
THE USE OF DIGITAL FINANCE OPTIONS BY NIGERIA'S SMALL BUSINESSES TO IMPROVE EFFICIENCY AND GROWTH: SITUATION ANALYSIS AND POLICY IMPERATIVES

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Abstract:

Financial inclusion policy in Nigeria has evolved over time, culminating in the digital finance options currently available to small businesses. Though small businesses are increasingly embracing and benefiting significantly from available digital finance options, there remains large scope for full realization of the opportunities for improved business efficiency and growth. This paper reviews the evolution of Nigeria's financial inclusion policy and strategy to present-day digital finance and discusses small business' access to and use of existing digital finance options. The opportunities for small businesses to improve operational efficiency and growth as well as the obstacles and limitations that hinder their full realization are examined. Consequently, the paper outlines key policy imperatives for tackling the identified obstacles and limitations thereby leveraging digital finance for efficiency gains and enterprise growth among Nigeria's small businesses.

Keywords: Digital finance, Financial Inclusion, Policy Imperatives, SMEs Growth, Efficiency

1.0 Introduction

Small businesses are the pillar of national economies, playing critical roles in employment and job creation, poverty reduction, economic integration, innovation and entrepreneurship development, and gross domestic product (GDP) (Oluremi & Maku, 2024). It remains a source of livelihood incomes for majority of the Nigerian populace. According to NBS (2020), small and medium businesses (SMEs) employ over 84% of Nigeria's workers. This significant contribution highlights how small businesses support economic growth in Nigeria. Besides, small businesses play a critical role in promoting economic integration and prosperity, increasing competition of emerging sectors, and igniting market rivalry through creativity and innovation (Oluremi & Maku, 2024; Zhao, 2024; Ribeiro-Soriano, 2017).

Over the years, business owners have seen a rapid shift in the way businesses are conducted internationally and locally, driven by the continuous revolution in financial technologies (Fintech), making digital finance a key driver of business financial transactions. In a nutshell, digital finance is the integration and use of technology into financial processes, leading to expanded access to and use of financial services. It has revolutionized how people, business and financial institutions manage money, make and receive payments and generally have access to finance (Jinda, 2025). This implies that digital finance is central to small businesses' efficiency and growth as it presents prospects for enhancing their profitability and sustainability. Despite the bright outlook that digital finance has for small businesses, there are challenges faced and encountered by small business owners as they adapt and integrate digital finance in their daily business activities.

1.1 Problem Statement

The wave being made by fintech companies globally, leading to the adoption, integration and inclusion of digital finance in business processes is enormous. The acceptance of digital finance is not just driven by its potential in enhancing business performance, but the ease and relief it has given to individuals engaged in financial transactions. The key benefits of digital finance are reduction in cost of doing business and removal of risk of moving cash from one point to the other. Despite these obvious benefits, many businesses, especially small and micro businesses in Nigeria are still using the traditional method of financial transaction. Hence, the paper aims to bring to fore some of the significant financial inclusion policy reforms by Nigeria government geared towards achieving financial inclusion in Nigeria; and why small businesses still find it difficult to use digital finance options.

1.2 Objective of the Study

As desk research, the aim of this paper is to review the evolution of Nigeria's financial inclusion policy and strategy to present-day digital finance; and discuss small businesses' access to and use of existing digital finance options. The paper will highlight the digital finance opportunities for small businesses in order to improve operational efficiency and growth, as well as identify the obstacles and limitations that hinder their full realization of the opportunities. Finally, the paper will outline key policy imperatives for tackling the identified obstacles and limitations in order to leverage digital finance for efficiency gains and enterprise growth among Nigeria's small businesses.

2.0 Literature/Desk Review

2.1 Pre-Digital Financial Transactions by Small Businesses in Nigeria

Prior to the advent of digital finance, most small businesses used the traditional method, which relied heavily on cash transaction, and sometimes, a record of such transaction is kept

in a book (Olayemi, Adebisi, Oyelakun & Ibrahim, 2025). This is understandable because cash transaction is easier and faster, and does not attract additional cost of transaction. However, small business owners face many challenges using the traditional method. These challenges include theft, inability to identify counterfeit paper money, risk of moving cash from one place to the other, and inability to keep proper financial records. Moreover, the low level of educational attainment of most of the small business owners, particularly, the nano and micro enterprises posed greater challenge in their ability to keep and manage business finances (PWC Survey, 2020). As a result of these, it was a herculean task reaching this special sector of the economy despite the indispensable role they play in driving socio-economic activities of the economy.

2.2 Evolution of Financial Inclusion Policies in Nigeria

Financial inclusion is a broad concept that does not have a universally accepted definition, instead its definition is based on country specific. Different countries define the term from strategic viewpoint. Hence, a country's definition of the term provides the basis for a shared vision that will help in setting goals, as well as framework for achieving them (AFI, 2017). But still, these definitions generally refer to availability and accessibility of financial services to the adult population of a country. It also includes quality and cost of financial services (Barajas, Beck, Belhaj & Naceur, 2020; Han, Qian, Adam, Karimov & Zhang, 2025). Consequently, Nigeria in its revised 2018 National Financial Inclusion Strategy (NFIS) defined financial inclusion to mean, when adult Nigerians have easy access to a broad range of formal financial services that meet their needs at affordable costs (NFIS, 2018).

