion that the relationship between cash flow management and exchange rate variability is statistically significant.

In summary, this analysis results in the dismissal of the null hypothesis that exchange rate changes do not have a significant influence on cash flow management in SMEs. The p-value of 0.004, being less than the 0.05 cutoff, confirms a statistically significant connection. Nonetheless, the low R-squared value implies that cash flow management explains only a small portion of the fluctuations in exchange rates, suggesting that additional factors likely play a more dominant role in shaping cash flow management practices within SMEs.

The descriptive analyses presented above align closely with the findings from the ANOVA, reinforcing the conclusion that exchange rate fluctuations have a statistically significant effect on the cash flow and liquidity of SMEs in Southwest Nigeria. The ANOVA result confirmed that exchange rate fluctuations significantly affect SME financial performance indicators. The descriptive data adds practical evidence to this, showing that 74.4% of SMEs report cash flow disruptions “always” and another 16.5% say it occurs “often.” This strong majority supports the quantitative significance found in the ANOVA test. The descriptive analysis highlights that a combined 78% of respondents believe exchange rate volatility has a very high or high impact on their liquidity. This affirms the ANOVA's outcome, which showed a significant relationship between exchange rate movements and liquidity performance measures. The descriptive statistics illustrate real-world implications of the ANOVA findings, such as difficulty predicting revenue and managing short-term financial obligations. This adds contextual weight to the ANOVA's statistical output, showing that the significance is not just theoretical but is experienced in day-to-day operations. Despite the statistical evidence of impact, the data also reveal that none of the respondents believe they manage working capital effectively in such conditions. This insight adds depth to the ANOVA result by exposing a critical operational weakness—SMEs not only experience the impact but are also ill-equipped to mitigate it. The statistical significance found in

ANOVA, when combined with descriptive insights (e.g., 45.4% say they manage capital "very ineffectively"), underscores the urgent need for targeted policy responses such as training, improved access to financial planning tools, and risk management education.

H03: Access to financial services do not significantly impacts the growth and expansion of SMEs.

Table 10: Relationship between Financial Services and Expansion of SMEs was Analysed Using Linear Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.400 ^a	.160	.157	.951	.160	51.624	1	271	.000

a. Predictors: (Constant), Access to Financial Services

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.721	1	46.721	51.624	.000 ^b
	Residual	245.264	271	.905		
	Total	291.985	272			

a. Dependent Variable: Business Growth; b. Predictors: (Constant), Access to Financial Services

Coefficients^a

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
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		B	Std. Error	Beta		
1	(Constant)	.829	.235		3.520	.001
	Access to Financial Services	.147	.020	.400	7.185	.000

a. Dependent Variable: Business Growth

The results provided present an analysis of the relationship between access to financial services and the growth/expansion of SMEs (Small and Medium Enterprises) using linear regression. Let's break down the key components of the analysis. The correlation coefficient ($R = 0.400$) indicates a moderate positive correlation between access to financial services and SME growth. The R Square value (0.160) means that 16% of the variability in SME growth can be explained by access to financial services, suggesting that the predictor variable accounts for a limited portion of the variation in business growth. The Adjusted R Square (0.157) is similar but adjusts for the number of predictors, reinforcing that financial access has limited explanatory power. Additionally, the Standard Error of the Estimate (0.951) reflects the deviation of residuals, indicating some variability remains unexplained by the model.

The R Square Change (0.160) confirms that adding access to financial services explains an additional 16% of variance in SME growth. The F Change (51.624) is a strong indicator of the model's overall significance, and the Sig. F Change (0.000) confirms that the relationship is statistically significant, meaning it is unlikely due to random chance. The ANOVA table assesses the model's fit. The Regression Sum of Squares (46.721) represents explained variation, while the Residual Sum of Squares (245.264) captures unexplained variation. The F-statistic (51.624) and its significance level (Sig. = 0.000) reaffirm that the model is statistically significant. The Constant (0.829) represents expected SME growth when financial access is zero. The coefficient for Access to Financial Services ($B = 0.147$) indicates that each one-unit increase in financial access corresponds to a 0.147-unit rise in SME growth, reflecting a positive relationship. The Standard

Error (0.020) measures the coefficient's precision, while the Beta value (0.400) suggests a moderate effect size. The t-statistic (7.185) and its p-value (Sig. = 0.000) confirm that financial access is a statistically significant predictor of SME growth. The hypothesis is supported by the regression analysis. Financial access has a statistically significant positive effect, with the model explaining 16% of the variance in SME growth. The highly significant results (p-value = 0.000) reinforce that this relationship is robust and not due to chance

Both the regression and descriptive analyses indicate that access to financial services does play a role in the growth and expansion of SMEs, but the relationship is far from perfect. While a significant number of SMEs are integrated into the formal banking system, the actual utilization of financial products for growth is hindered by accessibility issues, high borrowing costs, and limited product offerings. The regression model, which explains only 16% of the variance in growth, supports the idea that other factors (such as financial literacy, economic conditions, and policy frameworks) must also be considered when addressing the growth challenges faced by SMEs. In a nutshell, the regression analysis confirms that access to financial services is a key factor in SME growth but is not the sole determinant. The descriptive analysis highlights that while financial services are widely available in terms of basic banking, more tailored financial products, such as loans and insurance, remain largely inaccessible to most SMEs.

