

**ETHICAL FINANCE AND SMALL AND MEDIUM SIZE ENTERPRISE (SMES)
GROWTH IN EDO STATE NIGERIA**



BY

SOLOMON PRECIOUS

MGS2104914

**DEPARTMENT OF ENTREPRENEURSHIP,
FACULTY OF MANAGEMENT SCIENCES,
UNIVERSITY OF BENIN,
BENIN CITY.**

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**BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF
ENTREPRENEURSHIP, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY
OF BENIN, BENIN CITY, IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc)
DEGREE IN ENTREPRENEURSHIP**

NOVEMBER, 2025

DECLARATION

I, **SOLOMON PRECIOUS**, declare that;

- i. This study is based on a study undertaken by me in the Department of Entrepreneurship, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Mrs. Blessing Ogbomo of the Department of Entrepreneurship, Faculty of Management Sciences, University of Benin, Benin City, Nigeria.
- ii. This work has not been submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone

SOLOMON PRECIOUS

DATE

CERTIFICATION

We, certify that this research project was carried out by **Solomon Precious** in the Department of Entrepreneurship, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (B.Sc.) degree in Entrepreneurship.

MRS. BLESSING OGBOMO

(Project Supervisor)

Date

DR. OSAHON OKUNBO

(Project Coordinator)

Date

DR. S. O. OBEKI

(Head of Department)

Date

DEDICATION

I dedicate this project to the Almighty God for His wisdom, grace, and strength during this journey.

ACKNOWLEDGMENTS

First and foremost, I express my deepest gratitude to God Almighty for His grace, guidance, and unending support throughout the course of this project. Truly, none of this would have been possible without Him.

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Abstract

This study examined the impact of ethical finance on the growth of Small and Medium-sized Enterprises (SMEs) in Edo State, Nigeria focusing on key ethical finance dimensions such as transparency in loan terms, non-interest payment, fair interest rates, and non-discriminatory access to finance. The study adopted a descriptive survey design and collected primary data from 385 SME owners in Benin City, Edo State. Data were analyzed using descriptive statistics and multiple linear regression techniques. The findings revealed that transparency in loan terms, non-interest payment, fair interest rates, and non-discriminatory access to finance each have a significant positive effect on SME growth. The results further indicated that SMEs that engage with financial institutions operating under ethical principles experience greater access to funding, improved business performance, and sustainable expansion. The study concludes that ethical finance serves as a vital catalyst for inclusive economic development by fostering trust, fairness, and social responsibility in financial practices. It recommends that financial institutions adopt transparent lending policies, ensure fair pricing of credit, and eliminate discriminatory barriers to enhance SME growth and national economic progress.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and Medium-sized Enterprises (SMEs) constitute a vital pillar of Nigeria's economy, underpinning economic growth, employment generation, and innovation. These enterprises represent over 96% of Nigerian businesses and contribute nearly half of the country's Gross Domestic Product (GDP), while providing the bulk of employment opportunities for the Nigerian workforce (National Bureau of Statistics, 2023). Their growth is widely recognized as an essential driver of economic diversification and poverty alleviation in a nation grappling with high unemployment rates and regional economic disparities. The expansion of SMEs measured by increases in profitability, output, market reach, and workforce size directly influences the broader Nigerian economy's stability and dynamism. However, the growth trajectory of SMEs in Nigeria is contingent upon a variety of internal and external factors, with access to finance standing out as a key determinant (Oseni, 2020).

Although many SMEs possess entrepreneurial capabilities and innovative ideas, their ability to scale operations and compete effectively is often hindered by limited financial resources and unfavorable lending conditions. Thus, the availability and quality of financial support that SMEs receive are central to their ability to expand and contribute meaningfully to

Nigeria's economic development (Adebisi & Gbegi, 2021). Despite the recognized importance of finance in fostering SME growth, many Nigerian enterprises face persistent challenges in accessing affordable and adequate credit. These challenges stem from high-interest rates, excessive collateral demands, complex and non-transparent loan terms, and discriminatory lending practices that restrict the equitable distribution of financial resources (Chukwuma & Ogundele, 2020).

The nature of financial support matters not only in terms of quantity but also in terms of the ethical framework within which it is provided. Ethical finance, a concept gaining traction in recent years, focuses on embedding principles of transparency, fairness, social justice, and sustainability into financial services. Unlike conventional finance, which often prioritizes profit maximization without due regard for social impact or borrower welfare, ethical finance seeks to balance economic returns with ethical responsibilities toward borrowers and the wider community (Siddiqi, 2020). This paradigm shift in financing is especially pertinent for SMEs, which typically lack bargaining power and are vulnerable to exploitative practices prevalent in many financial markets.

Among models of ethical finance, Islamic banking represents a particularly robust and well-established framework. Islamic finance is governed by Shariah principles that prohibit interest (riba) and emphasize profit-and-loss sharing, risk-sharing, and social welfare (Aliyu & Yusof, 2021). These ethical tenets position Islamic banks as natural proponents of

responsible and inclusive finance (Abdullah & Chee, 2010). In Nigeria, where a significant proportion of the population is Muslim, Islamic banks have gained prominence as alternative providers of finance aligned with both religious and ethical values. The financing instruments used by Islamic banks such as Mudarabah (profit-sharing), Musharakah (joint ventures), and Murabaha (cost-plus sales) allow SMEs to access capital through partnerships rather than conventional debt, which reduces the burden of fixed interest payments and aligns the incentives of the bank and borrower toward shared business success (Hamid & Bello, 2022). Furthermore, Islamic banks place a strong emphasis on social responsibility, often channeling resources into underserved sectors and communities, thereby enhancing financial inclusion and supporting equitable economic development (Nasir & Bashir, 2023).

The ethical foundations of Islamic finance promote transparency by requiring full disclosure of contract terms, risks, and obligations, thus minimizing information asymmetry between lenders and SMEs (Azman et al., 2020). This clarity empowers SMEs to make informed decisions and plan effectively, thereby reducing the risk of financial distress caused by hidden fees or unpredictable repayment conditions (Ekundayo & Olaleye, 2023). Transparency in loan terms is a crucial sub-component of ethical finance, especially given that opaque lending practices in Nigeria have historically fostered mistrust and financial exclusion among small business owners (Adeleke & Akinlabi, 2021). When SMEs understand their financing obligations clearly, they are better able to manage cash flows, avoid default, and invest confidently in business expansion. Research confirms that

transparency enhances SME performance by building stronger, trust-based relationships with financial institutions, which in turn fosters timely repayments and increased access to future credit (Chima & Ugwuanyi, 2024).

Closely related to transparency is the issue of fair pricing, particularly the cost of borrowing. Fair interest rates or in the case of Islamic finance, equitable profit-sharing arrangements play a pivotal role in determining SME growth. Conventional banks in Nigeria often charge prohibitively high interest rates, sometimes exceeding 20%, which places a heavy financial burden on SMEs and limits their capacity to invest in productive activities (Oladejo & Yusuf, 2021). Such exorbitant rates increase default risks and discourage formal borrowing, pushing many entrepreneurs toward informal or predatory lenders. Ethical finance challenges this paradigm by advocating for reasonable, transparent pricing that aligns with SMEs' repayment capacities and business cycles (Ibrahim & Musa, 2020). Islamic banking's elimination of interest in favor of profit and loss sharing not only reduces the cost burden on SMEs but also aligns the financial outcomes of banks and entrepreneurs, encouraging joint efforts toward business success (Hamid & Bello, 2022). Empirical evidence from Nigeria shows that SMEs financed through Islamic banks often report better financial performance and growth prospects due to the flexibility and ethical underpinning of these financing arrangements (Nasir & Bashir, 2023).

A third critical dimension of ethical finance is non-discriminatory access to finance. Financial exclusion based on gender, geography, ethnicity, or sector affiliation significantly impairs SME growth by preventing deserving enterprises from accessing capital necessary for expansion. Studies indicate that women entrepreneurs, rural businesses, and SMEs in economically disadvantaged regions of Nigeria face greater barriers to obtaining finance from formal institutions (Obieche & Ihejirika, 2021). Ethical finance mandates equitable access to funding opportunities, promoting inclusivity and social justice by removing biases and discriminatory barriers (Akanbi & Adewale, 2022). Islamic banks, with their foundational commitment to social equity, actively promote financing for marginalized groups, including women and small-scale entrepreneurs in rural areas, thereby fostering broader economic participation (Mohammed & Yusuf, 2023). Additionally, innovations in digital financial services and ethical lending policies have expanded the reach of finance to previously excluded SMEs, strengthening the overall ecosystem for SME growth (Ugwuanyi & Chukwuma, 2023).

Together, transparency, fair pricing, and non-discriminatory access form the core pillars of ethical finance, creating a financial environment conducive to SME expansion and sustainability. When financial institutions embed these principles into their lending practices especially within the framework provided by Ethical financing, they not only facilitate the growth of individual enterprises but also contribute to systemic economic development. Transparent loan terms empower SMEs to manage their finances proactively; fair interest or

profit-sharing rates reduce the cost burden and encourage investment; and equitable access broadens the pool of entrepreneurs who can participate in economic activities. This ethical framework, therefore, acts as a catalyst, enabling SMEs to overcome traditional financing obstacles and achieve sustained growth that benefits both business owners and the broader Nigerian economy.

