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Research Article

Effect of Sources of Financing on Financial Performance of Small and Medium Scale Enterprises in Maiduguri Metropolis

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Abstract

Small and medium-sized enterprises (SMEs) play a crucial role in the economic development of many countries, including Nigeria. However, one of the significant challenges faced by SMEs is access to adequate financing. The purpose of this study was to examine the effect of different sources of financing on the financial performance of SMEs in Maiduguri Metropolis, Borno State, Nigeria. A descriptive survey research design was employed for this study, and data were collected from 400 SME owners/managers using structured questionnaires. The research instrument was validated and found to be reliable. Data analysis was conducted using descriptive statistics and inferential statistics (Analysis of Variance - ANOVA). The findings of the study revealed that bank loan financing had a statistically significant effect on the financial performance of SMEs in Maiduguri Metropolis. Informal financing sources also had a statistically significant effect on SME financial performance, while retained earnings financing had a significant effect on financial performance. However, government fund financing did not show a significant effect on the financial performance of SMEs. Based on the findings, it was recommended that financial institutions should reconsider their interest rate policies and streamline loan application processes. Also, SME owners are advised to reinvest a portion of their profits for future growth rather than using all earnings for personal expenses.

Keywords

Bank Loan, Financial Performance, Retained Earnings, Small and Medium-sized Enterprises, Sources of Financing

1. Introduction

Small and medium-sized enterprises (SMEs) are businesses with an asset base, excluding land, ranging from 5 million to 500 million and employing between 11 and 300 workers. They are widely recognized as key contributors to the economic development of many nations. Consequently, governments across the globe place significant emphasis on strengthening the SME sector as a means of fostering economic growth. In Nigeria like in other countries, SMEs are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic growth [31]. Financing is an important tool for SME growth and it is required throughout the firm's lifecycle. The sources of funds have been highlighted as a central point in the im-

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provement, development and accomplishment of SMEs [32]. However, SMEs usually face obstacles to rise the funding they required for their smooth operations; they consistently report higher financing hindrances than large enterprises [7].

Contemporary discourse reflects a growing consensus that improved access to diverse financial resources significantly enhances the performance of small and medium-sized enterprises (SMEs), thereby contributing not only to firm-level growth but also to broader socioeconomic advancement within the national economy. Hence, access to different sources of finance is one of the major factors that encourage SMEs business activities in any economy [39]. Commercial bank loan is the most widely recognized external source of finance for some SMEs, which are intensely dependent on conventional debt to satisfy their start-up and investment needs.

Financial performance is an indication of the financial well-being of a firm for a given period of time, usually one year. It is used to compare firms in the same line of operations or to compare industries or sectors in total to enable a business plan on how they can improve the conditions at stake with the aim to achieve business objectives [10]. There are two main sources of finance for SMEs which includes internal and external sources. The internal sources include retained earnings, owner's savings, while, the external sources of finance are commercial bank loan, trade credit, leasing and venture capital. The available evidence show that each source of finance has a cost and the cost of financing has far reached effect of SMEs performance.

Over the years, the performance of Nigerian SMEs has been dismaying. Most of the SMEs in Nigeria were closed down due to inability to operate profitably [22]. Finance is the life-blood of any business enterprise and no enterprise, no matter how well managed, can survive without enough funds for working capital, fixed assets investment, employment of skilled employees and development of markets and new products [3]. Therefore, access to different sources of finance is essential to the survival and performance of any business enterprise. Financing options utilized by SMEs vary from initial internal sources, for example, owner–manager's personal savings and retained earnings, to informal external sources, comprising monetary help from family and companions, trade credit and venture capital, and to formal external sources represented by commercial bank loan [1]. Trade credit is dynamic and it is one of the most important alternatives to bank loans as a source of external funding in the SME sector. Several studies have shown that trade credit provides a safety value for firms facing idiosyncratic liquidity shocks [11]. Likewise, retained earnings serve as a crucial source of internal financing for small and medium-sized enterprises (SMEs). The savings accumulated internally in the form of retained earnings are reinvested into the enterprise to support business diversification. By retaining profits, SMEs are able to reduce their reliance on external funding to meet routine operational needs. For SMEs to achieve growth, development, and expansion, retained earnings must be strategically utilized for the acquisition of income-generating assets. Additionally, leasing is recognized as an essential financing mechanism for SMEs, enabling them to cover a substantial portion of asset costs without the requirement of additional collateral. Unlike conventional loans, leasing arrangements provide the enterprise with direct access to the asset rather than a cash disbursement from the financing institution. Government support for this financing tool may assist to minimize the market weaknesses and to expand the SMEs access to finance [10].

2. Statement of Problem

SMEs are an important vehicle for economic growth. However, SMEs are confronted with the problem of inadequate financing. The available literature indicates that there are different sources of financing open to SMEs. However, each source of financing has an associated cost and the cost may have far reaching effect on financial performance of the business. In Nigeria, there is limited empirical evidence on the effect of SMEs sources of financing on their financial performance. Related studies carried out in Nigeria are the works of [18, 6, 26], Other such studies include but not limited to [8, 12, 24, 40, 4, 17]. But these studies were focused on Lagos, South-Western States of Nigeria, Delta State of Nigeria, which creates a gap in terms of the study area as there is little or no prior study in Nigeria has focused on Borno State of Nigeria, particularly Maiduguri Metropolis. Furthermore, based on the extent literature reviewed, there is scarcity of studies in Nigeria has comprehensively investigated the effect of bank loans, informal financing, retained earnings and government funds on the financial performance of SMEs. There is therefore a gap in terms of variables construct which is filled by this study. Therefore, this study examines the effect of sources of financing on the financial performance of SMEs in Maiduguri Metropolis of Borno State, Nigeria.