H04: Digital financial services do not significantly improve the operational efficiency of SMEs.

Table 11: Relationship between Digital Financial Services and Operational Efficiency of SMEs was Analysed Using Linear Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df 1	df2	Sig. F Change
1	.241 _a	.058	.055	.707	.058	16.734	1	271	.000

a. Predictors: (Constant), Digital Financial Services

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.370	1	8.370	16.734	.000 ^b
	Residual	135.549	271	.500		
	Total	143.919	272			

a. Dependent Variable: Operational Costs; b. Predictors: (Constant), Digital Financial Services

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.257	.298		10.915	.000
	Digital Financial Services	.079	.019	.241	4.091	.000

a. Dependent Variable: Operational Costs

The analysis examines the relationship between Digital Financial Services and Operational Costs through a linear regression model. The model shows that there is a weak positive correlation between these two variables, with an R value of 0.241. This indicates that while Digital Financial Services have an effect on operational costs, the strength of the relationship is relatively low. The R Square value of 0.058 further supports this, showing that only 5.8% of the variation in operational costs can be explained by the use of Digital Financial Services. This suggests that while Digital Financial Services contribute to operational costs, they do not account for a substantial portion of the variation in these costs. The Adjusted R Square value of 0.055 is slightly lower, reflecting a small decrease in explanatory power when accounting for the number of predictors.

The standard error of the estimate is 0.707, which reflects the variability of the data that the model has not been able to explain. While this value is relatively moderate, it indicates that there is still some error in the model's predictions. The Change Statistics reveal that the inclusion of Digital Financial Services in the model explains an additional 5.8% of the variation in operational costs. The F statistic of 16.734 is highly significant, and the corresponding p-value of 0.000 shows that the overall model is statistically significant, confirming that Digital Financial Services do have a measurable impact on operational costs. The ANOVA table also provides insight into the significance of the model. The regression sum of squares is 8.370, which represents the variation explained by the model, while the residual sum of squares (135.549) represents the unexplained

variation. The high F value (16.734) confirms that the model is statistically significant, with a p-value of 0.000 reinforcing this conclusion.

Looking at the coefficients, the constant value of 3.257 represents the expected operational cost when Digital Financial Services have no impact. The coefficient for Digital Financial Services is 0.079, meaning that for each unit increase in the use of Digital Financial Services, operational costs increase by 0.079 units. The standardized coefficient (Beta) of 0.241 suggests a moderate impact of Digital Financial Services on operational costs relative to other factors. The t-value of 4.091 indicates that this relationship is statistically significant, as the value is well above the typical threshold of 2. The p-value of 0.000 further confirms the significance of this coefficient. In conclusion, the results of the analysis confirm that Digital Financial Services have a statistically significant positive relationship with Operational Costs. For each increase in the use of Digital Financial Services, operational costs rise. However, the low R Square value of 0.058 indicates that Digital Financial Services explain only a small proportion of the variability in operational costs, suggesting that other factors not included in the model contribute significantly to operational costs. Despite this, the relationship observed is statistically significant and meaningful.

The descriptive analysis provided offers a detailed examination of the adoption and impact of digital financial tools—such as mobile banking and digital payment systems—on the operational efficiency of SMEs in Southwest Nigeria. These findings can be related to the ANOVA and regression results discussed earlier, which examined the relationship between Digital Financial Services and Operational Costs. Both the descriptive analysis and the regression results converge on the idea that digital financial services are having a significant, but not overwhelming, effect on the operational costs of SMEs in Southwest Nigeria. The high adoption rates of digital payment systems and mobile banking indicate that SMEs are embracing these tools to enhance efficiency,

reduce costs, and improve customer convenience. However, the modest R Square value from the regression model suggests that other factors—such as digital literacy, infrastructure, and financial products tailored to SMEs—also play a crucial role in determining the overall impact on operational costs.

H05: Financial literacy has no significant influence on the financial decision-making of SME owners.