The growth of SMEs in Nigeria is linked to the ethical nature of financial services provided. While access to finance remains fundamental, the quality and ethical grounding of this finance determine its effectiveness in supporting SME development. By adopting and expanding ethical finance practices, financial institutions can foster an enabling environment that unlocks the full potential of SMEs, thereby driving inclusive economic growth, job creation, and national development.

1.2 Statement of the Problem

Small and Medium-sized Enterprises (SMEs) play a critical role in Edo state, Nigeria's economic development by contributing to job creation, industrialization, and poverty reduction. Despite their importance, the growth of SMEs in Nigeria continues to face numerous challenges, especially in accessing ethical finance. Existing literature reveals that financial constraints such as lack of transparency in loan terms, high interest rates, and discriminatory lending practices significantly hinder SMEs' ability to expand and perform

optimally (Wang, C., Zhao, S., Zheng, H., & Bai, Y. 2022). Ibrahim and Ndidi (2020) highlighted the positive influence of bank lending on SME growth but emphasized the need for improved financial access mechanisms. Similarly, Kayode and Abdulwaheed (2024) demonstrated that transparent loan terms enhance SMEs' financial management and growth, while Ezeaku et al. (2017) identified the negative impact of high interest rates on SMEs' performance. Obieche and Ihejirika (2021) further discussed how equitable access to finance supports SME development. Although these studies provide valuable insights, they predominantly focus on specific aspects such as overall lending or broad financial inclusion, often overlooking a comprehensive evaluation of ethical finance practices as a multidimensional construct.

Most importantly, previous research has tended to concentrate on entrepreneurs or startup ventures rather than established small businesses classified as SMEs, leaving a critical gap in understanding how ethical finance directly affects this broader group. Moreover, these studies often isolate individual factors like interest rates or transparency but do not collectively assess the combined effects of transparency in loan terms, non interest payment, fair interest rates, and non-discriminatory access on SME growth. This gap limits the ability to develop holistic financial policies that address the interconnected nature of these ethical finance dimensions. Therefore, this study aims to fill this gap by focusing specifically on small businesses under the SME category, assessing how the integrated ethical finance factors

transparency in loan terms, fair interest rates, and non-discriminatory access affect their growth in Nigeria.

1.3 Research Question

Based on the identified gaps, the study seeks to answer the following questions:

1. How does transparency in loan terms affect the growth of Small and Medium-sized Enterprises (SMEs) in Edo State, Nigeria?
2. What is the influence of non interest payment on SMEs growth Edo State, Nigeria?
3. What is the impact of fair interest rates on the performance and growth of SMEs in Edo State, Nigeria?
4. To what extent does non-discriminatory access to finance influence the growth of SMEs in Edo State, Nigeria?

1.4 Objective of the Study

The main objective of this study is to assess ethical finance and small and medium size enterprise (SMES) Growth in Nigeria, specifically the study aim to;

1. examine the effect of transparency in loan terms on the growth of Small and Medium-sized Enterprises (SMEs) in Edo State, Nigeria.
2. examine the influence of non interest payment on SME's growth in Edo State, Nigeria.

3. evaluate the impact of fair interest rates on the growth and performance of SMEs in Edo State, Nigeria.
4. assess how non-discriminatory access to finance influences the growth of SMEs in Edo State, Nigeria.

1.5 Research Hypotheses

The following hypotheses were raised in a null form to guide this study;

H₀₁: Transparency in loan terms has no significant effect on the growth of Small and Medium-sized Enterprises (SMEs) in Edo State, Nigeria.

H₀₂: Non interest payment has no significant effect on SME's growth in Edo State, Nigeria.

H₀₃: Fair interest rates have no significant impact on the growth and performance of SMEs in Edo State, Nigeria.

H₀₄: Non-discriminatory access to finance does not significantly influence the growth of SMEs in Edo State, Nigeria.

1.6 Scope of the Study

Conceptually, this study investigates the relationship between ethical finance and the growth of Small and Medium-sized Enterprises (SMEs) in Nigeria. The independent variable, ethical

finance, is proxied by transparency in loan terms, non interest payment, fair interest rates, and non-discriminatory access to finance, while the dependent variable is SMEs growth. Geographically, the study focuses on SMEs operating in Benin City, Edo State. The timeframe for data collection and analysis will cover from July to November, ensuring relevance to current financial and economic conditions affecting SMEs. This study specifically targets both new startups or individual entrepreneurs, and all forms of small businesses that contribute significantly to Nigeria's economy.

1.7 Significance of the Study

This study holds considerable significance for multiple stakeholders. For financial institutions and policymakers, it provides critical insights into how ethical finance practices such as transparent loan terms, reasonable interest rates, and equitable lending can stimulate SME growth and economic development. These findings can guide the design of more effective lending policies and regulatory frameworks that encourage responsible financing and reduce barriers for SMEs. For SME owners and managers, the study highlights key financial practices that can enhance access to funding, promote sustainable growth, and improve business performance. Academically, this research contributes to the body of knowledge on the role of ethical finance in emerging economies, especially in the Nigerian context where SMEs face unique challenges. Researchers and students can use these findings to inform further studies on ethical finance and SME development. Finally, the study benefits the

broader Nigerian economy by informing strategies that support SME expansion, which is vital for job creation and poverty reduction.

1.8 Limitation of the Study

This study faces several limitations. First, obtaining comprehensive and consistent data from SMEs across Nigeria may be challenging due to variations in record-keeping and disclosure practices and so, the need to settle for just Business owners in Benin City, Edo State for Nigeria. Some SMEs may also be reluctant to share financial information due to privacy concerns or distrust, potentially leading to incomplete datasets. Second, the reliance on self-reported data through surveys or interviews introduces the risk of response bias, as participants might provide socially desirable answers rather than candid responses. Third, the study's focus on ethical finance dimensions transparency, non interest payment, fair interest rates, and non-discriminatory access. Other factors influencing SME growth, such as managerial capacity or market conditions, may not be fully addressed. To mitigate these limitations, the study will use multiple data sources, ensure respondent anonymity, and apply robust data validation techniques to enhance reliability and accuracy.

1.9 Definition of Terms

Small and Medium-sized Enterprises (SMEs): Businesses classified based on their size, typically characterized by a limited number of employees and relatively moderate capital

investment, playing a crucial role in economic development by generating employment and contributing to GDP. In Nigeria, SMEs encompass businesses that fall below the thresholds set by national regulatory bodies and account for the majority of business activities in the country (Timothy, 2021).

Ethical Finance: A financial approach that emphasizes transparency, fairness, social responsibility, and sustainability in lending and investment practices. Ethical finance seeks to balance profit-making with moral and social considerations, protecting the interests of borrowers and promoting equitable economic growth.

Islamic Banking: A financial system operating according to Shariah law principles, which prohibits the payment or receipt of interest (riba) and advocates profit-and-loss sharing, risk-sharing, and social justice. Islamic banking offers alternative financing instruments such as Mudarabah, Musharakah, and Murabaha, designed to promote ethical and inclusive financial services.

Transparency in Loan Terms: The practice of providing clear, complete, and understandable information regarding loan conditions, including repayment schedules, interest or profit rates, fees, and penalties, to borrowers. Transparency reduces information asymmetry and builds trust between lenders and SMEs.

Fair Interest Rates: Reasonable and just pricing of credit that aligns with the borrower's ability to repay, avoiding exploitative or excessively high rates that may stifle business growth and lead to financial distress.

Non-Discriminatory Access to Finance: The equitable availability of financial services to all eligible businesses regardless of gender, location, ethnicity, or sector, ensuring no undue bias or barriers in lending practices that might exclude deserving SMEs.

SME Growth: The measurable increase in the capacity, output, profitability, market reach, and employment generated by small and medium-sized enterprises, reflecting their development and contribution to the broader economy.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviewed the related literature of the study, it starts by reviewing conceptually the dependent and independent variable, it further reviewed relevant theories and finally reviewed related empirical studies.

2.1 Conceptual Review

2.1.1 Growth of Small and Medium-Sized Enterprises (SMEs) in Nigeria

SME growth refers to the measurable expansion of small and medium-sized enterprises across various performance indicators such as revenue, employee size, production output, market share, and geographical reach. Growth can be both quantitative (e.g., increased sales and profits) and qualitative (e.g., improved management practices or technological innovation) (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011).

The growth of Small and Medium-Sized Enterprises (SMEs) in Nigeria has been a focal point in the country's economic development discourse, reflecting both the sector's potential and

the challenges it faces. SMEs in Nigeria constitute a significant proportion of business activities and are recognized as critical drivers of employment, innovation, and GDP contribution. Over recent years, the SME sector has witnessed considerable expansion, driven by increased entrepreneurial activities, government interventions, and the gradual improvement of the business environment (Abubakar et al., 2019). One of the key aspects fueling the growth of Nigerian SMEs is the increasing recognition of entrepreneurship as a viable career path, particularly among the youth. This demographic shift has led to a surge in the establishment of new small and medium enterprises across various sectors, including agriculture, manufacturing, services, and technology. The government of Nigeria has also played a role by launching various policies and programs aimed at supporting SMEs, such as the establishment of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and funding initiatives designed to enhance access to credit and capacity building. These efforts have facilitated a more enabling environment for SMEs to thrive and have contributed to their sustained growth over the past decade (Otokiti et al., 2022).