3. Objective of the Study

The main aim of the study was to examine the effect of sources of financing on the financial performance of SMEs in Maiduguri Metropolis. However, the specific objectives are to:

1) determine the effect of bank loan financing on financial performance of SMEs in Maiduguri metropolis.
2) assess the effect of informal financing sources on financial performance of SMEs in Maiduguri metropolis.
3) examine the effect of retained earnings on financial performance of SMEs in Maiduguri metropolis.
4) assess the effect of government funds financing on financial performance of SMEs in Maiduguri metropolis.

4. Literature Review

This section reviews concepts that are related to the study and empirically reviewed relevant extant literatures.

5. Concept of Small Medium Enterprises

There is no consensus on the definition of small and medium enterprises throughout the world due to differences in general economic development and the prevailing social conditions within each country [34]. Thus, different countries classify businesses as small and medium-sized enterprises (SMEs) using various criteria, which may include the number of employees, amount of invested capital, value of assets utilized, sales volume, production capacity, and the relative contribution of these factors. [13] defined a small and medium enterprises as an enterprise with a total capital employed of over 1.5m but not more than 50 million, including working capital but excluding cost of land and or a labour size of 11-10 workers. This reflects the nature of small businesses. Nevertheless, most small and medium-sized enterprises (SMEs) in Nigeria may be unable to attain a capital base of ₦1.5 million, largely due to the low per capita income of the population.

6. Sources of Financing

Sources of financing refer to the various methods and channels that businesses can access to raise the capital needed to support their operations and grow their businesses. These sources can include bank loans, bonds, equity financing, venture capital, angel investment, and government grants, among others. Each source of financing has its own advantages and disadvantages, and businesses must carefully consider the terms and conditions associated with each before making a decision. For example, bank loans are a common source of financing for businesses, but they may require the provision of collateral and may come with strict repayment terms. On the other hand, equity financing, such as issuing stocks, allows businesses to raise capital without incurring debt, but it also involves diluting ownership and control of the company. Sources of financing can be broadly classified into two categories: formal and informal sources [2].

Formal sources of financing include traditional options such as bank loans, bonds, and equity financing. Bank loans are a common source of financing for businesses, and they can be used to fund a variety of needs, such as working capital, machinery and equipment purchases, and real estate development. Bonds are another option for businesses looking to raise capital, and they allow companies to borrow funds from investors in exchange for periodic interest payments and the return of the principal at maturity. Equity financing, such as issuing stocks, allows businesses to raise capital without incurring debt, but it also involves diluting ownership and control of the company [23].

Informal sources of financing include venture capital, angel investment, and government grants, among others. Venture capital is a type of financing that is provided by investment firms or wealthy individuals, who invest in young, high-growth companies in exchange for an ownership stake in the company. Angel investment is a similar concept, but it involves individual investors rather than investment firms. Government grants are another option for businesses, and they provide funding for specific projects or initiatives that support economic growth and job creation.

7. Financial Performance

Financial performance refers to the measurement of the financial health and success of an organization. It is an evaluation of the company's revenue, expenses, and profitability. According to [5], financial performance is "a reflection of a company's financial viability, determining whether its revenue is sufficient to meet its expenses and attain its objectives." [25] also define financial performance as "the ability of a company to generate sufficient revenue to meet its expenses and attain its objectives." [33] describe financial performance as "the evaluation of a company's revenue, expenses, and profitability, which determine its financial viability and success." It can therefore be generalized that financial performance is the measurement of a company's ability to generate revenue, control expenses, and attain profitability, which determines its financial viability and success. Financial performance is a crucial element in evaluating the success of Small and Medium Enterprises (SMEs) in Nigeria. Metrics used to gauge financial performance include revenue growth, profitability, and return on investment.

8. Empirical Review

Oluwarotimi, O. et. al. [29] examined the role of deposit money bank financing on SMEs in relation to social performance, economic performance, and overall economic growth in Nigeria between 1992 and 2015]. Employing Pearson correlation and Ordinary Least Squares (OLS) techniques, the study revealed a significant negative relationship among the variables.

Similarly, [9] investigated bank lending and its influence on Nigerian economic growth from 1992 to 2015. The study employed the Ordinary Least Squares (OLS) technique, with GDP as the dependent variable and bank lending to small businesses, money supply, private sector credit, and interest rate as the independent variables. The results indicated that the relationship between the dependent and independent variables was statistically insignificant.

Likewise, [27] examined deposit money banks' lending and the growth of small businesses in Nigeria. In the study, the output of small and medium-sized enterprises (SMEs) was adopted as the dependent variable, while commercial bank credit, lending rate, exchange rate, inflation rate, and bank density served as the independent variables. The regression analysis revealed that deposit money bank credit exhibited an insignificant relationship with the growth of small businesses. Consequently, bank credit to SMEs, aggregate government expenditure, and bank density were found to exert a direct, though statistically insignificant, effect on small business output.

In the same vein, [15] examined the impact of credit availability from banks to small businesses in Nigeria. In this study, Real Gross Domestic Product (RGDP) was employed as the dependent variable, while small and medium-sized enterprise activities, deposit money bank credit, exchange rate, and lending rate were considered as the independent variables. The results demonstrated that deposit money bank credit to SMEs exerts a significant positive influence on Nigeria's economic growth.