The Policy Era of Community Banks

Central Bank of Nigeria refers community bank as a “self-sustaining financial institution owned and operated by a community or a group of communities to provide financial services to members of its community” (Ayadi, Hyman & Williams, 2008, p. 163). Decree 46 of 1992, Federal Government of Nigeria granted power to license community banks to National Board for Community Banks. By this decree, a community or a group of communities are allowed to establish a community bank. The objective was to incorporate the informal financial sector into the traditional financial institutions in Nigeria. The functions of community bank were to: provide finance and banking services in order to promote rural development; provide credit facilities to its customers; operate equipment leasing facilities designed to enhance customers access to farm inputs; improve the economic status of small-scale producers in rural and urban areas; and promote grass-root development within the geographical area of the bank (Community Bank Act, 1992).

Despite the promising opportunities of community banks to galvanize socio-economic activities, especially in the rural areas, the banks were faced with huge challenges that affected their operation. These challenges ranged from inadequate infrastructure, low literacy level, overhead cost to the conservative nature of the rural dwellers (Okoye & Okpala, 2001). Moreover, community banks faced such problems as poor and ineffective management, lack of automated processing system, poor credit administration, insider-related credits, and low capital base (Ayadi, Hyman & Williams, 2008). Even, the poor understanding of the bank having a unique and distinct operating environment, different from commercial banks also affected their operations and ability to succeed. Another problem leading to the collapse of community banks in Nigeria was the inability of National Board for Community Banks to monitor and enforce the regulatory frameworks of community banks, which was one of the key functions of the Board (Ayadi, Hyman & Williams, 2008).

The Regime of Microfinance Bank Policy

Globally, microfinance began as a necessary means of addressing poverty and financial exclusion. Similarly, in Africa, the emergence and institutionalization of microfinance began as a response to the inability of commercial banks to reach low-income, rural, and informal sector populations. Nigeria formalized its approach to microfinance with the Central Bank of Nigeria (CBN)'s launch of the National Microfinance Policy in 2005 (Afolabi, 2025). Microfinance banks were created to provide micro credit to the poor in order to alleviate poverty. The poor, are referred to those whose basic earnings are below the minimum wages, and those whose sources of income are inadequate to finance their basic needs of food, shelter and clothing. By enabling the poor and financially marginalized people to have access to financial services, their social status and standard of living will be enhanced (Ochonogor, 2020).

Before the era of microfinance bank, other numerous programme initiatives were taken by different governments aimed at providing financial services to the active poor and the unbanked in Nigeria. These programmes are: Agricultural Development Programmes (ADPs), National Directorate of Employment (NDE), Better Life for Rural Dwellers (Family Support Programmes), the Directorate of Food, Roads and Rural Infrastructure (DFRRI). Other attempts made by government to provide micro-credit services to the citizens include the banking scheme (1977-1990), People's Bank (1987-1990), and Community Bank (1990-2007) (Ochonogor, 2020). These programmes had potentials to improve the economy, create employment, and reduce poverty. But they could not make meaningful impact as a result of numerous challenges they were confronted with, and hence were scrapped by the government, replacing them with the establishment of microfinance banks through the launch of microfinance policy in 2005.

Microfinance banks in Nigeria faced mammoth challenges that greatly impinged on their ability to achieve the policy goals of establishing them in the first place. These challenges include: (i) absence of basic infrastructure, which were linked to high operation cost; (ii) lack of banking culture amongst the rural dwellers and the urban poor; (iii) corruption and misappropriation of microfinance bank funds; (iv) withdrawal of license of 224 community banks in 2010, leading to dent on public confidence in microfinance banks; (v) paucity of human capacity; (vi) inadequate funding; and (vii) inability to distinguish microfinance bank from commercial banks (Nwoke & Chukwu, 2023; Yusuf & Dodo, 2017).

The National Financial Inclusion Strategy (NFIS 2012)

The first National Financial Inclusion Strategy (NFIS) was launched by the Central Bank of Nigeria in 2012, with the sole aim of significantly reducing the number of financially excluded adults in Nigeria by the year 2020. The Strategy enunciated the easing of demand-side, supply-side and regulatory barriers to financial inclusion, identified areas of focus, set targets and key performance indicators (KPIs), and established the implementation structure. The NFIS focused on four strategic areas: agency banking, mobile banking/mobile payments, linkage models and client empowerment. Also, it identified four priority areas for guideline and framework development, which are: Tiered Know-your-Customer (T-KYC) regulations, Agent Banking regulations, National Financial Literacy Strategy and Consumer Protection (NFIS, 2018).