Additionally, peer-to-peer lending and crowdfunding have started to gain traction as alternative financing mechanisms, helping to bridge the funding gap and support SME growth. The growing fintech landscape in Nigeria has been instrumental in providing tailored financial products that comply with Shariah principles and support risk-sharing, which is particularly relevant for Islamic finance-compliant SMEs (Sa'ad et al., 2019).

Government policies continue to evolve to further nurture the SME sector, with recent strategic roadmaps emphasizing the integration of SMEs into the broader national economic diversification agenda. Efforts are being made to align SME development with the National Digital Economy Policy and Strategy (NDEPS) to leverage technology for enhanced competitiveness and innovation. These policies stress the importance of creating an ecosystem that fosters entrepreneurship, promotes quality standards, and ensures access to finance and markets. However, successful implementation remains a challenge, requiring stronger institutional coordination, transparency, and sustained investment in infrastructure and human capital development (Agu et al., 2024).

The growth of SMEs in Nigeria has been significant, reflecting a dynamic and expanding sector that holds immense promise for economic development. The increase in entrepreneurial ventures, government support, and the adoption of digital technologies have collectively contributed to this positive trajectory. Nonetheless, persistent challenges such as limited access to finance, infrastructural bottlenecks, regulatory hurdles, and the impacts of recent global shocks continue to limit the full potential of SMEs. Addressing these challenges through comprehensive policy frameworks, improved financing mechanisms, and enhanced capacity building will be essential to sustain and accelerate the growth of SMEs in Nigeria, ultimately fostering greater economic diversification, job creation, and inclusive development (Oluremi & Maku, 2024).

2.1.2 Ethical Finance

Ethical finance refers to financial practices and systems that prioritize moral values, social responsibility, and environmental sustainability alongside profitability. Unlike conventional finance, which often emphasizes short-term gains and shareholder returns, ethical finance integrates principles that promote transparency, fairness, and accountability, ensuring that financial activities contribute positively to society. This approach has gained considerable traction globally as investors, regulators, and consumers increasingly demand that financial institutions operate responsibly and align their operations with broader ethical and sustainable development goals (Shalhoob, 2025).

A core aspect of ethical finance is the incorporation of Environmental, Social, and Governance (ESG) criteria into investment and lending decisions. ESG factors evaluate a company's impact on the environment, its treatment of employees and communities, and the quality of its leadership and governance structures. Financial institutions that embrace ESG frameworks seek to mitigate risks associated with environmental damage, social injustice, and poor governance, thereby promoting sustainable economic growth. Empirical studies indicate a positive relationship between ESG disclosures and financial performance, as ethical practices build stakeholder trust, improve corporate reputation, and reduce risks linked to regulatory penalties and social backlash (Shalhoob, 2025).

Islamic finance exemplifies one of the most well-established models of ethical finance, grounded in Shariah law, which prohibits interest (riba) and encourages profit-and-loss sharing, risk-sharing, and social welfare. This system inherently promotes transparency and fairness by mandating full disclosure of contract terms and emphasizing equitable risk distribution between parties. The ethical imperatives of Islamic finance extend beyond mere financial transactions to encompass social justice, poverty alleviation, and economic inclusion. Recent research underscores how Islamic financial institutions have been adopting blockchain and smart contract technologies to further enhance transparency, reduce operational risks, and ensure compliance with Shariah principles, thereby fostering trust and accountability (Antova & Tayachi, 2019); (Zulkepli et al., 2023).

Beyond Islamic finance, ethical finance encompasses a wide range of responsible investment approaches, including socially responsible investing (SRI), impact investing, and green finance. These approaches seek to channel capital into enterprises and projects that generate measurable social and environmental benefits while delivering financial returns. For instance, impact investing focuses on funding businesses that address social challenges such as affordable housing, renewable energy, and healthcare access. Ethical finance thereby acts as a bridge between financial markets and sustainable development objectives, encouraging the allocation of resources to activities that support the United Nations Sustainable Development Goals (SDGs) (Sekreter, 2013).

Transparency is a fundamental pillar of ethical finance, ensuring that investors and other stakeholders have access to clear, accurate, and timely information about financial products, risks, and governance practices. This reduces information asymmetry, prevents exploitative practices, and fosters market discipline. Voluntary disclosures, robust regulatory frameworks, and the adoption of advanced technologies like blockchain contribute to enhancing transparency and accountability within ethical finance systems (Ameer, 2018). Moreover, ethical finance encourages stakeholder engagement, incorporating the interests of communities, employees, and the environment into financial decision-making processes. Ethical finance represents a paradigm shift in the financial sector, moving away from profit-maximization at all costs toward a more balanced approach that integrates economic, social, and environmental objectives. Its growing adoption, supported by regulatory advancements, technological innovations, and evolving investor preferences, positions ethical finance as a vital component in fostering sustainable and inclusive economic development worldwide (Shalhoob, 2025).

2.1.2.1 Transparency in Loan Terms

Transparency in loan terms is a critical component of ethical and responsible finance, particularly in fostering trust between lenders and borrowers, reducing information asymmetry, and minimizing financial disputes. Transparent loan agreements clearly outline the rights, obligations, risks, and costs associated with borrowing, thereby empowering

borrowers especially small and medium-sized enterprises (SMEs) to make informed financial decisions. This transparency is essential for promoting financial inclusion and enhancing the sustainability of lending relationships. In Islamic finance, transparency is a foundational principle due to the religious prohibition against *riba* (interest) and *gharar* (excessive uncertainty or ambiguity) in contracts. Islamic financial institutions are mandated to disclose comprehensive details of contract terms, including profit-and-loss sharing arrangements, fees, risk allocation, and repayment schedules. This clear disclosure reduces the risk of misunderstandings and builds confidence among participants by ensuring that all parties fully understand their contractual commitments (Salleh et al., 2022). The rigorous adherence to transparency within Islamic finance supports the ethical mandate to avoid exploitation and injustice, which is critical in lending to SMEs that often have limited bargaining power and financial literacy.

The importance of transparency in loan terms extends beyond Islamic finance and is increasingly recognized in conventional financial systems as a means to improve credit access and reduce default rates. Transparent loan agreements detail the interest rate or profit rate, any applicable fees or penalties, the collateral requirements, and early repayment conditions. This clarity enables borrowers to assess the true cost of borrowing and plan their finances accordingly, which is especially vital for SMEs whose cash flows can be volatile (Ameer, 2018). Moreover, regulators around the world emphasize transparent disclosure to protect consumers and enhance market discipline. For example, in Nigeria, reforms and

policies aimed at improving lending transparency have been introduced to build trust and encourage more SMEs to engage with formal financial institutions (Gumel & Bardai, 2021).

Technological advancements have further enhanced transparency in loan terms. The adoption of blockchain technology and smart contracts in Islamic finance has created immutable, self-executing contracts where terms are coded transparently and executed automatically when predefined conditions are met. This innovation reduces operational risks, minimizes disputes, and strengthens regulatory compliance (Zulkepli et al., 2023). Similarly, digital lending platforms use automated disclosures and interactive tools to help borrowers understand loan terms better, thus democratizing access to credit and improving borrower outcomes (Sa'ad et al., 2019). Research has highlighted that transparency in loan terms is directly linked to improved financial performance and reduced default rates among SMEs. When borrowers clearly understand their repayment schedules and potential risks, they can better manage cash flow and avoid penalties associated with missed payments. Enhanced transparency also allows lenders to set more appropriate risk premiums and design financing products tailored to the needs of SMEs, thus facilitating financial inclusion (Azman et al., 2020).

However, achieving transparency in loan terms is challenged by information asymmetry, varying levels of financial literacy, and inadequate regulatory enforcement. In many developing countries, including Nigeria, SMEs often struggle with understanding complex loan documents, which are frequently written in legalistic language. This gap underscores the

need for borrower education, simplified disclosure formats, and stronger oversight by financial regulators to ensure that transparency translates into practical comprehension and informed consent (Sekreter, 2013). Transparency in loan terms is a fundamental ethical and practical requirement for responsible finance, particularly for SME lending. It reduces uncertainty, fosters trust, improves repayment behavior, and promotes financial inclusion. The integration of emerging technologies, combined with regulatory support and borrower education, holds promise for advancing transparency and ultimately strengthening the financial ecosystem for SMEs in Nigeria and beyond (Ameer, 2018).

2.1.2.2 Non Interest Payment

Non-interest payment is a central principle in ethical finance, particularly within the Islamic finance system, where the charging or paying of interest (riba) is explicitly prohibited under Shariah law. This prohibition aims to prevent exploitation, promote fairness, and encourage productive risk-sharing between parties involved in financial transactions. Instead of conventional interest, Islamic finance relies on alternative profit-and-loss sharing mechanisms and fee-based contracts that ensure returns are linked to the actual performance and risk of the underlying investment or asset. The avoidance of interest payments addresses several ethical and economic concerns prevalent in conventional finance, such as the accumulation of debt burdens that disproportionately affect borrowers, especially small and medium-sized enterprises (SMEs) and marginalized communities. By disallowing interest,

Islamic finance promotes justice and social welfare, encouraging financial activities that contribute to real economic growth rather than speculative gain (Aliyu & Yusof, 2021). This principle fosters a more equitable distribution of wealth and supports sustainable financial practices aligned with social responsibility.

Non-interest payment frameworks in Islamic finance include contracts such as Mudarabah (profit-sharing), Musharakah (joint venture), Ijarah (leasing), and Murabaha (cost-plus financing). In these arrangements, the financial institution shares the risks and rewards with the client, ensuring that both parties have a vested interest in the success of the enterprise. For example, in a Musharakah contract, profits are shared according to a pre-agreed ratio, but losses are borne in proportion to the capital invested, thus incentivizing prudent investment decisions and mitigating excessive risk-taking (Yurkevich et al., 2022).