Further, [14] investigated the relationship between SME financing and the growth of Nigeria's industrial sector over the period 1981–2014. The analysis incorporated credit to SMEs, manufacturing output, inflation, and exchange rate as variables. The findings revealed that SME financing had a positive impact on manufacturing growth, whereas interest rates and inflation exerted negative effects on the sector.

Similarly, [16] researched the association between small businesses and Nigerian growth (1975 to 2012). In this study, GDP was adopted as the dependent variable, while access to finance for SMEs, inflation, and interest rate were employed as the independent variables. The Ordinary Least Squares (OLS) analysis revealed that financial availability to SMEs exhibited a positive and significant relationship with GDP. Conversely, inflation had a positive effect, whereas interest rate demonstrated a negative effect on GDP.

In the same vein, [30] examined the impact of SMEs' financing on Nigeria's economic growth and found that SMEs have a significantly higher impact on growth than such variables as a loan to the private sector, capital formation, and money supply in the model.

More so, [20] assessed the effect of business finances on SMEs' performance in Kenya. The descriptive statistics result clearly showed that business financing, deposit money bank loan financing, retained earnings financing, and trade credit finances significantly influenced SMEs' financial performance.

9. Methodology

The researchers used a descriptive survey research design technique to establish the association between financing options and financial performance of small and medium enterprises. According to [38], a descriptive survey research design is actually affordable and also enables one to obtain great amount of information, allow for standardized details, for ease of comparison and analysis.

The population of this study consists of the entire number of SMEs within Maiduguri Metropolis. However, this cannot be deduced as the exact number of SMEs in the metropolis were not recorded by government officials. Therefore, the study has simply taken a reasonable number of SMEs. The sample size of this study was taken to be 400 SMEs owners/managers. The study sample was selected randomly from the population of SMEs within the Metropolis.

The study used majorly primary source to generate the data needed. The data was collected through administration of questionnaires which were specific to the research objectives. The questionnaire was the instrument used to collect data for this study. A structured closed-ended questionnaire was designed for the study with 6 sections. Section A contains questions to collect demographic data, Section B comprises questions to assess bank loan financing, Section C has questions on informal financing, Section D contains questions to assess retained earnings financing and Section E contains questions pertaining to government funds financing. Finally, Section F contains questions assessing the financial performance of the SMEs. The administration of the questionnaire was conducted through the drop-and-pick-later approach. The questionnaires were administered to the target respondents and collected after five working days to provide respondents enough time to respond to all of the questions therein.

10. Validity and Reliability of the Instrument

The questionnaire was be validated by the project supervisor and some lecturers in the Department of Accounting, Borno State University, Maiduguri. The reliability of the research instrument was tested through test-re-test method. In this method the instruments was used to take separate measurement on a selected number of SMEs at different times. The Kudder-Richardson formular was used to determine the internal consistency of the instrument.

11. Data Presentation and Analysis

The Data Collected was Analyzed Using Descriptive Analysis (Percentages, Standard Deviation, Means), While Inferential Statistics (Analysis of Variance - ANOVA) was Used to Test the Research Hypotheses.

The data is presented in tables that follow a coherent pattern of questions, while mean and standard deviation are utilized in the presentation and analysis of the data.

12. Analysis of Questionnaire Response Rate

Table 1 Presents data on the questionnaire administered and returned.

Table 1. *Questionnaire Administration.*

	Frequency	Percentage
Administered	400	100
Returned	387	96.8
Unreturned	13	3.2

Source: Field Survey, 2024

The study administered a total of four hundred (400) questionnaires out of which three hundred and eighty-seven (387) were collected from the sampled respondents. This constituted a response rate of 96.8% while the missing and unreturned questionnaire were about 3.2%. The rate of return is greater than the minimum mark specified by [35], who opined that a response rate of 35% - 40% is appropriate for studies conducted at the organizational level and 50% for studies that are conducted at the individual level using survey design. Based on this, the response rate is considered to be good for analysis.

13. Analysis of Respondents Demographic Information

This study focused on demographic variables such as gender, age, and educational background. The frequency distribution and percentage representation of the respondents' details are presented in Table 2.

Table 2. *Demographic Information of the Respondents.*

S/N	Description	Frequency	Percentage (%)
Gender of the respondents			
1	Male	207	53.5
2	Female	180	46.5
	Total	387	100.0
Age of the respondents			
1	Under 20 years	71	18.3
2	20 - 30 years	79	20.4
3	31 - 40 years	93	24.0
4	41 - 50 years	79	20.4
5	More than 50 years	65	16.8
	Total	387	100.0
Educational background			
1	FSLC	161	41.6
2	SSCE	101	26.1
3	Diploma/ Degree	97	25.1
4	M.Sc/Ph.D	8	2.1
5	Others	20	5.1
	Total	387	100.0

Source: Computed using SPSS 24 from field survey data 2024

Table 2 above provides the demographic information of the respondents. In terms of gender. Table 2 shows that 207 respondents accounting for 53.5% were male, while 180 accounting for 46.5% were female. This indicates a relatively balanced representation of both genders in the study. Having almost equal proportions of male and female respondents is crucial for ensuring a more comprehensive understanding of the impact of financing sources on the financial performance of SMEs. It suggests that the study's findings are likely to be applicable to both male and female entrepreneurs in Maiduguri metropolis.