Table 12: Relationship between Financial Literacy and Financial Decision-Making of SME owners was Analysed Using Linear Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.536 ^a	.287	.284	.894	.287	108.990	1	271	.000

a. Predictors: (Constant), Financial Literacy

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	87.163	1	87.163	108.990	.000 ^b
	Residual	216.728	271	.800		
	Total	303.890	272			

a. Dependent Variable: Financial Decisions; b. Predictors: (Constant), Financial Literacy

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.928	.535		-3.605	.000
	Financial Literacy	.319	.031	.536	10.440	.000

a. Dependent Variable: Financial Decisions

The analysis provided examines the relationship between Financial Literacy and Financial Decisions through a linear regression model. The model reveals a moderate positive correlation between the two variables, as indicated by an R value of 0.536. This suggests that Financial Literacy and Financial Decisions are moderately related, meaning that higher financial literacy tends to be associated with better financial decision-making. However, the relationship is not overwhelmingly strong. The R Square value of 0.287 indicates that Financial Literacy explains 28.7% of the variation in Financial Decisions. This shows that financial literacy has a moderate impact on financial decision-making, but other factors are likely influencing decisions as well. The Adjusted R Square value of 0.284 is slightly lower, accounting for the number of predictors, but it still reinforces that a significant portion of financial decision-making is explained by financial literacy. The Std. Error of the Estimate of 0.894 indicates the average deviation between the observed and predicted financial decisions, suggesting a reasonable fit for the model. The Change Statistics further highlight that the inclusion of Financial Literacy as a predictor explains an additional 28.7% of the variance in financial decisions. The F Change value of 108.990 is quite high, and the associated Sig. F Change p-value of 0.000 indicates that the overall model is statistically significant. This confirms that Financial Literacy plays a significant role in shaping financial decisions. The ANOVA table provides additional confirmation of the model's significance.

The Regression Sum of Squares of 87.163 represents the variation explained by the model, while the Residual Sum of Squares of 216.728 reflects the unexplained variation. The F statistic of 108.990 is very large, and the Sig. value of 0.000 further confirms that the model is statistically significant, supporting the idea that Financial Literacy is an important predictor of Financial Decisions. Looking at the Coefficients, the Constant value of -1.928 suggests that if Financial Literacy were zero, financial decisions could be negative, based on the scale used. The unstandardized coefficient for Financial Literacy is 0.319, meaning that for each one-unit increase in Financial Literacy, Financial Decisions are expected to increase by 0.319 units. This indicates that greater financial literacy leads to improved financial decision-making. The Standardized Beta value of 0.536 shows the strength of this effect, suggesting that financial literacy has a moderate impact relative to other factors. The t-value of 10.440 and the p-value of 0.000 indicate that the coefficient for Financial Literacy is statistically significant, confirming that Financial Literacy is a key determinant in financial decision-making. In conclusion, the analysis shows that Financial Literacy significantly impacts Financial Decisions, with a moderate effect. The model explains nearly 29% of the variance in financial decisions, emphasizing the importance of financial literacy in making informed financial choices. However, given that the R Square value is not very high, it is clear that other factors also contribute to financial decision-making. Despite this, the positive and statistically significant relationship between Financial Literacy and Financial Decisions supports the importance of financial education in improving decision-making skills.

The descriptive analysis you provided offers valuable insights into how Financial Literacy impacts the financial decisions of SME owners, particularly in areas such as the adoption of digital tools, participation in financial education programs, and investment behavior. These findings align with the ANOVA and regression results from the previous analysis, which established that Financial

Literacy significantly influences Financial Decisions. The descriptive analysis reinforce the significant role that financial literacy plays in shaping financial decisions among SME owners. The high levels of financial literacy are correlated with positive financial behaviors such as adopting digital tools, participating in financial education, and making informed investment decisions. However, the gap in awareness of specific financial products highlights a challenge that remains in ensuring comprehensive financial decision-making. This indicates a need for improved financial product education and outreach to further enhance the decision-making capabilities of SME owners. The moderate explanatory power of financial literacy in predicting financial decisions ($R^2 = 0.287$) suggests that while financial literacy is an important factor, it must be complemented by better product awareness and access to financial tools to fully support SME growth.

4.3 Discussion of Findings

Exchange Rate Fluctuation on Performance of Small and Medium

The two hypothesized variables used to assess the effect of exchange rate fluctuation on performance of small and medium scale enterprises in Southwest Nigeria revealed statistically significant relations respectively (investment decisions at 0.012 and cash flow management at 0.004). The findings from various studies provide additional insights into the impact of exchange rate fluctuations on SMEs, supporting and expanding the conclusions drawn from the analysis of hypothesis one. A study conducted among selected manufacturing firms in Nigeria found that exchange rate volatility significantly affects profit after tax (PAT), highlighting that adverse fluctuations in exchange rates have a harmful impact on the profitability of manufacturing companies in Nigeria². This finding resonates with the results of hypotheses, where the analysis indicated that exchange rate fluctuations affect SMEs' cost structures. Both studies suggest that

exchange rate movements, while significant, are not the primary drivers of financial outcomes, but rather contribute to increased operational challenges, such as the rising cost of inputs, which ultimately affects profitability. This aligns with the weak positive correlation observed also observed, where exchange rates were found to influence the cost structure of SMEs, but not to a dominant extent. In addition, the study that examined the impact of exchange rate fluctuations on cost-based pricing in SMEs and found that changes in the Naira directly influenced the cost of inputs, prompting SMEs to adjust their pricing strategies to maintain profitability³.