This ethical approach to financing contrasts sharply with the conventional fixed-interest loan, where lenders receive guaranteed returns regardless of the borrower's business outcome, potentially exacerbating financial distress during downturns. By promoting risk-sharing rather than risk transfer, non-interest payment models encourage responsible lending and borrowing behaviors, helping to build more resilient and inclusive financial ecosystems. These models are particularly advantageous for SMEs, which often face volatile business environments and may lack collateral for traditional loans (Gbandi & Amissah, 2014).

The implementation of non-interest payment systems has been facilitated and enhanced by advancements in financial technology (fintech), including blockchain and smart contracts. These technologies help automate profit-and-loss sharing agreements, increase transparency, and reduce operational costs and risks. For instance, smart contracts coded on blockchain can ensure that profit distributions and loss allocations occur automatically according to pre-defined terms, fostering trust and minimizing disputes between parties (Antova & Tayachi, 2019). This integration of technology aligns with the ethical objective of fairness and operational efficiency. Non-interest payment models also contribute to broader sustainable development goals by encouraging investments in socially beneficial and productive sectors such as agriculture, infrastructure, and small-scale manufacturing. By aligning financial returns with real economic activities, these models support job creation, poverty reduction, and community development (Shalhoob, 2025).

However, despite their advantages, non-interest payment systems face challenges in widespread adoption, including regulatory hurdles, limited awareness, and the need for specialized legal and financial expertise to structure compliant contracts. Moreover, conventional financial markets and institutions may resist non-interest frameworks due to unfamiliarity and perceived risks. Addressing these challenges requires coordinated efforts by policymakers, regulators, financial institutions, and educational initiatives to build capacity and create conducive environments for ethical finance models to flourish (Ekwem, 2011). Non-interest payment represents a foundational ethical finance principle that fosters equitable,

risk-sharing financial relationships, aligning profitability with real economic outcomes and social justice. Its growth, supported by technological innovation and policy reforms, promises to enhance financial inclusion and sustainable economic development, particularly for SMEs and underserved populations (Aliyu & Yusof, 2021).

2.1.2.3 Fair Interest Rates

Fair interest rates are a critical aspect of ethical finance, aiming to balance the needs of lenders and borrowers while fostering sustainable economic growth and social justice. Although Islamic finance strictly prohibits interest (riba), in conventional ethical finance frameworks, establishing fair interest rates is essential to prevent exploitative lending practices that can lead to financial distress, particularly for vulnerable groups such as small and medium-sized enterprises (SMEs). Fair interest rates ensure that the cost of borrowing is reasonable, reflecting the actual risk involved and the borrower's capacity to repay, thus promoting equitable access to finance. In conventional finance, fair interest rates are typically determined by market conditions, credit risk assessments, and regulatory frameworks. However, ethical finance goes beyond mere market forces to incorporate considerations of fairness, transparency, and social impact. This means that financial institutions are encouraged to set interest rates that do not impose undue burdens on borrowers or encourage excessive risk-taking. Studies have shown that when interest rates are perceived as fair,

borrowers are more likely to maintain repayment discipline, which reduces default rates and enhances the overall stability of the financial system (Ameer, 2018).

In the context of Nigerian SMEs, fair interest rates are particularly important due to the sector's reliance on affordable credit to finance growth and innovation. Excessively high interest rates can stifle entrepreneurship, limit business expansion, and exacerbate financial exclusion. The Nigerian government and regulatory bodies have therefore introduced policies aimed at capping interest rates and promoting competitive lending environments to protect SMEs and encourage their participation in formal financial markets (Gumel & Bardai, 2021). Furthermore, microfinance institutions and fintech lenders have played a growing role in offering more flexible and fair interest rates tailored to the specific needs and risks of SMEs (Sa'ad et al., 2019).

Fair interest rates also align with broader ESG (Environmental, Social, and Governance) principles by promoting financial inclusion and reducing inequality. Ethical finance institutions often incorporate social risk assessments alongside financial risk, ensuring that lending practices do not disproportionately disadvantage marginalized or low-income borrowers. This social lens encourages the adoption of interest rates that support sustainable development goals, such as poverty reduction and inclusive economic growth (Shalhoob, 2025). Technology has also contributed to the determination and management of fair interest rates by enabling more accurate credit scoring and risk assessment, particularly for SMEs

with limited formal credit histories. Digital lending platforms use data analytics and alternative data sources to tailor interest rates to individual risk profiles, thereby reducing information asymmetry and ensuring more equitable pricing of credit. These innovations enhance transparency and trust between lenders and borrowers, reinforcing the ethical mandate to offer fair and just financial services (Zulkepli et al., 2023).

Despite these advances, challenges remain in ensuring fair interest rates globally and in Nigeria. Regulatory gaps, market monopolies, and economic volatility can lead to interest rate distortions that harm SMEs and other borrowers. Addressing these issues requires continuous regulatory oversight, consumer protection measures, and the promotion of competition within financial markets (Agu et al., 2024). Fair interest rates form a vital component of ethical finance by ensuring that credit costs are reasonable, transparent, and reflective of actual risk. They support SME growth, enhance financial inclusion, and align financial practices with broader social and environmental goals. Advances in technology and regulatory reforms are key enablers in promoting fair interest rates, contributing to more resilient and inclusive financial systems (Ameer, 2018).

2.1.2.4 Non-Discriminatory Access to Finance

Non-discriminatory access to finance is a fundamental principle within ethical finance, emphasizing that all individuals and businesses, regardless of gender, ethnicity, religion, or socioeconomic status, should have equal opportunities to obtain financial services. This

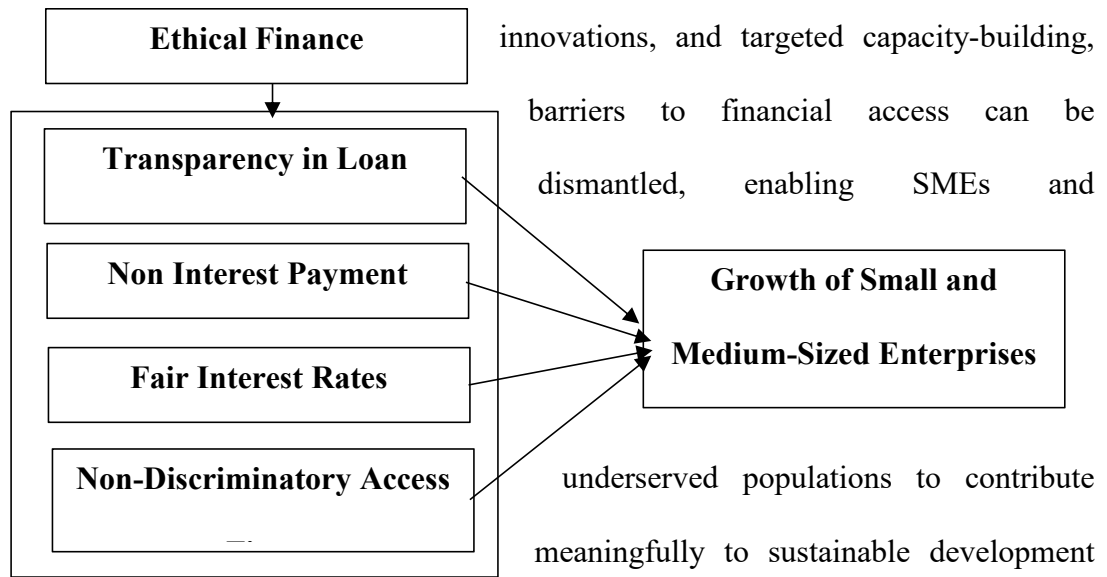
principle is particularly crucial for small and medium-sized enterprises (SMEs), which often face systemic barriers in accessing credit and other financial products necessary for growth and sustainability. Ensuring non-discriminatory access contributes to social justice, economic inclusion, and the overall development of equitable financial ecosystems. In many developing countries, including Nigeria, SMEs represent a significant portion of economic activity but frequently encounter discrimination in accessing finance due to biases, lack of collateral, or insufficient credit histories. This exclusion disproportionately affects women-led businesses and entrepreneurs from marginalized communities, limiting their potential to contribute fully to economic growth and job creation. Research underscores that non-discriminatory financial access can reduce poverty and stimulate inclusive development by enabling a broader segment of the population to participate in formal economic activities (Otokiti et al., 2022).

Ethical finance frameworks actively promote the removal of discriminatory practices through transparent lending criteria, fair risk assessments, and tailored financial products that address the specific needs of underserved groups. Islamic finance, for instance, embeds social justice into its core by encouraging risk-sharing and prohibiting exploitative contracts, thus offering financial solutions that are inclusive and equitable. The emphasis on community welfare and social responsibility in Islamic financial principles supports non-discriminatory access by facilitating financing models that do not rely solely on traditional creditworthiness metrics (Aliyu & Yusof, 2021).