Regarding the age distribution of the respondents, Table 2 shows that the largest age group was those aged between 31 and 40 years, with 93 respondents, representing 24% of the total respondents. The second largest group consisted of respondents aged 20 to 30 years, with 79 respondents accounting for 20.4%. The remaining three age groups under 20 years, 41 to 50 years, and above 50 years had frequencies of 71, 79, and 65 accounting for 18.3%, 20.4% and 16.8% respectively. These findings indicate that the study encompasses a diverse range of age groups, thereby, providing a more comprehensive perspective on the impact of financing sources across different stages of entrepreneurship. The relatively high representation of respondents between 31 and 40 years old suggests that individuals in the prime of their age are actively involved in SMEs in Maiduguri metropolis. Additionally, the presence of respondents from various age groups allows for a comparison of experiences and challenges faced by entrepreneurs at different life stages.

In terms of educational background, the study highlights that the respondents had diverse levels of education. The majority of the participants, with a frequency of 161 (41.6%), had completed their education up to the First School Leaving Certificate (FSLC) level. This suggests that a considerable portion of the SME owners in Maiduguri may not have pursued higher education beyond primary school. However, it is important to note that 97 respondents (25.1%) possessed a diploma or a degree, indicating a significant proportion of individuals with formal education in the sample. Moreover, a small percentage of respondents, 8 (2.1%) held M.Sc/Ph.D. degrees, while 20 (5.1%) fell into the "Others" category.

14. Descriptive Statistics

The Tables 3 to 6 presents the descriptive statistics of the responses generated with respect to each of the research question of the study while Table 7 is on financial performance of SMEs.

Table 3. *Bank Loan Financing for SMEs.*

S/N	Item	$(\bar{x})$	SD	Decision
1	Obtaining a bank loan is a viable option for financing my SME.	2.25	1.435	
2	The interest rates offered by banks for SME loans are reasonable.	2.84	1.456	
3	Banks in Maiduguri Metropolis offer flexible repayment options for SME loans.	3.05	1.451	
4	I believe that banks in Maiduguri Metropolis prioritize providing financial support to SMEs.	3.08	1.466	
5	Banks in Maiduguri Metropolis provide adequate loan amounts to meet the financing needs of SMEs.	3.94	1.396	
	Overall Mean	3.03		Accept

Source: Field Survey, 2024
Note: Acceptance ($\bar{x}$ is 3 and above); Rejection ($\bar{x}$ is less than 3)

Table 3 presents the results of the analysis on bank loan financing and small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The table includes five items related to the respondents' perceptions of bank loans as a financing option for their SMEs. The first item examines whether obtaining a bank loan is considered a viable option for financing SMEs in Maiduguri. The mean score for this item is 2.25, which is less than 3.00 threshold, indicating a relatively low agreement among the respondents. The standard deviation of 1.435 suggests a non-significant variation in the responses. Based on the decision criterion, which states that a mean score less than 3.00 signifies rejection, it can be inferred that respondents, on average, do not perceive obtaining a bank loan as a viable financing option for SMEs in Maiduguri.

The second item explores the respondents' perception of the interest rates offered by banks for SME loans. The mean score for this item is 2.84, which indicates a moderate level of agreement but still falls below the acceptance threshold. The standard deviation of 1.456 suggests little variability in the responses. The result suggests that, on average, the respondents do not find the interest rates offered by banks for SME loans to be reasonable. This finding implies that the interest rates may be perceived as high or unfavorable, potentially affecting the attractiveness of bank loans as a financing option for SMEs in Maiduguri.

The third item assesses whether banks in Maiduguri Metropolis offer flexible repayment options for SME loans. The mean score for this item is 3.05, which is above the acceptance threshold of 3.00. The standard deviation of 1.451 indicates no serious variability in the responses. The result suggests that, on average, the respondents agree that banks in Maiduguri provide flexible repayment options for SME loans. This finding indicates that the banks are perceived to accommodate the repayment needs of SMEs, potentially enhancing the feasibility and suitability of bank loan financing.

The fourth item examines the respondents' belief regarding the prioritization of financial support to SMEs by banks in Maiduguri Metropolis. The mean score for this item is 3.08, which is slightly above the acceptance threshold. The standard deviation of 1.466 suggests no considerable variation in the responses. The finding implies that, on average, the respondents hold a moderately positive belief that banks prioritize providing financial support to SMEs. This perception indicates that the banks in Maiduguri are seen as actively supporting SMEs, which can contribute to fostering a conducive business environment.

The fifth item investigates whether banks in Maiduguri Metropolis provide adequate loan amounts to meet the financing needs of SMEs. The mean score for this item is 3.94, which is above the acceptance threshold of 3.00. The standard deviation of 1.396 suggests little variability in the responses. The finding suggests that, on average, the respondents agree that banks in Maiduguri provide sufficient loan amounts to meet the financing needs of SMEs. This perception indicates that the banks are perceived as playing a crucial role in addressing the financial requirements of SMEs in the region.

The overall mean value of 3.03 is an indication that bank loan is an important financing option for SMEs in Maiduguri metropolis. Thus, examining its effect on financial performance of SMEs in proper.