In line with the 2012 NFIS monitoring plan, there was need for the review of the 2012 NFIS, hence, a review was carried between October 2017 and June 2018. The purpose was to understand the current state of financial inclusion in Nigeria, assess past approaches, identify

lessons learnt in order to prioritize the most critical interventions to achieve the NFIS objectives. Key finding from the review showed that Nigeria had made significant progress in the implementation of the 2012 NFIS. A notable achievement was that 58.4% of 96.4 million adult population in Nigeria were financially included, including 38.3% banked, and 10.3% served by other formal institution and 9.5% served by information service providers (NFIS, 2018).

Despite these achievements, observable issues were identified. For instance, the status and progress report on financial inclusion in Nigeria as at 2016 showed that 40.1 million adult Nigerians, representing 41.6% of the adult population were financially excluded. The report also shows that 55.1% of the financially excluded adult population were women, and 61.4% of excluded population were in the age bracket of 18 and 35 years, with 34.0% having no formal and 80.4% residing in rural areas (NFIS, 2018). This is an obvious disparity in the financial inclusion success rate distribution based on gender, age and residency. Interestingly, small businesses are the major source of livelihood for women, and understandably, many of these women live in rural communities, with no social and technology infrastructure, nor presence of financial institutions. Wezel and Ree (2023) corroborated this finding when they observed that the financial inclusion in Nigeria is not only relatively low but uneven when compared to what is obtained from peer countries and Sub-Saharan Africa (SSA). These issues showed the need for new strategy and approaches to achieving financial inclusion in Nigeria.

CBN Revised 2018 National Financial Inclusion Strategy

The review of the 2012 NFIS revealed that: (i) some components of the 2012 NFIS, such as POS terminals were no longer the most efficient channel of distributing financial services; (ii) innovative models used in other countries that have increased financial inclusion were yet to be incorporated as a result of policies and regulations restriction; (iii) there has been low adoption rate of agent banking due to lack of understanding of the banking agents works and the opportunities therein for consumers/customers; (iv) changing macroeconomic and security situation based on the review period. These and more were the rationale that informed the need for a revised NFIS by the Central Bank of Nigeria with the overall aim of reducing the proportion of financially excluded adult Nigerian to 20% from its baseline figure of 46.3% in the 2020 (NFIS, 2018).

The revised 2018 NFIS has the prospects of significantly improving financial inclusion within two years (2018-2020). Hence, the key priority of the revised 2018 NFIS was to consider the identified constraints, the importance of innovation, as well as the need to create an enabling environment that will promote financial inclusion. These prospects were attributed to the following initiative by CBN: signing of an MoU in 2018 with Nigerian Communications Commission (NCC); collaborative efforts with Nigeria Inter-Bank Settlement System (NIBSS) to create a regulatory sandbox for innovative financial services; entering into partnership with Committee of Bank CEOs and the private sector to roll out a 500,000-agent networks all over the country (NFIS, 2018).

Key stakeholders were identified and brought together by the CBN because of the various relevant roles they were expected to play in both the development and implementation of the revised 2018 NFIS. They include ministries and agencies of government, private sector representative, and financial institutions representative namely: Federal Government of Nigeria, Federal Ministry of Finance, Central Bank of Nigeria, Deposit Money Banks (DMBs), Development Finance Institutions (DFIs), Bankers' Committee, Microfinance

Banks (MFBs), Committee of Microfinance Banks in Nigeria (COMBIN), National Insurance Commission (NAICOM), Insurance Companies, National Pension Commission (PenCom). Others are Pension Fund Administrators (PFAs), National Communication Commission (NCC), Licensed Mobile Payment Operators (LMPOs), Nigeria Postal Service (NIPOST), Ministry of Education, National Bureau of Statistics (NBS), Development Partners, and Financial Services Regulation Coordination (FSRCC). Other stakeholders that participated include: Apex associations (ALMPOM, CFAN, FMAN, NIA, PENOP, etc.), Nigerian Interbank Settlement System (NIBSS), and Financial Inclusion Secretariat (FIS) (NFIS, 2018).

Each stakeholder had its roles well spelt out in the NFIS document all geared towards the overall objective of achieving financial inclusion by 2020 (NFIS, 2018). As critical stakeholder to the achievement of the 2018 NFIS, the CBN ensured that they participated in the process of developing the revised NFIS and are viewed as co-owners of the NFIS document.

2.3 The Emergence and Spread of Digital Finance

Nigeria like any other country in the world is experiencing unprecedented increase in connectivity and data flows, which is as a result of the touted fourth industrial revolution. The revolution is characterized by end-to-end digitization of assets and integration into a digital ecosystem (Ajambo, n.d.), and supported by financial technologies. Financial technologies (Fintech) are broadly used to describe range of technological innovations in the financial sector that enhance the way financial services are provided. It helps businesses and consumers to better manage their financial operations and processes using specialized software and algorithms. The services are provided through advanced technologies such as mobile banking, mobile money, internet banking and digital payment platforms. It also enables individuals access financial services using their mobile phones (Appah, Tebepah & Newstyle, 2023).