Fintech innovations have also played a pivotal role in advancing non-discriminatory access to finance by leveraging alternative data sources, artificial intelligence, and mobile platforms to reach underserved populations. These technologies allow lenders to assess creditworthiness beyond conventional parameters, enabling more inclusive lending practices. Peer-to-peer lending, crowdfunding, and digital microfinance platforms are examples of innovations that have expanded financial access to women entrepreneurs, rural businesses, and startups that previously struggled to obtain formal credit (Sa'ad et al., 2019). Regulatory bodies and governments are increasingly recognizing the importance of non-discriminatory finance in fostering inclusive economic growth. In Nigeria, policies aimed at enhancing financial inclusion explicitly address barriers faced by marginalized groups, promoting gender equality in access to finance and encouraging the development of SME-friendly regulatory environments (Agu et al., 2024). Financial literacy programs and capacity-building initiatives complement these policies by empowering potential borrowers to navigate financial systems effectively, thereby reducing exclusion due to lack of knowledge or confidence (Olukayode et al., 2023).

Despite these advancements, challenges remain in fully achieving non-discriminatory access to finance. Institutional biases, cultural norms, and economic disparities still impede equal participation in financial markets. Addressing these issues requires ongoing efforts to strengthen legal frameworks, improve transparency, and foster partnerships between public and private sectors to develop innovative and inclusive financial products (Gumel & Bardai,

2021). Non-discriminatory access to finance is a cornerstone of ethical finance, essential for promoting social equity and inclusive economic growth. Through regulatory reforms, fintech



(Otokiti et al., 2022).

Fig 2.1: Author's Conceptualization, 2025.

2.2 Theoretical Review

In exploring ethical finance and equitable access to finance for SMEs, grounding the study in appropriate theoretical frameworks is vital for robust analysis and interpretation. Among various theories that address organizational ethics, resource management, and social interactions, three stand out as particularly relevant: Stakeholder Theory (Freeman, 1984), Resource-Based View (RBV) Theory (Barney, 1991), and Social Exchange Theory (Homans, 1958; Blau, 1960s). While each offers valuable insights, this study underpins most strongly with Stakeholder Theory because of its comprehensive focus on ethical governance, inclusiveness, and balancing multiple interests a perfect fit for examining transparency, fairness, and non-discriminatory finance access for SMEs.

2.2.1 Stakeholder Theory

Propounded by R. Edward Freeman in 1984, argues that organizations have ethical and strategic responsibilities to all stakeholders affected by their actions not just shareholders but also employees, customers, communities, and financiers. This theory's emphasis on inclusiveness and accountability aligns closely with the ethical finance principles of transparency and fairness, particularly relevant for SMEs who are often marginalized in traditional financial markets. It provides a normative foundation that justifies why financial institutions should operate transparently and fairly, ensuring equitable access to finance and protecting vulnerable stakeholders from exploitative practices.

Despite its appeal, Stakeholder Theory has critics who argue that its broad inclusiveness can lead to managerial paralysis as balancing diverse, sometimes conflicting, stakeholder interests can be challenging and inefficient. Some also critique its lack of specificity on how to prioritize stakeholder demands in practical decision-making. Nonetheless, for a study centered on ethical finance and SME access, these critiques are outweighed by the theory's strengths. Its normative emphasis on ethical responsibility and social justice provides a guiding framework for analyzing how financial institutions should engage SMEs, making it the most perfect theory for this research.

2.2.2 Resource-Based View (RBV)

Developed by Jay Barney in 1991, which explains competitive advantage through unique organizational resources and capabilities. RBV's relevance to this study lies in its framing of access to finance as a critical resource enabling SMEs to grow and compete. Ethical finance that ensures transparent and fair access acts as a valuable strategic asset for SMEs. However, RBV is often criticized for focusing too narrowly on internal resources and underestimating external environmental or institutional factors, such as discriminatory lending practices. Thus, while RBV is valuable for understanding SME competitiveness, it lacks the ethical and social justice dimension critical to this study's focus.

2.2.3 Social Exchange Theory

Introduced by George Homans in 1958 and expanded by Peter Blau in the 1960s, conceptualizes interactions as reciprocal exchanges based on trust, fairness, and mutual benefit. This theory aptly explains the relationship dynamics between lenders and SMEs in ethical finance. Transparent loan terms and non-discriminatory access foster trust and long-term cooperation. Critics contend Social Exchange Theory simplifies complex human motivations by focusing predominantly on rational cost-benefit calculations and may overlook cultural and emotional factors. Nonetheless, its focus on trust and reciprocity remains highly applicable to ethical lending practices.

2.2.4 Theoretical Framework

While Resource-Based View and Social Exchange Theory provide important perspectives on resources and relational dynamics, Stakeholder Theory stands out as the most comprehensive and normative framework to underpin this study. Its ability to integrate ethical governance, inclusiveness, and accountability directly addresses the core challenges of ethical finance and SME access, making it the ideal lens despite its critiques. The theory's focus on balancing diverse stakeholder interests not only grounds the study in ethical principles but also provides practical relevance for understanding how financial institutions can improve SME financing in Nigeria and beyond.

2.3 Empirical Review

Agu et al. (2024) conducted a study titled “A Model for Standardizing Nigerian SMEs: Enhancing Competitiveness” with the objective of proposing a comprehensive framework to improve the competitiveness of Nigerian SMEs through the adoption of quality control measures and standardization. The study employed a qualitative review methodology, analyzing existing literature, policies, and best practices related to SME development. Although no specific sample size was involved due to the nature of the review, the focus was geographically centered on Nigeria. The findings indicated that Nigerian SMEs could significantly enhance their competitiveness by implementing sector-specific quality control frameworks supported by government and institutional backing. However, the study identified a gap in the lack of empirical testing of the proposed model on a large scale of SMEs, which limits the generalizability and practical application of the recommendations.

Oluremi and Maku (2024) examined the relationship between small and medium-scale enterprises (SMEs) and economic growth in Nigeria in their quantitative study titled “Small and Medium Scale Enterprises and Nigeria’s Economic Growth.” Utilizing various macroeconomic data sources, the study analyzed factors such as loans, labor participation, and patent applications to understand their impact on SME growth across Nigeria. The research found that access to loans and increased labor participation significantly contribute to the growth and performance of SMEs. Conversely, patent applications were observed to have a less pronounced effect, suggesting innovation measured by patents may not yet be a key driver for SME expansion in the Nigerian context. Despite the comprehensive nature of

the macroeconomic data analysis, the study's limitation lies in its broad scope, which does not provide sector-specific insights. This gap highlights the need for more detailed investigations into particular industries or SME categories to better tailor growth interventions. Additionally, the study does not address micro-level factors such as financing barriers or management practices. Nevertheless, the findings underscore the importance of enhancing credit access and workforce engagement as critical policy targets for fostering SME-driven economic growth in Nigeria.

In their qualitative study "Trajectory of SME Development: Diversification Progress in Nigeria," Umar et al. (2024) explored the evolving role of small and medium-sized enterprises within Nigeria's economic diversification agenda. The study focused on policy reforms and the adoption of digital technologies as key drivers supporting SME resilience and sustained growth. Through document analysis and expert interviews, the authors identified that Nigeria's push towards integrating digital tools such as e-commerce, mobile banking, and digital supply chains has empowered SMEs to adapt more effectively to economic shocks and increase their market reach. Policy frameworks like the National Digital Economy Policy and Strategy (NDEPS) were highlighted as critical enablers promoting innovation and competitiveness in the SME sector. However, the research acknowledged that these qualitative insights require further validation through quantitative approaches to measure the tangible impact of these reforms across different SME clusters and regions. The absence of extensive quantitative data constrains the ability to generalize

findings or evaluate sector-specific digital adoption rates. Still, the study contributes valuable understanding of the mechanisms through which digital transformation and strategic policy alignment facilitate SME development, offering a roadmap for future empirical research focused on Nigeria's SME sector modernization.

Otokiti et al. (2022) conducted a mixed-methods study titled "Framework for Developing Resilient Business Models for Nigerian SMEs," aiming to identify key factors influencing the resilience and sustainability of SMEs in Nigeria. Utilizing a combination of qualitative interviews and quantitative surveys with a sample of 50 SMEs in Lagos, the study examined how risk management strategies and digital transformation initiatives affect SME viability. The findings revealed that many SMEs lack formal risk mitigation frameworks, making them vulnerable to economic disruptions such as inflation, policy instability, and market fluctuations. The study emphasized the critical role of digital technologies like cloud computing, e-commerce platforms, and data analytics in enhancing operational efficiency and market access, which can bolster resilience. Despite these valuable insights, the study's limited sample size and geographic focus on Lagos restrict the broader applicability of its conclusions to Nigeria's diverse SME landscape. The authors recommended scaling the research with larger samples and across different regions to validate the proposed resilience framework. Nonetheless, the study provides a foundational approach to integrating risk management and digital tools into SME business models, highlighting actionable strategies to support Nigerian SMEs' sustainability in uncertain economic environments.

Gumel and Bardai (2021) explored “Barriers to Accessing Financial Institutions Funding for Nigerian SMEs” through a survey-based approach targeting various SMEs across Nigeria. The study aimed to identify the principal obstacles SMEs face when seeking formal financing. The findings highlighted that stringent collateral requirements, high-interest rates, and complex application processes significantly hinder SMEs from obtaining necessary funding. These financing barriers limit SMEs’ ability to invest, expand operations, and innovate, ultimately constraining their contribution to economic development. The authors noted that these challenges disproportionately affect small businesses and startups lacking sufficient assets or financial history. However, the study did not explore alternative financing options available within informal sectors, such as community savings groups or microfinance, which could provide complementary sources of capital. Additionally, the study called for more robust policy interventions to ease lending conditions and develop inclusive financial products tailored to SMEs. Despite these gaps, Gumel and Bardai’s work provides critical evidence of the structural financial constraints limiting SME growth in Nigeria and underscores the urgent need for reforms to improve access to affordable credit.