Table 4. *Informal Financing for SMEs in Maiduguri Metropolis.*

S/N	Item	($\bar{x}$)	SD	Decision
1	Informal financing sources, such as family and friends, are readily accessible for SMEs in Maiduguri Metropolis.	3.01	1.400	
2	Informal financing sources offer competitive interest rates for SMEs in Maiduguri Metropolis.	3.97	1.357	
3	Informal financing sources are more understanding and accommodating of SMEs' challenges compared to formal institutions.	3.02	1.444	
4	Informal financing sources understand the specific needs and constraints of SMEs in Maiduguri Metropolis.	4.01	1.432	
5	Utilizing informal financing sources is a viable long-term strategy for SMEs.	3.09	1.397	
	Overall Mean	3.42		Accept

Source: Field Survey, 2024
Note: Acceptance ($\bar{x}$ is 3 and above); Rejection ($\bar{x}$ is less than 3)

Table 4 presents the results of the analysis on informal financing for small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The first item examines the accessibility of informal financing sources, such as family and friends, for SMEs in Maiduguri Metropolis. The mean score for this item is 3.01 which is above the acceptance threshold of 3.00 The standard deviation of 1.400 indicates no serious variability in the responses. The result suggests that, on average, the respondents perceive informal financing sources to be readily accessible for SMEs in the region. This finding indicates that SME owners have relatively easy access to financial support from their personal networks, which can be beneficial for their businesses.

The second item explores the respondents' perception of the competitive interest rates offered by informal financing sources for SMEs in Maiduguri Metropolis. The mean score for this item is 3.97 which is significantly above the acceptance threshold of 3.00. The standard deviation of 1.357 suggests little variability in the responses. The finding indicates that, on average, the respondents believe that informal financing sources offer competitive interest rates for SMEs. This perception suggests that SME owners perceive informal sources as providing financing options with favorable terms compared to formal financial institutions.

The third item assesses whether informal financing sources are more understanding and accommodating of SMEs' challenges compared to formal institutions. The mean score for this item is 3.02, which is slightly above the acceptance threshold of 3.00. The standard deviation of 1.444 indicates so serious variation in the responses. The finding implies that, on average, the respondents agree that informal financing sources are more understanding and accommodating of the challenges faced by SMEs. This perception suggests that SME owners perceive informal sources as being more flexible and responsive to their specific needs and circumstances.

The fourth item examines the respondents' perception regarding the understanding of the specific needs and constraints of SMEs by informal financing sources in Maiduguri Metropolis. The mean score for this item is 4.01, which is significantly above the acceptance threshold of 3.00. The standard deviation of 1.432 suggests little variability in the responses. The finding indicates that, on average, the respondents strongly believe that informal financing sources understand the specific needs and constraints of SMEs. This perception suggests that SME owners view informal sources as being well-attuned to their unique requirements and challenges, potentially leading to more tailored financing solutions.

The fifth item investigates the respondents' opinion in utilizing informal financing sources as a viable long-term strategy for their SMEs. The mean score for this item is 3.09 which is above the acceptance threshold of 3.00. The standard deviation of 1.397 indicates no serious variability in the responses. The finding implies that, on average, the respondents hold a moderately positive belief that utilizing informal financing sources is a viable long-term strategy for their SMEs. This perception suggests that SME owners see the benefits of relying on informal sources for sustained financial support in the long run.

The overall mean value of 3.42 is an indication that Informal Financing is an important financing option for SMEs in Maiduguri metropolis. Thus, examining its effect on financial performance of SMEs in proper.

Table 5. Retained Earnings financing for SMEs in Maiduguri Metropolis.

S/N	Item	$(\bar{x})$	SD	Decision
1	Retained earnings provide a sense of financial stability and independence for my SME.	3.09	1.521	
2	I actively prioritize reinvesting a portion of my SME's earnings for future growth.	3.11	1.443	
3	Retained earnings offer a reliable source of funding during periods of economic uncertainty.	3.01	1.371	
4	Retained earnings financing allows my SME to avoid excessive debt obligations.	3.97	1.437	
5	Utilizing retained earnings is a sustainable approach for SME's long-term growth.	4.05	1.396	
	Overall Mean	3.44		Accept

Source: Field Survey, 2024

Note: Acceptance ($\bar{x}$ is 3 and above); Rejection ($\bar{x}$ is less than 3)

Table 5 presents the results of the analysis on retained earnings financing for small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The first item examines the perception that retained earnings provide a sense of financial stability and independence for SMEs. The mean score for this item is 3.09 which is above the acceptance threshold of 3.00. The standard deviation of 1.521 indicates little variability in the responses. The result suggests that, on average, the respondents believe that utilizing retained earnings contributes to financial stability and independence for their SMEs. This perception indicates that retaining and reinvesting profits is seen as a positive financial strategy by SME owners in Maiduguri.

The second item explores the extent to which SME owners prioritize reinvesting a portion of their earnings for future growth. The mean score for this item is 3.11 which is slightly above the acceptance threshold of 3.00. The standard deviation of 1.443 suggests some variability in the responses. The finding suggests that, on average, SME owners actively prioritize reinvesting a portion of their earnings for future growth. This perception highlights the importance of reinvestment in sustaining and expanding the business operations of SMEs in Maiduguri.

The third item assesses whether retained earnings offer a reliable source of funding during periods of economic uncertainty. The mean score for this item is 3.01 which is above the acceptance threshold of 3.00. The standard deviation of 1.371 indicates some variability in the responses. The result suggests that, on average, the respondents perceive retained earnings as a reliable source of funding during periods of economic uncertainty. This perception implies that SME owners value the availability of internal funds to sustain their operations and mitigate the potential risks associated with external financing.

The fourth item examines the respondents view that retained earnings financing allows SMEs to avoid excessive debt obligations. The mean score for this item is 3.97 is significantly above the acceptance threshold of 3.00. The standard deviation of 1.437 suggests some variability in the responses. The finding indicates that, on average, SME owners strongly believe that utilizing retained earnings as a financing source enables them to avoid excessive debt obligations. This perception highlights the preference for self-financing and the desire to maintain a healthy financial position within their businesses.