Fintech is widely accepted because it uses lean and very scalable technology that reduce or eliminate the cost of financial intermediation. Fintech has also led to increase in the spread of technology-driven firms, offering financial services (Iriobe, Tega, Ayodele & Taofeek, 2021). Fintech evolution experienced some challenges, particularly during its first level of innovations. For instance, the acceptance rate was poor until the COVID-19 pandemic period, when it became obvious that technology would be the way forward as well as new driver of business transactions globally (Iriobe, Tega, Ayodele & Taofeek, 2021).

Digital finance is a product of Fintech. There would be no digital finance without Fintech. It was the wave of technological innovations in the financial industry that engendered digital finance. Thus, advancements in technology created new possibilities and pathways for financial products and service delivery. The evolutionary journey of trade and business transactions from the time of barter system to this new era of digital finance, is marked by various stages of technological advancement, which significantly enhanced service delivery, efficiency and customer experience within the financial services industry in Nigeria (Usoro, 2022).

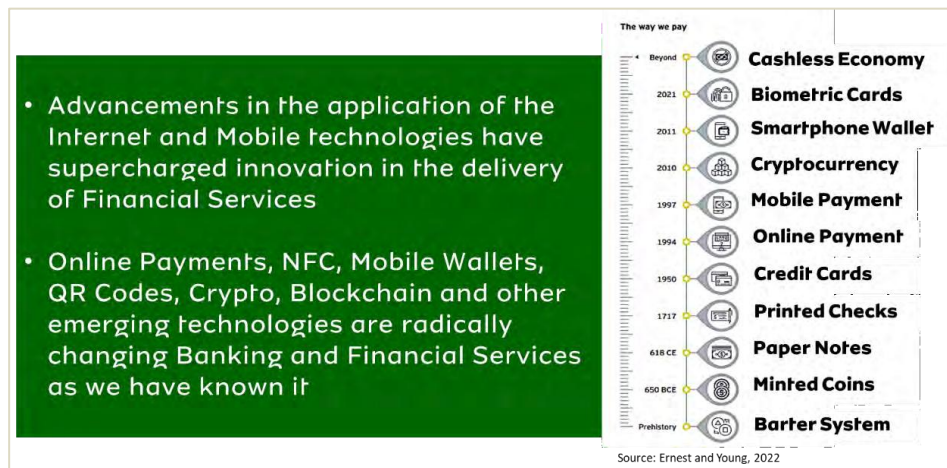


Figure 1: Evolution of Financial Services

Source: Ernest and Young (2022), adopted from Usoro (2022)

The term digital finance describes the delivery of traditional financial services digitally, through devices such as computers, tablets and smartphones. By leveraging on technology and data, digital finance ensures that a much larger proportion of the adult population in Nigeria have easier access to several financial products and services. Specifically, these services are provided through several channels, such as, mobile phones, point-of-sale (POS) devices, and networks of agents. Despite the fact that Nigeria has not achieved its target for financial inclusion, the adoption and use of digital financial services has played a significant role in the milestones achieved by the country in that regard. Figure 2 shows an overview of the financial space in Nigeria, with Fintech having more than 50% of the share (Nkechika, 2022). Equally, the Worldpay Global Payments Report asserts that Nigeria has witnessed a spectacular drop in total cash transactions since embracing digital finance. Total cash transaction decreased from 91% in 2019 to 55% in 2023, with a projected decline to 42% by 2027, showing a fundamental shift in consumer payment behaviour. The driving factors of the decline in cash transactions, is the growth of digital payment platforms, which created easy access to more people - including the small businesses (Bello, 2025).

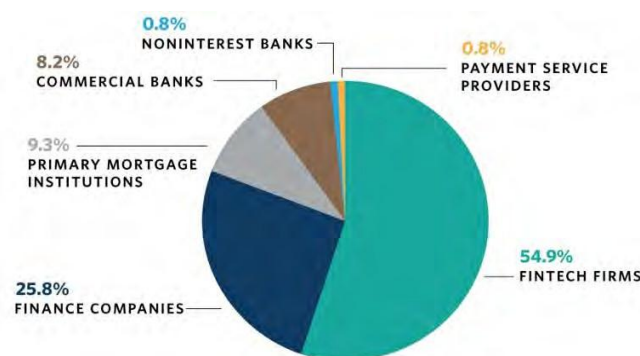


Figure 2: An Overview of Nigeria's Financial Space

Source: Central Bank of Nigeria, cited in Nkechika (2022).