In a narrative case study titled “SMEs: Key to Socio-Economic Development of Nigeria,” Timothy (2021) examined the role of SMEs in promoting employment, wealth creation, and economic stability. Drawing on secondary data and literature, the study argued that SMEs are indispensable to Nigeria’s socio-economic fabric, contributing substantially to job creation and poverty alleviation. However, it also highlighted persistent challenges such as unstable

economic policies, political interference, and infrastructural deficits that undermine SME growth and sustainability. The author underscored the need for concerted government efforts to create a conducive business environment and enhance access to finance and technology. The study's major limitation is its reliance on secondary, qualitative data without empirical evidence or quantitative measures, which restricts the ability to assess the magnitude or nuances of SME contributions and challenges. Nonetheless, Timothy's work provides a valuable conceptual overview that underscores the strategic importance of SMEs within Nigeria's development agenda and sets the stage for empirical investigations into specific growth inhibitors.

Agu et al. (2020) conducted a survey study titled "Enhancing SME Growth Through Policy Interventions in Nigeria," focusing on the influence of government policies and macroeconomic stability on SME performance. The research sampled a selection of SMEs across Nigeria and assessed how policy reforms, such as tax incentives and credit support, impact SME growth trajectories. Findings revealed that a stable macroeconomic environment combined with targeted policy support significantly boosts SME performance by improving business confidence and enabling access to resources. However, the study acknowledged a limitation in its regional focus, which may overlook local differences in policy effectiveness and SME needs. Additionally, the research did not extensively explore how micro-level factors such as managerial competence or digital adoption intersect with policy impacts. Despite these gaps, Agu et al. provide important evidence supporting the role of policy and

economic stability in facilitating SME growth, emphasizing the need for coordinated national strategies to sustain SME contributions to Nigeria's economy.

Okpere (2020), in the qualitative study "SMEs as Veritable Tools for Economic Growth and Employment," discussed the potential of SMEs to drive economic advancement and reduce unemployment in Nigeria. Utilizing document reviews and expert opinions, the study highlighted that SMEs possess significant growth prospects but are hampered by infrastructural deficits, inconsistent policies, and limited access to finance. The research advocated for improved infrastructure, policy continuity, and financial inclusion measures as essential to unlocking SME potential. However, the study's lack of quantitative data limits its ability to measure the precise impact of these factors or to identify sectoral variations among SMEs. The author called for empirical studies to quantify SME contributions and challenges more rigorously. Despite this limitation, the study provides a compelling narrative on the centrality of SMEs in Nigeria's economic development and the critical role of enabling environments.

Sa'ad and Ahmad (2019) presented a conceptual and qualitative exploration titled "P2P Islamic Fintech Investment: Innovation for SMEs in Nigeria," investigating how peer-to-peer Islamic fintech platforms can provide ethical and accessible financing alternatives for SMEs. The study argued that such fintech innovations could overcome traditional barriers by offering Shariah-compliant financing options based on profit-and-loss sharing rather than

interest, thereby aligning with ethical finance principles. While the study highlighted the transformative potential of fintech in broadening SME access to finance, it acknowledged the absence of extensive empirical validation or large-scale adoption data in Nigeria. The authors recommended future empirical research to measure fintech's impact on SME growth and financial inclusion. This conceptual work enriches understanding of innovative financial solutions but requires empirical substantiation to guide policy and practice effectively.

Gbandi and Amissah (2014) conducted a quantitative study titled "Financing Options for Small and Medium Enterprises in Nigeria," analyzing the availability and utilization of various financing mechanisms for Nigerian SMEs. Using a sample of SMEs, the study found that conventional financing options, such as bank loans, remain limited and inaccessible for many SMEs due to stringent requirements. Equity financing was identified as underutilized despite its potential benefits. The research highlighted gaps in financing diversity and recommended expanding alternative funding sources to support SME growth. However, the study did not extensively explore the informal financing sector, which plays a significant role in Nigeria's SME ecosystem. Despite this, the study provides crucial insights into the financing landscape and underscores the need for financial innovation to improve SME funding access.

Eniola and Ektebang (2014) examined SME performance in Nigeria in their survey study "SME Firms Performance in Nigeria: Competitive Advantage." The study sampled various

SMEs and investigated the relationship between competitive strategies, funding sources, and firm performance. Results indicated a positive correlation between strategic management, access to funding, and SME success. However, the cross-sectional nature of the study limited the ability to draw causal inferences, as performance was measured at a single point in time without accounting for temporal dynamics. Despite this limitation, the findings emphasize the importance of competitive strategy and financing in driving SME performance, offering a foundation for longitudinal studies to explore causal pathways.

Etuk and colleagues (2014), in their quantitative study titled “Small and Medium Scale Enterprises and Nigeria’s Economic Development,” assessed the contribution of SMEs to economic growth and poverty alleviation using a sample of Nigerian SMEs. The study found that SMEs significantly contribute to employment and poverty reduction but face managerial inefficiencies and financial constraints that hinder optimal performance. A notable limitation was the lack of longitudinal data to observe SME growth trends over time. The study called for improved managerial training and access to finance to enhance SME impact on the economy. Despite the data limitations, this work provides empirical evidence supporting SMEs’ critical role in Nigeria’s socio-economic development.

Latinwo (2010) provided a descriptive review in “Entrepreneurial Developments and Small Scale Industry Contribution,” focusing on the historical and contemporary roles of SMEs in Nigeria’s economic development. The study highlighted SMEs’ substantial contributions to

employment generation and economic growth, as well as challenges such as inadequate infrastructure and poor policy implementation. However, the research was primarily descriptive and lacked empirical rigor or quantitative data to substantiate its claims. This limits the study's utility for evidence-based policymaking but offers useful contextual background on SME importance within Nigeria.

Ekwem (2011), through a survey study titled "Small and Medium Scale Enterprises Development in Nigeria: Constraints and Policy Options," investigated the major obstacles facing Nigerian SMEs and the effectiveness of governmental support. Sampling SMEs and financial institutions, the study found that lack of finance and poor infrastructure are significant barriers to SME development. The research recommended policy interventions such as loan guarantees and training programs. However, it did not delve into emerging trends like digital finance, which could play a role in overcoming these constraints. Despite this, the study provides foundational empirical evidence of persistent SME challenges in Nigeria.

Ojeka (2011) analyzed the impact of tax policy on SME growth in Nigeria in the survey titled "Tax Policy and the Growth of SMEs: Implications for Nigerian Economy." The study used a sample of SMEs in Zaria and found that heavy tax burdens, complex regulations, and lack of tax education negatively affect SME sustainability and expansion. However, the research was regionally focused and called for broader studies across Nigeria to capture diverse tax

impacts. This limitation restricts generalizability but provides important insights into fiscal policy's role in shaping SME performance.

Table 2.1: Summary of Empirical Review

S/N	Author Name and Date	Title	Methodology	Sample Size	Location	Findings	Gaps
1.	Agu et al., 2024	A Model for Standardizing Nigerian SMEs: Enhancing Competitiveness	Qualitative Review	N/A	Nigeria	SMEs can improve competitiveness through quality control and standards; govt support is vital	Lacks empirical testing with large SME samples

		ss					
2.	Oluremi & Maku, 2024	Small and Medium Scale Enterprises and Nigeria's Economic Growth	Quantitative	Various macro data	Nigeria	Loans, labor participation positively impact SME growth; patent applications less so	Limited sector-specific analysis
3.	Umar et al., 2024	Trajectory of SME Development: Diversification Progress in Nigeria	Qualitative	N/A	Nigeria	Digital adoption and policy reforms critical for SME resilience and growth	Needs quantitative validation
4.	Otokiti et al., 2022	Framework for Developing Resilient Business Models for Nigerian	Mixed Methods	50 SMEs	Lagos	SMEs lacking risk mitigation strategies; digital transformation recommended	Small sample size limits generalizability

		SMEs					
5.	Gumel & Bardai, 2021	Barriers to Accessing Financial Institutions Funding for Nigerian SMEs	Survey	Various SMEs	Nigeria	Financing barriers like collateral and high interest limit SME growth	Did not explore informal financing options
6.	Timothy, 2021	SMEs: Key to Socio-Economic Development of Nigeria	Narrative Case Study	N/A	Nigeria	SMEs vital for employment and wealth creation but face economic and political challenges	Lacks empirical data and quantification
7.	Agu et al., 2020	Enhancing SME Growth Through Policy Interventions in Nigeria	Survey	SMEs Sample	Nigeria	Policy reform and stable macroeconomic environment critical for SME growth	Limited regional scope

8.	Okpere, 2020	SMEs as Veritable Tools for Economic Growth and Employment	Qualitative	N/A	Nigeria	SMEs have growth potential but infrastructural gaps and policy inconsistency impede progress	No quantitative data included
9.	Sa'ad & Ahmad, 2019	P2P Islamic Fintech Investment: Innovation for SMEs in Nigeria	Conceptual/Q ualitative	N/A	Nigeria	Fintech can improve ethical financing and access for SMEs	Lacks extensive empirical validation
10.	Gbandi & Amisshah , 2014	Financing Options for Small and Medium Enterprises in Nigeria	Quantitative	SMEs Sample	Nigeria	SME financing options limited; equity financing underutilized	Did not cover informal sector extensively
11.	Eniola &	SME Firms	Survey	SMEs	Nigeria	SME performance	Cross-