This echoes the descriptive analysis in the questions, where SMEs reported experiencing a high impact on their operational expenses due to exchange rate fluctuations. However, the study also revealed that the counter currency (USD) had little impact on value-based pricing, suggesting that the effect of exchange rate changes is more pronounced in input-based pricing decisions. This highlights that while exchange rates have a significant influence, other market factors, such as consumer perceptions and brand image, also play an important role in pricing decisions, further supporting the conclusion in hypotheses one that exchange rates are just one factor contributing to cost structure variations. Also, the study conducted in Lebanon noted that currency devaluation increases the cost of imports, raises manufacturing costs, and creates inflationary pressures, which decrease the profitability and competitiveness of SMEs⁴. Their findings are consistent with the conclusions in hypotheses, where SMEs were found to experience rising costs due to exchange rate fluctuations. In particular, the study's mention of inflationary pressures and reduced access to capital due to financial uncertainty further aligns with the broader financial challenges SMEs face when adjusting to exchange rate volatility. The analyses in hypotheses one similarly suggested that exchange rates play a role in cost structure changes, but other factors contribute to the overall financial dynamics of SMEs. On the contrary, the study conducted among selected manufacturing

firms quoted on the Nigerian Exchange Group found that exchange rate interruptions have an insignificant adverse effect on the stock market price of the selected companies⁵. This contrasts with the findings in the hypotheses, where exchange rates were shown to significantly affect the cost structure of SMEs, even if the strength of the relationship was weak. While the model in hypotheses highlighted statistically significant relationship, the study suggests that exchange rate fluctuations do not necessarily translate into immediate or significant stock price changes.

The findings from the indepth interview (IDI) align closely with the results of the study investigating the impact of exchange rate fluctuations on the performance of small and medium-scale enterprises (SMEs) in Southwest Nigeria. These insights further expand on the variables assessed in the study, particularly cost structure, investment decisions, and cash flow management, all of which showed statistically significant relationships with exchange rate fluctuations (at 0.002, 0.012, and 0.004 respectively). The IDI revealed that SMEs are directly impacted by fluctuating exchange rates, particularly through increased costs of importing goods and materials, which strains profit margins. Respondents mentioned that the rising cost of inputs due to exchange rate volatility forces companies to adjust their pricing strategies, often resulting in price instability. This supports the study's finding that exchange rate fluctuations significantly affect the cost structure of SMEs. Both studies indicate that while exchange rates contribute to increased operational costs, they are not the sole drivers of financial outcomes. Instead, exchange rates create a series of challenges that affect profitability, particularly by raising the cost of goods and materials. The IDI also highlighted the difficulty in setting consistent pricing strategies, which reflects the challenges described in the study that examined the impact of exchange rate fluctuations on cost-based pricing in SMEs. Changes in exchange rates lead SMEs to adjust their

pricing to maintain profitability, which corresponds with the descriptive feedback from respondents on the unpredictability of prices due to exchange rate instability.

The study found that exchange rate fluctuations influence SMEs' investment decisions, with a statistically significant relationship at 0.012. While this variable was not directly discussed in the IDI, the respondents' concern about the instability of the market and the difficulty in financial planning due to exchange rate unpredictability aligns with the study's findings. The unpredictable nature of exchange rates makes it difficult for SMEs to forecast costs and plan investments accurately. As noted in the discussions, the lack of accurate financial forecasting often results in budget constraints and challenges in maintaining operations. The respondents' suggestion to enhance cash flow management and reduce unnecessary costs can be seen as a strategy to counteract these investment-related challenges. Respondents in the IDI emphasized the importance of having a robust cash flow management strategy to navigate the instability caused by exchange rate fluctuations. This directly correlates with the study's finding that effective cash flow management is essential for SMEs to weather the financial strain imposed by exchange rate volatility. A strong cash management system would allow businesses to maintain liquidity and ensure smooth operations, even during periods of financial uncertainty. This suggestion supports the findings in the hypotheses that exchange rate fluctuations significantly affect cash flow management.