2.4 Status of Digital Finance and Financial Inclusion in Nigeria

Financial inclusion is achieved when adult Nigerians have easy access to formal financial services that meet their needs at affordable costs (NFIS, 2018). Nigeria has recorded significant achievement since the launch of the revised 2018 NFIS. Enhancing Financial Inclusion and Advancement (EFInA) 2023 A2F Report revealed the following (EFInA, 2024):

- Nigeria's total financially included population rose to 74%, while 26% remained financially excluded in 2023 from 67% in 2020.
- Nigeria's formal financial inclusion rose to 64% in 2023 from 54% in 2020 while informal financial inclusion stood at 10% in 2023, showing a 1%-point fall from 11% in 2020.
- Financial exclusion improved from 32% in 2020 to 26% in 2023.
- 1 in 4 Nigerian adults remained financially excluded in 2023.
- 37% of rural Nigerians are financially excluded compared to 17% of urban Nigerians.
- Financial exclusion is most severe in Northern Nigeria, with the Northeast (47%) and Northwest (47%) remaining the most excluded regions in Nigeria.
- The banked population increased from 51% in 2020 to 52% in 2023, while the population adopting non-bank financial services rose from 5% to 10%.
- Mobile phone adoption rose to 93% in 2023 from 90% in 2020 with use of smart phone dropping to 27% from 28% in 2020.
- The gender gap is widening, from 8% in 2020 to 9% in 2023, demonstrating the need to focus on interventions that support female inclusion intentionally.
- Challenges related to fraud incidence, poor service, high banking costs, and a lack of clarity in financial information reduced the quality of financial services in Nigeria.
- One-third of adults report low financial capability, and relatively low access to formal efficient mechanisms to meet financial needs.

Key Lessons from the EFInA 2023 Report

Key lesson from the EFInA report is that significant portion of the Nigerian population is financially excluded. Most northern part of the country and more females fall into the group of financially excluded persons. This immediately raises the question: How does this impact on small businesses and general economic development of the country? The question is pertinent bearing in mind that more women are involved in small and micro businesses, many of whom are not educated, financially empowered, have little or no knowledge about digital finance and financial inclusion. Hence, the need for continuous innovative ideas on how to change the situation. Little wonder, the CBN governor, represented by Mr. Chibuike Nwagerue during the presentation of the Access to Finance (A2F) highlights, on 13 December, 2023 alluded to the fact that a lot more work needs to be done (EFInA, 2024). Thus, the government is expected to do more if total financial inclusion is to be achieved, focusing attention on the identified key segments of the country.

2.5 Digital Payment Options Used by Small Businesses in Nigeria

Small businesses play dual roles in e-payment adoption process. They function as both the consumer and merchant at all times. Either they are making payments or passing payment information for goods and services (Igudia, 2018). Hence, the adoption and use of digital finance is viewed as a catalyst for the growth and prosperity of small businesses in Nigeria. Digital finance options used by small businesses includes: point of sale (POS), automated teller machine (ATM), mobile banking/payments, internet banking, and mobile money (Ojeh, Onah, Okonkwo & Nkwo, 2025; Appah, Tebepah & Newstyle, 2023; Adebisi, 2022).

- (a) Point of Sales (POS): POS serves as a retail shop, a checkout counter in a shop, or the location where a transaction occurs. They are electronically deployed devices that facilitate the exchange of value between a cardholder and a merchant.
- (b) Automated Teller Machine (ATM): This is a computerized telecommunications device that offers access to financial transactions services to customers of a financial institution in a public space without the need for a human clerk or bank teller.
- (c) Mobile Banking/Payments: Mobile banking describes services delivered by financial institutions that allows customers to use a mobile device such as smart-phones or other cellular devices to access banking services and execute financial transactions.
- (d) Internet Banking: Internet banking, also known as online banking or web banking refers to an online platform through which customers of the bank can access their account and perform financial transactions using the internet. Internet banking makes use of electronic card infrastructure to accomplish payment instructions and financial settlement of goods and services over the internet.
- (e) Mobile Money (MM): Mobile money enables users to keep, transmit, and receive money using mobile devices without requiring the usage of a bank account. It is mostly seen in areas where many residents do not have bank accounts and as a result cannot access financial services. It enables users to transfer money as quickly as a text message, thereby eliminating the challenge of having to go to the bank and the cost associated with it. Unlike the traditional banking, mobile money operation solely relies on agents, smartphones, or USSD codes to perform transactions.

3.0 Methodology

The study adopted a qualitative research approach of desk research. It analyzed existing government policy documents, statistical databases and reports related to the subject areas in order to gain insight on the topic and as well provide answers to the key research question. Focusing mainly on the objectives of the paper, most of the articles reviewed were extracted from the web using google, a popular search engine. Central Bank of Nigeria time series data on industry e-payment from 2018 to 2023 were used to show the growth of digital finance in Nigeria. Qualitative analysis was employed to arrive at the findings, conclusions and recommendations.

4.0 Analysis and Findings

4.1 Trend of Industry Digital Payment Options Usage in Nigeria

Since the advent of digital finance, there has been a significant reduction on the rate of physical presence bank transactions by businesses, resulting from the continuous increase in the adoption of digital platforms for payment options by businesses and industries in Nigeria evident in table 1 and figures 3 and 4.