	Ekteban g, 2014	Performance in Nigeria: Competitive Advantage		Sample		positively linked to competitive strategies and funding	sectional design limits causal inference
12.	Etuk et al., 2014	Small and Medium Scale Enterprises and Nigeria's Economic Development	Quantitative	SMEs Sample	Nigeria	SMEs contribute to economic growth and poverty alleviation but face managerial and financial issues	Limited longitudinal data
13.	Latinwo, 2010	Entrepreneuria l Developments and Small Scale Industry Contribution	Descriptive/R eview	N/A	Nigeria	SMEs contribute significantly to employment and economic development	Primarily descriptive, lacking empirical rigor
14.	Ekwem, 2011	Small and Medium Scale Enterprises	Survey	SMEs, Financial Institutions	Nigeria	Lack of finance and poor infrastructure major constraints for	Did not explore digital

		Development in Nigeria: Constraints and Policy Options				SMEs	financing trends
15.	Ojeka, 2011	Tax Policy and the Growth of SMEs: Implications for Nigerian Economy	Survey	SMEs Sample	Nigeria	Tax burden negatively impacts SME growth	Regional focus; need for broader empirical studies

Source: Author’s Compilation, 2025

2.4 Gaps in Literature

Despite the growing body of research on SMEs and ethical finance in Nigeria, several notable gaps remain. Many studies rely heavily on qualitative or conceptual analyses without robust empirical validation, limiting the generalizability of findings across diverse sectors and regions. There is a lack of large-scale, longitudinal data that could capture SME growth dynamics over time and the long-term impact of policy interventions. Additionally, sector-

specific analyses are scarce, which hinders the tailoring of strategies to the unique needs of different SME categories. Financial inclusion studies often overlook informal financing mechanisms that play a crucial role in Nigeria's SME ecosystem. Furthermore, while digital finance and fintech innovations show promise, there is insufficient empirical evidence regarding their adoption, effectiveness, and challenges within Nigerian SMEs. Many studies also focus on broad policy recommendations without deeply exploring micro-level managerial capabilities and operational constraints. Lastly, there is limited research on how ethical finance principles, such as transparency and non-discriminatory access, are practically implemented and perceived by SMEs, leaving a gap in understanding the real-world application and impact of ethical finance in Nigeria. Addressing these gaps is essential for developing targeted, evidence-based policies and financial products that effectively support SME growth and inclusion.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents a detailed description of the research methodology employed to investigate the impact of ethical finance on the growth of Small and Medium-sized Enterprises (SMEs) in Nigeria. The methodology outlines the research design, population, sampling methods, model specification, research instruments, reliability, operationalization of variables, and data analysis techniques. This approach ensures a rigorous framework for collecting, analyzing, and interpreting data relevant to understanding how transparency in loan terms, non-interest payment, fair interest rates, and non-discriminatory access to finance influence SME growth in Benin City, Edo State.

3.2 Research Design

This study adopts a descriptive survey research design to obtain comprehensive insights from SME owners regarding ethical finance practices and their effects on business growth. Descriptive survey design is appropriate as it enables systematic collection of quantitative data from a large sample, facilitating the analysis of relationships between multiple variables (Kothari, 2019). This design ensures that findings accurately reflect the current state of SME financing ethics and growth trends in Benin City, Edo State. According to Creswell (2014),

descriptive surveys allow for a rich portrayal of phenomena and provide empirical evidence to support or reject hypotheses, making it a robust choice for this study's objectives.

3.3 Population of the Study

The target population comprises all 10,125 registered SME business owners in Edo State, as reported by SMEDAN (2021). These business owners are selected because they have direct experience with financing processes and are well-positioned to be used to assess the influence of ethical finance variables such as transparency, non-interest payment, fair interest rates, on SME growth.

3.4 Sample Size and Sampling Techniques

Using the Taro Yamane formula (Yamane, 1967) for determining sample size in large populations, the sample size was calculated as follows:

$$\begin{aligned} &= \frac{n}{1+N(e)^2} \\ &= \frac{10125}{1+10125(0.05)^2} \\ &= \frac{10125}{1+10125(0.0025)} \\ &= \frac{10125}{1+25.3} \end{aligned}$$

$$= \frac{10125}{26.3}$$

$$= 384.9 = 385$$

Therefore, 385 SME business owners from Benin City were selected as the study sample. The simple random sampling technique was employed to ensure each member of the population had an equal chance of being selected, enhancing the representativeness and reducing sampling bias (Sekaran & Bougie, 2016). This technique is appropriate given the heterogeneity of SMEs across industries.

3.5 Model Specification

This study adopts and modifies the linear regression framework developed by Abubakar, Chi, and Bala (2019), who modeled SME growth in Nigeria as a function of financial accessibility and lending conditions. Their model considered variables such as loan availability, interest rates, and credit application procedures as predictors of SME performance.

Building on their framework, this study adapts the model to incorporate specific dimensions of ethical finance as the core explanatory variables. These dimensions reflect principles of fairness, inclusivity, and transparency that are increasingly recognized as essential for sustainable SME development.

The modified model is specified as follows:

$$SMEG = \beta_0 + \beta_1 TL + \beta_2 NIP + \beta_3 FIR + \beta_4 NDA + u$$

Where:

SMEG = *Small and Medium-sized Enterprise Growth*

TL = *Transparency in Loan Terms*

NIP = *Non-Interest Payment*

FIR = *Fair Interest Rates*

NDA = *Non-Discriminatory Access*

u = *Error term*

Unlike the original model by Abubakar et al. (2019), which primarily focused on conventional financial access indicators, the current study introduces ethical finance dimensions as explanatory variables. This adaptation allows for a more targeted investigation into how morally responsible lending practices such as fairness, transparency, and inclusivity affect SME performance, which is particularly relevant in the Nigerian context where financial exclusion and exploitative loan practices remain concerns.

The a priori expectation is that all coefficients $\beta_1, \beta_2, \beta_3, \beta_4 > 0$ reflecting positive effects of ethical finance on SME growth.

3.6 Research Instrument and Administration

The primary data collection tool is a structured questionnaire developed by the researcher, segmented into two parts. Section A gathers demographic data (age, gender, education,

marital status), while Section B consists of items specifically designed to capture respondents' perceptions regarding transparency, non-interest payment, fair interest rates, non-discriminatory access, and SME growth. The questionnaire items were designed on a 5-point Likert scale (Strongly Agree to Strongly Disagree), enabling quantifiable analysis of attitudes and experiences relevant to ethical finance. The questionnaire was administered electronically using google form to improve response rate and reliable responses.

3.7 Reliability and Validity of the Instrument

Reliability refers to the consistency of the instrument in producing stable results (Golafshani, 2020). The test-retest method was employed to assess stability, and internal consistency was measured using Cronbach's Alpha. As per Nunnally (1978), a Cronbach's Alpha coefficient above 0.7 is acceptable for social science research. To ensure the content validity, the instrument was reviewed by the researcher's supervisor, and the suggestions from the scrutiny was used to develop the final draft of the instrument.

3.8 Operationalization/Measurement of Variables

Variable	Source	Operationalization	Measuring Scale
Gender	Self-Developed	Categorized as Male or Female	Two-point categorical
Age	Self-Developed	Age groups categorized (18-25, 26-35, 36-45, 46 and above)	Four-point categorical
Educational Qualification	Self-Developed	Highest educational attainment (SSCE, BSc/HND, Masters)	Three-point categorical
Marital Status	Self-Developed	Marital status categories (Single, Married, Divorced, Widow, Widower, Complicated)	Six-point categorical
SME Growth	Self-Developed	Measured by increases in market share, revenue, customer base, employee size	Five-point Likert scale
Transparency in Loan Terms	Self-Developed	Disclosure and clarity of loan contract terms and risks	Five-point Likert scale
Non-Interest Payment	Self-Developed	Use of profit-and-loss sharing and avoidance of interest in financing	Five-point Likert scale
Fair Interest Rates	Self-Developed	Reasonableness and fairness of borrowing costs	Five-point Likert scale
Non-Discriminatory Access	Self-Developed	Equality of access to finance regardless of gender, location, ethnicity	Five-point Likert scale

Source: Author's Compilation, 2025

3.9 Method of Data Analysis

Data will be organized using frequency distributions and percentages to describe respondent demographics and item responses. Preliminary analysis such as normality test was conducted to ascertain the inferential statistic to employ. The hypotheses will be tested using multiple linear regression analysis to evaluate the impact of the ethical finance variables on SME growth. The choice of multiple regression is justified as it allows simultaneous examination of the effect of several independent variables on a dependent variable (Gujarati & Porter, 2009). All analyses will be conducted using SPSS version 27.0 software to ensure accuracy and robustness.

CHAPTER FOUR

INTERPRETATION OF RESULT AND DISCUSSION OF FINDING

4.1 Introduction

This chapter presents the interpretation of results and discussion of findings on Ethical Finance and SME Growth in Nigeria. It examines how transparency in loan terms, non-interest payment, fair interest rates, and non-discriminatory access to finance influence SME growth. The analysis includes descriptive statistics and regression results, highlighting the significance of ethical financial practices in promoting trust, credit accessibility, and sustainable enterprise development in Nigeria.