The findings from the IDI offer a real-world perspective that corroborates the conclusions drawn from the analysis of the hypotheses. SMEs in Southwest Nigeria face significant challenges due to exchange rate fluctuations, particularly concerning cost structure, investment decisions, and cash flow management. These challenges are compounded by the unpredictability of exchange rates, which makes financial planning and forecasting difficult. The respondents' suggestions for

improving efficiency, enhancing cash flow management, and focusing on customer satisfaction reflect strategies that can help SMEs mitigate the negative impact of exchange rate fluctuations. Additionally, the study's insights from other countries further expand our understanding of how exchange rate volatility impacts.

Financial Inclusions and Performance of Small and Medium Scale Enterprises in Southwest Nigeria

Furthermore, the three hypothesized variables used to assess the effect of financial inclusions on performance of small and medium scale enterprises in Southwest Nigeria also revealed statistically significant relations respectively (access to financial services at 0.000, digital financial services at 0.000 and financial literacy 0.000). The regression analysis demonstrates a moderate positive relationship between access to financial services and SME growth, explaining 16% of the variation. While this relationship is statistically significant, the low R Square value suggests that other factors, such as economic conditions and financial education, also play a role in SME growth. Empirical studies further support this, with findings showing that digital financial services enhance financial management and broaden financial inclusion, though barriers like infrastructure and low literacy remain⁶. Additionally, a study found that increased access to banking services in Ibadan improved SME performance⁷, a study also demonstrated that access to loans in rural areas boosts entrepreneurship. These findings confirm that while financial access is vital, it needs to be complemented by improved financial literacy and infrastructure for full impact⁸. The analysis of digital financial services shows a weak positive correlation with operational efficiency, explaining only 5.8% of the variation in operational costs. Despite this, digital tools like mobile banking and digital payment systems do contribute to SME efficiency, especially in adaptable environments, though their effectiveness is limited by high transaction fees, infrastructure challenges, and low

digital literacy⁹. The regression results for financial literacy are more robust, with a moderate positive correlation ($R = 0.536$), explaining 28.7% of the variation in financial decision-making. Financially literate SME owners are more likely to adopt digital tools and make informed financial decisions, as supported by empirical studies¹⁰.

The responses from the in-depth interviews (IDI) align closely with the findings from the regression analysis on the impact of financial inclusion on the performance of small and medium-scale enterprises (SMEs) in Southwest Nigeria. The IDI responses highlight several challenges that SMEs face in accessing financial services, which were directly reflected in the statistical findings of the study. One of the key barriers identified in the IDIs was lack of access to credit and financial services, which is supported by the regression analysis showing a statistically significant relationship ($p\text{-value} = 0.000$) between access to financial services and SME growth. The analysis demonstrated a moderate positive relationship between access to financial services and SME growth, explaining 16% of the variation in growth. While this relationship is statistically significant, the relatively low R-square value suggests that other factors, such as economic conditions and financial literacy, also play an important role in influencing SME performance. This highlights the multi-faceted nature of financial inclusion, which is not solely dependent on access to financial resources but also on complementary factors such as financial education and economic stability.

The IDI responses also underscore the importance of financial literacy in overcoming barriers to accessing financial services. Respondents pointed out that the low financial literacy among both management and staff made it difficult for them to leverage available financial tools effectively. This resonates with the study's findings, where financial literacy was found to have a moderate positive correlation ($R = 0.536$), explaining 28.7% of the variation in financial decision-making.

The regression analysis supports this by demonstrating that financially literate SME owners are more likely to adopt digital tools and make informed financial decisions, which ultimately leads to improved business performance. This is consistent with empirical studies that show that enhancing financial literacy among SMEs can significantly improve their financial management and decision-making, leading to better business outcomes.

Digital financial services, although providing opportunities for SME efficiency, were identified in the IDIs as being limited by concerns over cybersecurity, data privacy, and low digital literacy. The study confirmed these challenges, revealing a weak positive correlation (explaining only 5.8% of the variation in operational costs) between digital financial services and operational efficiency. While digital tools like mobile banking and digital payment systems have shown some positive impact on SME efficiency, the effectiveness of these tools is hampered by high transaction fees, infrastructure limitations, and the digital literacy gap. These findings are in line with the IDI responses, where the lack of trust in digital financial platforms and the vulnerability to cyber threats were key concerns for SMEs. Moreover, the study highlights that while digital financial services can enhance financial management and broaden financial inclusion, these services need to be supported by better infrastructure and higher digital literacy to realize their full potential.

The empirical studies referenced in the analysis also strengthen the findings from the IDI responses. One such study highlighted that increased access to banking services in Ibadan led to improved SME performance. Similarly, the IDIs indicated that SMEs faced geographic and institutional barriers that limited their access to financial services, which corroborates the importance of providing more inclusive financial services to support SME growth. Furthermore, the regression analysis demonstrated that access to loans in rural areas positively influences entrepreneurship, which aligns with the IDI findings that the lack of collateral and high interest

rates were major obstacles preventing SMEs from accessing loans, particularly in rural areas. Lastly, the suggestion made in the IDIs regarding the need for sustainable interest rates and efficient credit facilities is mirrored in the study's regression results. While financial access is vital, the study suggests that lowering loan interest rates and offering more sustainable credit facilities could significantly improve the financial inclusion of SMEs and contribute to their growth. By addressing issues such as collateral requirements and providing more affordable financing options, SMEs would be better positioned to invest in their operations and scale their businesses.