Table 1: Trend of Digital Payment Options in Nigeria from 2018-2023 by Volume

Options	2018	2019	2020	2021	2022	2023
Point of Sales (POS)	295,890,167	438,614,182	655,748,348	2,743,555,841	3,885,782,065	9,847,258,500
Automated Teller Machines (ATM)	875,519,307	839,819,922	1,914,220,419	1,599,187,337	1,506,991,903	1,012,277,981
Mobile Banking	-	-	411,452,926	831,540,635	1,861,362,984	5,259,477,576
Internet Banking	50,815,901	103,497,007	6,480,548,630	10,321,579,925	14,063,927,436	21,753,925,242
Mobile Money (MMO)	87,086,260	377,265,208	769,238,689	1,201,541,158	1,926,293,135	10,774,795,048

Source: CBN E-Payment Statistics 2018-2023

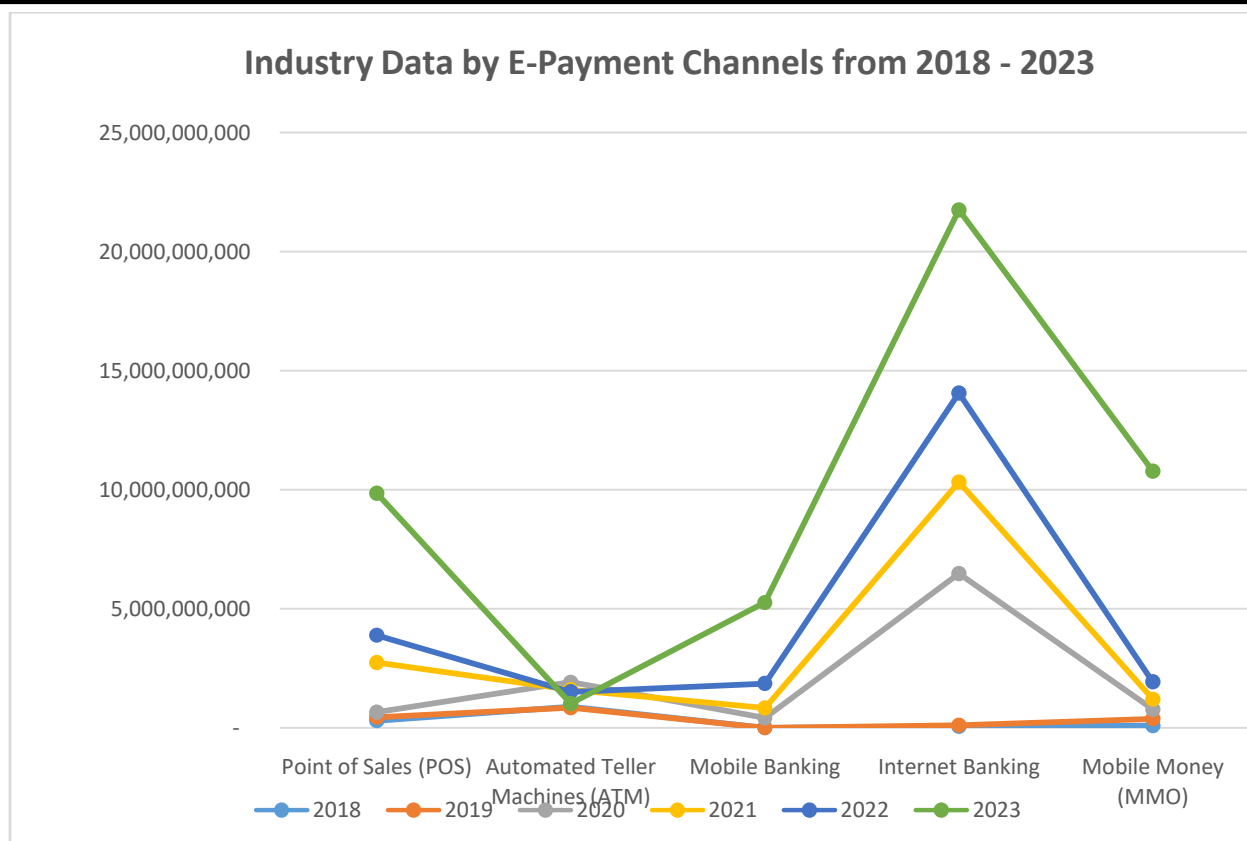


Figure 3: Trend of Digital Payment Options in Nigeria from 2018-2023 by Volume
Source: Plotted by the Researcher using CBN E-Payment Statistics 2018-2023