The fifth item investigates the respondents' perception regarding utilizing retained earnings as a sustainable approach for the long-term growth of SMEs. The mean score for this item is 4.05 which is significantly above the acceptance threshold of 3.00. The standard deviation of 1.396 suggests some level of variability in the responses. The finding suggests that, on average, the respondents strongly believe that utilizing retained earnings is a sustainable approach for the long-term growth of their SMEs. This perception indicates the recognition of the importance of internally generated funds in supporting ongoing growth and development.

The overall mean value of 3.44 is an indication that Retained Earning is an important financing option for SMEs in Maiduguri metropolis. Thus, examining its effect on financial performance of SMEs in proper.

Table 6. *Government funds financing for SMEs in Maiduguri Metropolis.*

S/N	Item	($\bar{x}$)	SD	Decision
1	Government funds dedicated to SME financing in Maiduguri Metropolis are easily accessible.	1.07	1.422	
2	Awareness of government programs and initiatives for SME financing in Maiduguri Metropolis.	2.75	1.379	
3	Government funds provide favourable terms and conditions for SMEs in Maiduguri Metropolis.	3.75	1.357	
4	Government-funded financing programs offer sufficient financial support to meet the needs of SMEs.	2.60	1.422	
5	Government funds financing is essential for overcoming financial barriers faced by SMEs in Maiduguri Metropolis.	3.91	1.432	
	Overall Mean	2.82		Reject

Source: Field Survey, 2024
Note: Acceptance ($\bar{x}$ is 3 and above); Rejection ($\bar{x}$ is less than 3)

Table 6 presents the results of the analysis on government funds financing for small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The first item examines the perception of the respondents on the accessibility of government funds dedicated to SME financing in Maiduguri Metropolis. The mean score for the first item is 1.07 which is significantly below the acceptance threshold of 3.00. The standard deviation of 1.422 indicates little variability in the responses. The result suggests that, on average, the respondents perceive government funds for SME financing as not being easily accessible. This finding indicates that SME owners in Maiduguri face challenges in accessing government support programs and initiatives. The second item explores the awareness of the available government programs and initiatives for SME financing in Maiduguri Metropolis. The mean score for this item is 2.75, which is below the acceptance threshold of 3.00. The standard deviation of 1.379 suggests some variability in the responses. The finding suggests that, on average, the respondents have limited awareness of the government programs and initiatives for SME financing. This lack of awareness may hinder SME owners from benefiting from the financial support offered by the government.

The third item assesses whether government funds provide favorable terms and conditions for SMEs in Maiduguri Metropolis. The mean score for this item is 3.75 and is significantly above the acceptance threshold of 3.00. The standard deviation of 1.357 indicates some variability in the responses. The finding indicates that, on average, the respondents perceive government funds as offering favorable terms and conditions for SMEs. This perception suggests that SME owners view government funding as a potentially attractive financing option with beneficial terms compared to other sources.

The fourth item examines the respondents view regarding whether government-funded financing programs offer sufficient financial support to meet the needs of SMEs. The mean score for this item is 2.60 which is below the acceptance threshold of 3.00. The standard deviation of 1.422 suggests some variability in the responses. The finding suggests that, on average, the respondents do not believe that government-funded financing programs offer sufficient financial support to meet the needs of SMEs. This perception implies that

SME owners perceive a gap between the financial support provided by the government and their actual financing requirements.

The fifth item investigates the respondent's opinion that government funds financing is essential for overcoming financial barriers faced by SMEs in Maiduguri Metropolis. The mean score for this item is 3.91 which is significantly above the acceptance threshold of 3.00. The standard deviation of 1.432 suggests some variability in the responses. The finding suggests that, on average, the respondents strongly believe that government funds financing is essential for overcoming financial barriers faced by SMEs. This perception highlights the recognition of the role that government support can play in addressing the financial challenges encountered by SMEs. The overall mean value of 2.82 is an indication that Government funds is not an important financing option for SMEs in Maiduguri metropolis.

Table 6 reveals several insights into the perceptions of SME owners regarding government funds financing in Maiduguri Metropolis. The findings indicate that, on average, SME owners perceive government funds as not easily accessible and have limited awareness of available government programs and initiatives for SME financing. However, they view government funds as offering favorable terms and conditions and recognize the importance of government support in overcoming financial barriers. These perceptions suggest that there is a need for increased awareness and improved accessibility of government funding programs for SMEs in Maiduguri. Policymakers and relevant stakeholders can utilize these insights to design more effective and targeted support mechanisms to meet the financial needs of SMEs in the region.

Table 7. *Financial Performance of SMEs in Maiduguri Metropolis.*

S/N	Item	($\bar{x}$)	SD	Decision
1	Satisfied with the revenue generated by SME in relation to its operating costs.	3.08	1.435	
2	SME's profitability has increased steadily over time.	3.25	1.413	
3	Effectively managed SME's cash flow to ensure financial stability.	3.97	1.435	
4	SME's financial performance is comparable to other similar businesses in Maiduguri Metropolis.	3.99	1.426	
5	SME's financial performance has positively impacted overall competitiveness in the market.	3.08	1.458	
	Overall Mean	3.47		Accept

Source: Field Survey, 2024
Note: Acceptance ($\bar{x}$ is 3 and above); Rejection ($\bar{x}$ is less than 3)

Table 7 presents the results of the analysis on the financial performance of small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The first item examines the satisfaction of SME owners with the revenue generated by their businesses in relation to their operating costs. The mean score for this item is 3.08 which is above the acceptance threshold of 3.00. The standard deviation of 1.435 indicates some variability in the responses. The result suggests that, on average, the respondents are satisfied with the revenue generated by their SMEs in relation to their operating costs. This perception indicates a positive assessment of the financial performance in terms of revenue generation and cost management.