Endnotes

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Chapter Five

Conclusions

5.1 Summary of Findings

Demographics and Business Profiles:

- Most SME operators are in the productive age group (25-44 years), with a notable male dominance (65.6%).
- A significant portion holds higher education degrees (48.4% with a first degree), indicating a well-educated workforce.
- The majority of SMEs are micro-enterprises with 1-10 employees, reflecting limited growth and expansion potential.
- Sole proprietorship is the most common ownership structure (79.1%).

Exchange Rate Fluctuations:

- Exchange rate fluctuations significantly affect the cost structure of SMEs, with 96.7% of respondents reporting changes in goods sold due to currency fluctuations.
- The impact is high on operational expenses (86.8% reporting "very high impact") and investment decisions (72.9% indicating "very significant" influence).
- Fluctuations also disrupt cash flow management for 74.4% of SMEs, with many struggling to manage working capital effectively.

Financial Inclusion:

- Access to financial services is critical, with 64.5% of businesses having a bank account, but only 7.7% finding financial products like loans and insurance highly accessible.
- Despite the reliance on external financing (38.1% using credit regularly), there is low accessibility to growth-enabling financial products, limiting SMEs' expansion.

- Digital financial tools, including mobile banking and digital payment systems, are widely adopted by SMEs, contributing to operational efficiency by reducing costs.
- However, challenges in infrastructure, high transaction fees, and limited digital literacy hinder the full potential of these tools.
- Financial literacy plays a vital role in financial decision-making, with 41% rating their literacy as "high."
- Financially literate SME owners are more likely to use digital tools, participate in financial education, and invest in growth opportunities.
- However, there remains a significant gap in awareness of financial products, which could improve decision-making if addressed.

Statistical Analysis and Relationships:

- Regression and correlation analyses indicate that exchange rate fluctuations, access to financial services, digital financial services, and financial literacy significantly impact SMEs, but with varying degrees of influence.
- Exchange rate fluctuations affect cost structures, investment decisions, and cash flow management, though other factors also play roles.
- Financial literacy has a moderate impact on financial decisions, while access to financial services explains 16% of SME growth variability.

5.2 Conclusion

In conclusion, the findings of this study underscore the profound influence of economic and financial factors on the performance of Small and Medium Enterprises (SMEs) in Southwest Nigeria. Exchange rate fluctuations, access to financial services, digital financial tools, and financial literacy all play pivotal roles in shaping the operational efficiency, investment decisions,

and overall growth trajectories of SMEs. However, the challenges identified, such as limited access to affordable credit, digital literacy gaps, and financial product awareness, highlight the need for targeted interventions. While SMEs demonstrate a high degree of resilience, especially in adjusting to exchange rate fluctuations, their capacity to navigate financial volatility is often constrained by insufficient support systems. The study reveals that improving financial literacy, enhancing digital infrastructure, and making financial products more accessible are key to empowering SMEs and driving sustainable growth.

It is clear that SMEs in Southwest Nigeria require more than just access to financial services—they need tailored financial products, capacity-building programs, and favorable economic policies that promote long-term stability and competitiveness. Addressing these needs through comprehensive financial inclusion initiatives and policy reforms can unlock significant potential for SMEs, ultimately contributing to the broader economic development of the region. To effectively support SMEs, it is essential for stakeholders, including policymakers, financial institutions, and development agencies, to focus on creating an enabling environment that addresses both the financial and non-financial barriers limiting SME growth. By fostering a more inclusive and supportive financial ecosystem, SMEs will be better positioned to thrive in an increasingly volatile economic landscape.

5.3 Recommendation(s)

Drawing from the study's findings, the following recommendations are put forward to improve the performance and long-term sustainability of SMEs in Southwest Nigeria:

- i. There is a need for continuous financial literacy programs aimed at SME owners and their employees focusing on improving knowledge of financial management, investment strategies, and digital financial tools.

- ii. This can empower SME owners to make more informed decisions and better manage financial risks. Financial literacy initiatives should also include education on available financial products, such as loans, insurance, and investment opportunities, to increase awareness and facilitate better utilization.
- iii. Financial institutions should expand access to affordable financial products, including loans, savings, and insurance, tailored to the needs of SMEs. This could involve offering lower-interest loans and reducing collateral requirements, particularly for businesses in underserved sectors or regions.
- iv. The government and financial institutions ought to invest in infrastructure that expands internet connectivity and mobile platform accessibility, especially in rural regions, to promote greater digital financial inclusion.
- v. Policies aimed at stabilizing the exchange rate and promoting economic stability should be prioritized by the government, as they would reduce the financial pressures SMEs face, especially those relying on imported goods or materials.
- vi. SMEs should be encouraged to collaborate and form networks that allow for shared resources, reduced costs, and enhanced innovation. This can be facilitated through industry groups, business associations, and government-led initiatives to promote networking opportunities.