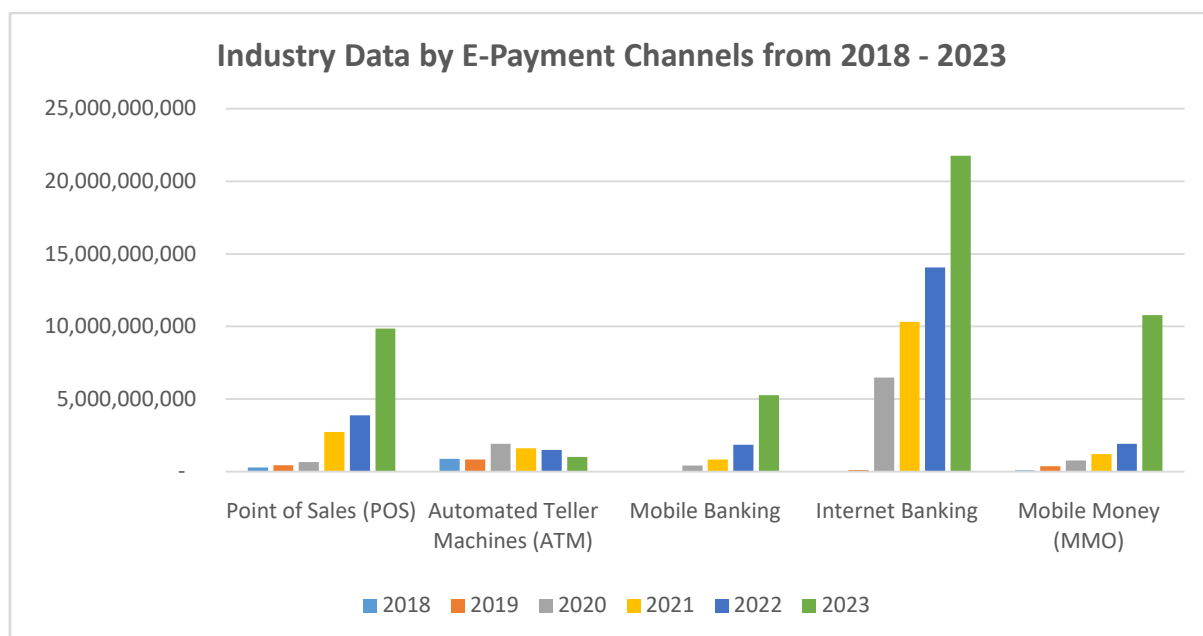


Figure 4: Digital Payment Options in Nigeria from 2018-2023 by Volume
Source: Generated by the Researcher using CBN E-Payment Statistics 2018-2023

The table and graphs show that digital platforms such as point of sales (POS), mobile banking, internet banking and mobile money (MMO) recorded continuous growth in adoption rate by users. From the figures, it is discernable that the volume of transaction using internet

banking recorded exponential growth. This could be attributed to more and more people having or owning a smart phone that enables them to do internet banking. Other channels that recorded significant growth in usage are mobile banking, MMO and POS. For example, MMO usage rose from 1,926,293,135 in 2022 to 10,774,795,048 in 2023 recording over 500% growth within a year. Similarly, internet banking usage between 2022 and 2023 alone grew from 14,063,927,436 to 21,753,925,242. However, there was a sharp drop in the use of ATM within the period when compared to other digital payment channels. This again, may be attributed to factors such as accessibility, proximity to the user, few numbers of functioning ATM, and convenience.

4.2 Key Factors Responsible for the Growth of Digital Payment in Nigeria

- (a) **Perceived Usefulness and Ease of Digital Payment Platforms for Business Transactions:** As opined by Chibueze, Orivri and Egunkobi (2025), drawing from Technology Acceptance Model, SMEs are more likely to accept digital finance devices when they are easy to operate, reliable and provide clear benefits to them. Hence, well-designed platforms with user-friendly interfaces removes fear and lack of trust.
- (b) **Immediate Information Update On their Bank Statements:** Again, alluding to the financial intermediation theory (Chibueze, Orivri, Egunjobi, 2025), which states that banks exist to bridge the gap between savers and borrowers by mobilizing savings from surplus units and allocating them to deficit units. Information lopsidedness and high risks associated with lending have been major factors impeding against the actualization of the intermediation role of the bank. However, digital banking to a reasonable extent has improved the efficiency of intermediation, by providing transparent transaction histories, lowering cost of transaction, and serving as a easy alternative source of micro-credit financing for SMEs. It is now easier for small businesses to access credit without going through the usual protocols of traditional banking, which requires collateral in addition in order to access credit or loan (Chibueze, Orivri, Egunjobi, 2025).

4.3 Impact of Digital Finance on the Efficiency and Growth of Small Businesses

Digital financial services have impacted positively on SMEs. Some of the notable impacts of digital payment systems on small businesses are as follows (Janet, 2022):

- (i) **Enhanced Accessibility and Customer Base:** With digital payment systems, small businesses are able to cover wider reach of their customers, attracting tech-savvy customers to small business holders.
- (ii) **Improved Cash Flow Management:** Digital systems offer online and real time services, which enables businesses to manage their cash flow more effectively.
- (iii) **Cost Savings:** Digital financial services reduce cost associated with handling of cash. Besides, digital tools often have lower transaction fees compared to traditional banking methods.
- (iv) **Reduced unemployment rate:** The adoption of digital financial services has reduced unemployment rate by creating jobs for many people. Many new businesses started as POS agents, and others, particularly those that cannot afford the start-up capital, are now employees at these POS shops.