The second item explores the perception of SME owners regarding the steady increase in profitability over time. The mean score for this item is 3.25 which is above the acceptance threshold of 3.00. The standard deviation of 1.413 suggests some variability in the responses. The finding suggests that, on average, SME owners perceive a steady increase in profitability over time. This perception reflects a positive trend in financial performance, indicating that SMEs in Maiduguri Metropolis are experiencing growth in profitability.

The third item assesses the effectiveness of SME owners in managing cash flow to ensure the financial stability of their businesses. The mean score for this item is 3.97 which is significantly above the acceptance threshold of 3.00. The standard deviation of 1.435 indicates some variability in the responses. The result suggests that, on average, SME owners believe they have effectively managed cash flow to ensure the financial stability of their businesses. This perception highlights the importance of cash flow management in maintaining a solid financial position and avoiding liquidity issues.

The fourth item examines the perception of SME owners regarding the comparability of their businesses' financial performance to other similar businesses in Maiduguri Metropolis. The mean score for this item is 3.99 and insignificantly above the acceptance threshold of 3.00. The standard deviation of 1.426 suggests some variability in the responses.

The finding indicates that, on average, SME owners believe their businesses' financial performance is comparable to other similar businesses in the local market. This perception implies a positive evaluation of their competitiveness and ability to achieve financial results on par with their peers.

The fifth item investigates the respondent's opinion whether the financial performance of SMEs has positively impacted their overall competitiveness in the market. The mean score for this item is 3.08, which is above the acceptance threshold of 3.00. The standard deviation of 1.458 indicates some variability in the responses. The finding suggests that, on average, SME owners believe that the financial performance of their businesses has positively influenced their overall competitiveness in the market. This perception highlights the interplay between financial performance and market positioning, indicating that SMEs in Maiduguri Metropolis recognize the importance of financial success in enhancing their competitiveness. The overall mean value of 3.44 is an indication that there is a satisfactory financial performance of SMEs in Maiduguri metropolis.

15. Test of Hypotheses

$H0_1$: Bank loan has no significant effect on financial performance of SMEs

Table 8. *ANOVA Results of Effect of Bank Loan Financing on SMEs Financial Performance.*

Sources of Variance	Sum of Squares	Df	Mean Squares	F	p-value
Between Groups	6.936	4	1.734	7.160	0.000
Within Groups	16.227	67	0.242		
Total	23.163	71			

P < 0.05
Source: Field Survey, 2024

Table 8 shows the sum of squares (SS) which represents the total variability explained by each source. In this analysis, the Between Groups sum of squares is 4.491, while the Within Groups sum of squares is 156.339. The total sum of squares is the sum of the Between Groups and Within Groups sum of squares, which is 160.830. The degrees of freedom (df) represent the number of independent pieces of information available for estimation. For the Between Groups variance, the df is 4, indicating the number of categories being compared. The Within Groups df is 382, representing the total number of observations minus the number of categories. The total df is 386, which is the sum of the df for the Between Groups and Within Groups.

The mean squares are calculated by dividing the sum of squares by their respective degrees of freedom. The Between Groups mean square is 1.123, while the Within Groups mean square is 0.409. The F-value is calculated by dividing the Between Groups mean square by the Within Groups mean square. In this analysis, the F-value is 2.743. The F-value is used to determine the statistical significance of the effect of bank loan financing on financial performance.

The p-value represents the probability of obtaining the observed result if there is no true effect or relationship in the population. In this analysis, the p-value of 0.028 is less than 0.05 (p< 0.05). This indicates that there is a statistically significant effect of bank loan financing on the financial performance of SMEs in Maiduguri Metropolis.

H_{02}: Informal finance sources have no significant effect on the financial performance of SMEs in Maiduguri Metropolis

Table 9. *ANOVA Results of the Effect of Informal Financing on SMEs Financial Performance.*

Sources of Variance	Sum of Squares	Df	Mean Squares	F	p-value
Between Groups	29.501	4	7.375	21.453	0.000
Within Groups	131.329	382	0.344		
Total	160.830	386			

P < 0.05
Source: Field Survey, 2024

Table 9 presents the results of an ANOVA analysis conducted to examine the effect of informal financing on the financial performance of small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The degrees of freedom (df) represent the number of independent pieces of information available for estimation. For the Between Groups variance, the df is 4, indicating the number of categories being compared. The Within Groups df is 382, representing the total number of observations minus the number of categories. The total df is 386, which is the sum of the df for the Between Groups and Within Groups. The mean squares are calculated by dividing the sum of squares by their respective degrees of freedom. The Between Groups mean square is 7.375, while the Within Groups mean square is 0.344.

The F-value is calculated by dividing the Between Groups mean square by the Within Groups mean square. In this analysis, the F-value is 21.453. The F-value is used to determine the statistical significance of the effect of informal financing on financial performance. The p-value represents the probability of obtaining the observed result if there is no true effect or relationship in the population. In this analysis, the p-value of 0.000 is less than 0.05 ($p< 0.05$). This indicates that there is a statistically significant effect of informal financing on the financial performance of SMEs in Maiduguri Metropolis. Similar studies by [21] found that performance of SMEs, was influenced by access to informal finance among other factors such as technological input in the payment system, and availability of management experience.