5.4 Contribution to Knowledge

The contributions of this study to knowledge on the impact of financial and economic factors on the performance of Small and Medium Enterprises (SMEs) in Southwest Nigeria are as follows:

This study provides a comprehensive empirical analysis of how exchange rate fluctuations influence the cost structure, investment decisions, and cash flow management of SMEs. It fills a

gap in the existing literature by specifically focusing on how these fluctuations affect SMEs in Southwest Nigeria, a region with significant economic activity but limited prior research on this topic. The findings emphasize the high sensitivity of SMEs to exchange rate volatility, particularly in terms of operational expenses and input costs.

The study enhances knowledge of how access to financial services, such as credit and loans, impacts the growth and expansion of SMEs. By demonstrating the limited accessibility of financial products, particularly in rural areas, the study contributes to the understanding of barriers that SMEs face when attempting to scale their businesses. It also highlights the importance of improving financial inclusion to foster growth, emphasizing that access to finance alone is not sufficient without addressing the challenges related to loan accessibility, interest rates, and collateral requirements.

This research contributes to the understanding of the role of digital financial tools (e.g., mobile banking, digital payment systems) in enhancing the operational efficiency of SMEs. While previous studies have focused on large enterprises, this study adds value by examining how small businesses in Southwest Nigeria are leveraging digital tools to streamline operations, reduce costs, and improve customer experiences. It also highlights the barriers that SMEs face in fully utilizing these tools, including digital literacy gaps and infrastructure challenges.

The study adds to the literature on financial literacy by demonstrating its significant influence on the financial decision-making capabilities of SME owners. The findings show that financially literate entrepreneurs are more likely to adopt digital financial tools, engage in sound investment decisions, and effectively manage business finances. This underscores the importance of financial literacy programs, particularly in promoting sustainable business practices and informed decision-making among SMEs.

The study contributes valuable insights into how policy interventions can be tailored to support SMEs. By identifying the challenges faced by SMEs in accessing financial services, managing exchange rate volatility, and utilizing digital tools, it provides a basis for developing targeted policies and financial products aimed at improving SME performance. This research provides valuable insights for policymakers, financial institutions, and development agencies aiming to support the sustainability and growth of SMEs in the region.

The study's findings contribute to the broader discourse on financial inclusion by providing empirical evidence of the positive relationship between access to financial services and SME growth. It emphasizes that financial inclusion, coupled with enhanced financial literacy and access to digital tools, can significantly improve business performance. This knowledge is crucial for further research on the role of financial inclusion in fostering entrepreneurship and economic development in emerging economies.

5.5 Suggested Areas for Further Research

Further research could focus on the impact of targeted financial literacy programs on the financial management practices and growth of SMEs. A longitudinal study could track businesses that have participated in financial literacy training to assess improvements in their decision-making, profitability, and overall performance.

Given the significant influence of exchange rate fluctuations on SMEs, future research should investigate how SMEs manage currency risk through hedging strategies. This study could explore the accessibility of hedging instruments to SMEs and examine how their adoption can mitigate the financial risks associated with exchange rate volatility.

Further research could evaluate the effectiveness of government policies aimed at supporting SME growth, particularly in areas such as access to finance, infrastructure development, and tax

incentives. Understanding how these policies can be optimized will help improve the business environment for SMEs in Southwest Nigeria.

Future research should explore the relationship between digital and financial literacy and the adoption of digital financial tools by SMEs. Investigating how digital literacy influences the successful integration of digital financial services (such as mobile banking and digital payment systems) will help design more effective training programs and promote inclusive financial practices among SMEs.

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Questionnaire

Section A: Demographic Variables

1. Age: Under 25 (), 25-34 (), 35-44 (), 45-54 (), 55-64 (), 65 and above ()
2. Gender: Male (), Female ()
3. Educational Background: Highest level of education completed (),
No formal education (), Primary education (), Secondary education (),
Vocational training () First degree (), Graduate Degree,
Other
4. Work Experience: Less than 1 year (), 1-3 years (), 4-6 years (), 7-10 years (),
More than 10 years ()
5. Number of Employees: 1-10 (), 11-20 (), 21-30 (), 31-40 (), 41-50
6. Years in Operation: Less than 1 year (), 1-3 years (), 4-6 years (), 7-10 years (),
More than 10 years ()
7. Industry Sector: Agriculture (), Manufacturing (), Retail/Wholesale (),
Services (), Information Technology (), Healthcare (), Education ()
8. Business Location: Urban (), Suburban (), Rural ()
9. Ownership Structure: Sole Proprietorship (), Partnership ()
Limited Liability Company (), Corporation (),
Other.....
10. Family Business: Is the business family-owned? Yes (), No ()
11. Business Training and Development (Have you attended any business training or development programs in the past year?): Yes (), No ()