- (v) **Enhanced Customer Experience:**Digital payments provide smoother transactions than traditional banking methods. It is more convenient for customers to use digital payments platforms, which enhances customer satisfaction and retention as well.
- (vi) **Access to Financial Services:**More and more small businesses now have access to financial services, promoting financial inclusion.
- (vii) **Global Reach:**Digital financial services also make it easy for small businesses to have cross-border transactions, opening doors to international markets.

4.4 Hindrances in Utilizing Digital Finance by Small Businesses

In spite of the successes recorded in the use of digital finance by small businesses, this sector of the economy is still facing mammoth challenges that affects the utilization and adoption of digital finance. Janet (2022);Lottu, Abdul, Daraojimba, Alabi, John-Ladega, and Daraojimba (2023) identified the following as some of the hindrances or challenges affecting the utilization of digital financial systems by not only small businesses but other members of the society:

- (i) **Cybersecurity Threats:** Cyberattacks, data breaches, and malicious activities pose substantial risks to banks and their customers. Opting for digital financial services set sensitive and private customer data, financial transaction information and critical infrastructure as prime targets for cybercriminals. Often times, small businesses are more targeted by cybercriminals owing to their perceived weaker defenses.
- (ii) **Initial Setup Costs:** Acquiring the digital payment infrastructure can be expensive. It is not all small businesses that can afford the initial cost of purchasing hardware and software needed, and even cost of training.
- (iii) **Poor Internet Connectivity:** Digital payment platforms require reliable and strong internet connection, which may not be available in certain regions, especially the rural areas.
- (iv) **Technological Literacy:** Digital finance system is a technology driven platform, and many of the small businesses owners are not well educated, which may create a barrier to the adoption of digital financial system.
- (v) **Incidence of Fraud:** As highlighted by EFInA (2023), a significant proportion of formally served Nigerians face challenges related to fraud incidence, poor service, and lack of clarity in financial information.
- (vi) **Transaction failure/Incomplete transaction:** One of the serious issues faced by users of digital financial services is unsolicited transaction failure or even incomplete transaction. Imagine a situation whereby a customer receives a debit alert for payment made and the other party could not confirm the corresponding credit alert. The time and financial cost of trying to reverse the transaction can be discouraging. Sometimes, this can lead to conflict between the two parties.
- (vii) **Transaction Fees:** The cost of transaction, even though lower than the traditional banking, can still pose a challenge for small businesses with small profit margins. Sometimes, charges are imposed on customers without explanation or clear financial information. For example, some of the financial institutions charge exorbitant rate for short message service(sms), such as charging three times the cost of one sms for a single transaction – OTP, alert for the amount transacted and another one for bank charges.

- (viii) Insufficient awareness of products offered by digital finance: Many people, including small businesses are not updated with information on all the services that can be obtained using digital financial services. The limited information on the services provided by digital finance platforms continues to hamper trust in other formal (non-bank) products.
- (ix) Resistance to Change: Sometimes, small business owners may prefer to be doing their businesses in the way they are used to, thereby refusing to try the digital financial system option. As opined by Clarence Danhof in his classification of entrepreneurs (Gajapathy, 2022) there are drone business owners who are conservatives, refusing to embrace the adoption of new methods. Instead, they prefer to remain where they are, even when the business environment is undergoing substantial changes and they are suffering losses.

5.0 Recommendations and Policy Imperatives to Enhance Use of Digital Finance by Small Businesses in Nigeria

The main aim of the 2018 National Financial Inclusion Strategy, was to reduce the proportion of adult Nigerians that are financially excluded from its baseline figure of 46.3% to 20% in the 2020 (NFIS, 2018). Undoubtedly, the use of digital financial systems by Nigerians have improved significantly, thereby leading to a reduction in the number of the adult population that are financially excluded. Nonetheless, as population increases, more and more people move into the adult population, thereby requiring the government and other relevant state actors to continue to review its policies and strategy of achieving total financial inclusion if possible.

Therefore, to enhance the financial inclusion of the adult population and enable more small businesses in Nigeria adopt the use of digital financial platforms, this paper makes the following recommendations as policy options:

1. CBN in collaboration with NCC should conduct or sponsor survey to develop geographic and institutional mapping of the use, non-use and failure of digital finance across the country.
2. Government should ensure that technological infrastructures are provided in areas, particular remote rural areas that do not have networks or internet services.
3. Key actors in the digital finance sector should strengthen the maintenance of existing digital infrastructure to reduce the incidence of network disruptions and improve users' trust and confidence in digital financial platforms.
4. CBN should work with Deposit Money Banks and Fintech companies to develop a digital response mechanism, where failed or incomplete transactions can be reported and totally resolved within 24 hours without physical visits to financial institution'.

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