H03: Retained earnings have no significant effect on the financial performances of SMEs in the Maiduguri Metropolis.

Table 10. *ANOVA Results of the Effect of Retained Earnings on SMEs Financial Performance.*

Sources of Variance	Sum of Squares	Df	Mean Squares	F	p-value
Between Groups	40.978	4	10.245	32.652	0.000
Within Groups	119.851	382	0.314		
Total	160.830	386			

P < 0.05
Source: Field Survey, 2024

Table 10 presents the results of an ANOVA (Analysis of Variance) analysis conducted to investigate the effect of retained earnings on the financial performance of small and medium-scale enterprises (SMEs) in Maiduguri Metropolis. The sum of squares (SS) represents the total variability explained by each source. In this analysis, the Between Groups sum of squares is 40.978, while the Within Groups sum of squares is 119.851. The total sum of squares is the sum of the Between Groups and Within Groups sum of squares, which is 160.830.

The degrees of freedom (df) represent the number of independent pieces of information available for estimation. For the Between Groups variance, the df is 4, indicating the number of categories being compared. The Within Groups df is 382, representing the total number of observations minus the number of categories. The total df is 386, which is the sum of the df for the Between Groups and Within Groups. The mean squares are calculated by dividing the sum of squares by their respective degrees of freedom. The Between Groups mean square is 10.245, while the Within Groups mean square is 0.314.

The F-value is calculated by dividing the Between Groups mean square by the Within Groups mean square. In this analysis, the F-value is 32.652. The F-value is used to determine the statistical significance of the effect of retained earnings on financial performance. The p-value represents the probability of obtaining the observed result if there is no true effect or relationship in the population. In this analysis, the p-value of 0.000 is less than 0.05 ($p< 0.05$). This indicates that there is a statistically significant effect of retained earnings on the financial performance of SMEs in Maiduguri Metropolis. This finding is consistent with the findings in previous studies such as [36, 37]. But contradicts the studies [19, 40].

H04: Government funds has no significant effect on the financial performance of SMEs in Maiduguri Metropolis

Table 11. *ANOVA Result of the Effect of Government Funds on SMEs Financial Performance.*

Sources of Variance	Sum of Squares	Df	Mean Squares	F	p-value
Between Groups	6.563	16	0.410	0.984	0.474
Within Groups	154.267	370	0.417		
Total	160.830	386			

P < 0.05
Source: Field Survey, 2024

Table 11 presents the outcome of an ANOVA (Analysis of Variance) test conducted to evaluate the impact of government funding on the financial performance of small and medium-sized enterprises (SMEs) in Maiduguri Metropolis. The analysis shows a Between-Groups sum of squares of 6.563 and a Within-Groups sum of squares of 154.267, giving a Total sum of squares of 160.830. The degrees of freedom (df) indicate the number of independent observations available for the estimation process. For the Between Groups variance, the df is 16, indicating the number of categories being compared. The Within Groups df is 370, representing the total number of observations minus the number of categories. The total df is 386, which is the sum of the df for the Between Groups and Within Groups.

The mean squares are calculated by dividing the sum of squares by their respective degrees of freedom. The Between Groups mean square is 0.410, while the Within Groups mean square is 0.417. The F-value is 0.984. The F-value is used to determine the statistical significance of the effect of government funds on financial performance. The p-value represents the probability of obtaining the observed result if there is no true effect or relationship in the population. In this analysis, the p-value of 0.474 is greater than 0.05 (p> 0.05). This indicates that there is no statistically significant effect of government funds on the financial performance of SMEs in Maiduguri Metropolis. This is in line with the findings of [28] who found that government fund has no direct association with the financial performance of SMEs.

16. Conclusion

Based on the findings of this study, it can be concluded that the source of financing significantly influences the financial performance of SMEs in Maiduguri Metropolis. Specifically, the study concluded that Bank loan financing has a statistically significant effect on financial performance of SMEs in Maiduguri metropolis. Also, informal financing sources has statistically significant effect on the financial performance of SMEs in Maiduguri Metropolis. In addition, retained earnings financing has a significant effect of financial performance of SMEs in Maiduguri metropolis. While government fund financial has no significant effect on the financial performance of SMEs in Maiduguri metropolis.

17. Recommendations

Based on the findings and conclusions of this study, the following recommendations are proffered:

1) To enhance SMEs access to bank loans, financial institutions should consider revising their interest rate policies for SME loans to make them more attractive and competitive. Additionally, efforts should be made to simplify loan application processes and improve communication with SMEs to address their concerns and needs.
2) In order for SMEs to Strengthen informal financing networks, they should build awareness and trust in this source of financing, by upholding trust of repayment of borrowed monies as at when due.
3) SME owners should not utilize all profits in meeting personal and family expense but reinvest a portion of their earnings for future growth.
4) The government should establish offices of its funding agencies for SMEs in strategic locations so that funds form this source are readily assessed to SMEs.

Abbreviations

ANOVA	Analysis of Variance
DF	Degrees of Freedom
FSLC	First School Leaving Certificate
GDP	Gross Domestic Product
OLS	Ordinary Least Squares
RGDP	Real Gross Domestic Product
SMEs	Small and Medium-sized Enterprises
SS	Sum of Squares

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Conflicts of Interest

The authors declare no conflicts of interest.

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