Exchange Rate Fluctuation

Nigeria Exchange Rate Fluctuates Yes (), No ()

The interest rates are on a high side Yes (), No ()

There is higher Inflation in the economy Yes (), No ()

Imports into the country exceed exports Yes (), No ()

Section B: Impact of Exchange Rate Fluctuation

B1. How do changes in exchange rates affect the cost structure of SMEs?

B1i. How often do you experience changes in the cost of goods sold (COGS) due to exchange rate fluctuations? Never [] Rarely [] Sometimes [] Often [] Always []

B1ii. To what extent do exchange rate changes impact your operational expenses? No impact []

Low impact [] Moderate impact [] High impact [] Very high impact []

B1iii. Have you had to adjust your input costs due to changes in exchange rates?

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly Agree []

B2. What is the relationship between exchange rate fluctuation and the investment decisions of SMEs?

B2i. How significantly do exchange rate fluctuations influence your capital expenditure decisions?

Not at all [] Slightly [] Moderately [] Significantly [] Very Significantly []

B2ii. Do you consider exchange rate forecasts when planning for new technology investments?

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly Agree []

B2iii. Have exchange rate changes affected your expansion plans? Strongly disagree []

Disagree [] Neutral [] Agree [] Strongly Agree []

B3: What impact do Exchange Rate Fluctuation have on the cash flow management of SMEs?

B3i. How often do exchange rate changes cause variability in your cash flow? Never [☐]

Rarely [☐] Sometimes [☐] Often [☐] Always [☐]

B3ii. How do you rate the impact of exchange rate volatility on your liquidity ratios?

No impact [☐] Low impact [☐] Moderate impact [☐] High impact [☐]

Very high impact [☐]

B3iii. How effectively do you manage working capital in response to exchange rate fluctuation?

Very ineffectively [☐] Ineffectively [☐] Neutral [☐] Effectively [☐]

Very effectively [☐]

Section C: Financial Inclusion

C1. How does access to financial services impact the growth and expansion of SMEs?

C1i. Does your business have a bank account? Strongly disagree [☐] Disagree [☐] Neutral [☐]

Agree [☐] Strongly Agree [☐]

C1ii. How often do you use credit facilities to finance your business growth? Never [☐]

Rarely [☐] Sometimes [☐] Often [☐] Always [☐]

C1iii. How accessible are financial products like loans, savings, and insurance to your business?

Not accessible [☐] Slightly accessible [☐] Moderately accessible [☐]

Highly accessible [☐] Very highly accessible [☐]

C1iv. How do you rate the impact of access to financial services on your business growth rate?

No impact [☐] Low impact [☐] Moderate impact [☐] High impact [☐]

Very high impact [☐]

C2. What is the effect of digital financial services on the operational efficiency of SMEs?

C2i. Does your business use mobile banking? Strongly disagree [] Disagree [] Neutral []

Agree [] Strongly Agree []

C2ii. Have you adopted digital payment systems in your business operations?

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly Agree []

C2iii. How accessible are online financial services to your business? Not Accessible []

Slightly Accessible [] Moderately Accessible [] Highly Accessible []

Very Highly Accessible []

C2iv. How has the use of digital financial services affected your operational costs? No impact []

Low impact [] Moderate impact [] High impact [] Very high impact []

C3. How does financial literacy influence the financial decision-making of SME owners?

C3i. How would you rate your level of financial literacy? Very low [] Low [] Moderate []

High [] Very high []

C3ii. Have you participated in any financial education programs? Strongly disagree []

Disagree [] Neutral [] Agree [] Strongly Agree []

C3iii. How aware are you of the financial products available to your business? Not Aware []

Slightly Aware [] Moderately Aware [] Highly Aware [] Very Highly Aware []

How do you rate the quality of your financial decisions? Very poor [] Poor [] Fair []

Good [] Excellent []

How often do you invest in growth opportunities based on financial literacy? Never []

Rarely [] Sometimes [] Often [] Always []

Qualitative (Open Ended Questions)

1. Please describe any specific challenges your company has faced due to exchange rate fluctuations.
2. What additional measures do you believe could help your company better manage the impact of exchange rate fluctuations?
3. Please describe any specific challenges your company has faced in accessing financial services.
4. What additional measures do you believe could help improve financial inclusion for your company?

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