4.2 Interpretation of Result

4.2.1 Demographic Data

Table 4.1: Distribution of Respondents by Gender

Options	Frequency	Percentage (%)
Female	223	57.9%
Male	162	42.1%
Total	385	100.0%

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.1 shows that 223 respondents (57.9%) were female, while 162 respondents (42.1%) were male. This indicates that females constituted the majority of participants in the study. The result suggests greater female involvement in SME activities, indicating a rising trend of women’s participation in entrepreneurship and business development within the study area.

Table 4.2: Distribution of Respondents by Age

Options	Frequency	Percentage (%)
18-25	28	7.3%
26-35	114	29.6%
36-45	153	39.7%
46+	90	23.4%
Total	385	100.0%

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.2 shows that 28 respondents (7.3%) were aged 18–25 years, 114 respondents (29.6%) were between 26–35 years, 153 respondents (39.7%) fell within the 36–45 years category, while 90 respondents (23.4%) were aged 46 years and above. This indicates that the majority of respondents were within the 36–45 years age group, suggesting that most SME operators are in their economically active and productive years, with substantial experience and capacity to manage business activities effectively.

Table 4.3: Distribution of Respondents by Educational Qualifications

Options	Frequency	Percentage (%)
BSc/HND	251	65.2%
Masters	86	22.3%
SSCE	48	12.5%
Total	385	100.0%

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.3 shows that 251 respondents (65.2%) possessed BSc/HND qualifications, 86 respondents (22.3%) had Master’s degrees, while 48 respondents (12.5%) held SSCE qualifications. This indicates that the majority of respondents are well-educated, with most having tertiary education. The result suggests that a higher level of education among SME operators may contribute to better business management skills and informed decision-making, enhancing enterprise growth and sustainability.

Table 4.4: Distribution of Respondents by Marital Status

Options	Frequency	Percentage (%)
Divorced	61	15.8%
Married	245	63.6%
Single	40	10.4%
Widow	19	4.9%
Widower	20	5.2%
Total	385	100.0%

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.3 shows that 251 respondents (65.2%) possessed BSc/HND qualifications, 86 respondents (22.3%) had Master’s degrees, while 48 respondents (12.5%) held SSCE

qualifications. This indicates that the majority of respondents are well-educated, with most having tertiary education. The result suggests that a higher level of education among SME operators may contribute to better business management skills and informed decision-making, enhancing enterprise growth and sustainability.

Table 4:5 Transparency in Loan Terms (TL)

Statement	N	Mean	S.D	Criterion Mean	Decision
Loan agreements clearly explain all terms and obligations.	385	3.40	.938	2.50	Agreed
Risks and fees associated with loans are fully disclosed.	385	3.26	.984	2.50	Agreed
I understand my repayment schedule clearly.	385	3.14	1.000	2.50	Agreed
Loan terms are explained without hidden conditions.	385	3.16	1.024	2.50	Agreed
Transparency in loans builds my trust in financial institutions.	385	3.15	1.021	2.50	Agreed
Average (TL)		3.222	.7308		

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.5 presents respondents' opinions on transparency in loan terms. All items recorded mean values above the criterion mean of 2.50, indicating overall agreement. Respondents agreed that loan agreements clearly explain all terms and obligations (Mean = 3.40, SD = 0.94), and that risks and fees associated with loans are fully disclosed (Mean = 3.26, SD = 0.98). They also agreed that repayment schedules are clearly understood (Mean = 3.14, SD = 1.00), and loan terms are explained without hidden conditions (Mean = 3.16, SD = 1.02). Furthermore, respondents believed that transparency in loans builds trust in financial institutions (Mean = 3.15, SD = 1.02). The overall mean score of 3.22 with a standard deviation of 0.73 implies that respondents consistently perceive a high level of transparency in loan terms, which enhances their trust and confidence in financial institutions.

Table 4:6 Non-Interest Payment(NIP)

Statement	N	Mean	S.D	Criterion Mean	Decision
My financing agreements do not involve charging interest.	385	3.39	1.005	2.50	Agreed
Profit-sharing arrangements are fairly applied in my business financing.	385	3.12	1.028	2.50	Agreed
I prefer non-interest financing over conventional loans.	385	3.27	1.050	2.50	Agreed

Sharing profits with financiers motivates better business performance.	385	3.35	.972	2.50	Agreed
Non-interest payments reduce financial stress on my business.	385	3.32	1.041	2.50	Agreed
Average (NIP)		3.291	.8112		

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.6 presents respondents' views on non-interest payment in business financing. All items have mean values above the criterion mean of 2.50, showing general agreement among respondents. They agreed that their financing agreements do not involve charging interest (Mean = 3.39, SD = 1.01) and that profit-sharing arrangements are fairly applied (Mean = 3.12, SD = 1.03). Respondents also agreed that they prefer non-interest financing over conventional loans (Mean = 3.27, SD = 1.05), and that sharing profits with financiers motivates better business performance (Mean = 3.35, SD = 0.97). Furthermore, non-interest payments were seen to reduce financial stress on businesses (Mean = 3.32, SD = 1.04). The overall mean score of 3.29 with a standard deviation of 0.81 indicates that respondents positively perceive non-interest payment systems, suggesting that ethical, interest-free financing supports SME growth and financial stability.

Table 4:7 Fair Interest Rates(FIR)

Statement	N	Mean	S.D	Criterion Mean	Decision
The borrowing costs charged are reasonable and affordable.	385	3.19	.954	2.50	Agreed
Interest or profit rates consider my business's cash flow.	385	3.03	1.010	2.50	Agreed
I am satisfied with the pricing of financial services I use.	385	3.24	.991	2.50	Agreed
Fair pricing encourages me to borrow from formal institutions.	385	3.09	1.038	2.50	Agreed
Excessive interest rates discourage business expansion.	385	3.21	1.064	2.50	Agreed
Average (FIR)		3.154	.7911		

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.7 presents respondents' opinions on fair interest rates in financial transactions. All statements recorded mean values above the criterion mean of 2.50, indicating general agreement among respondents. They agreed that borrowing costs are reasonable and affordable (Mean = 3.19, SD = 0.95), and that interest or profit rates consider their business's

cash flow (Mean = 3.03, SD = 1.01). Respondents also agreed that they are satisfied with the pricing of financial services used (Mean = 3.24, SD = 0.99) and that fair pricing encourages borrowing from formal institutions (Mean = 3.09, SD = 1.04). Additionally, they agreed that excessive interest rates discourage business expansion (Mean = 3.21, SD = 1.06). The overall mean score of 3.15 with a standard deviation of 0.79 implies that respondents generally perceive interest rates as fair, suggesting that affordable borrowing costs promote financial inclusion and business growth among SMEs.

Table 4:8 Non-Discriminatory Access to Finance(NDA)

Statement	N	Mean	S.D	Criterion Mean	Decision
Financial institutions provide equal access regardless of gender.	385	3.12	1.024	2.50	Agreed
I have not been discriminated against based on location or ethnicity.	385	2.99	1.047	2.50	Agreed
Financing opportunities are available to all SMEs fairly.	385	3.04	1.045	2.50	Agreed
Policies support inclusive financing for marginalized groups.	385	3.05	1.084	2.50	Agreed
Equal access to finance has helped my	385	3.16	1.083	2.50	Agreed

business grow.					
Average (NDA)		3.070	.8014		

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.8 shows respondents' views on non-discriminatory access to finance. All items recorded mean values above the criterion mean of 2.50, indicating general agreement among respondents. They agreed that financial institutions provide equal access regardless of gender (Mean = 3.12, SD = 1.02), and that they have not been discriminated against based on location or ethnicity (Mean = 2.99, SD = 1.05). Respondents also agreed that financing opportunities are fairly available to all SMEs (Mean = 3.04, SD = 1.05), and that policies support inclusive financing for marginalized groups (Mean = 3.05, SD = 1.08). Furthermore, equal access to finance was perceived to have contributed to business growth (Mean = 3.16, SD = 1.08). The overall mean score of 3.07 with a standard deviation of 0.80 suggests that respondents perceive access to finance as largely fair and inclusive, reflecting progress toward equitable financial practices that support SME development.

Table 4:9 Small and Medium Enterprise Growth(SMEG)

Statement	N	Mean	S.D	Criterion Mean	Decision
My business revenue has increased significantly.	385	3.07	1.052	2.50	Agreed
The number of customers has grown over time.	385	3.05	1.058	2.50	Agreed
I have expanded the range of products/services offered.	385	3.14	1.057	2.50	Agreed
My business has created new jobs recently.	385	3.09	1.068	2.50	Agreed
Overall profitability of my business has improved.	385	3.17	1.038	2.50	Agreed
Average (SMEG)		3.101	.7918		

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.9 presents respondents' opinions on the growth of their small and medium enterprises. All statements recorded mean values above the criterion mean of 2.50, indicating general agreement. Respondents agreed that their business revenue has increased significantly (Mean = 3.07, SD = 1.05), and that the number of customers has grown over time (Mean = 3.05, SD = 1.06). They also agreed that they have expanded the range of products or services offered (Mean = 3.14, SD = 1.06), and that their businesses have created new jobs recently (Mean = 3.09, SD = 1.07). Furthermore, overall business profitability has improved (Mean = 3.17, SD = 1.04).

= 1.04). The overall mean score of 3.10 with a standard deviation of 0.79 indicates that SMEs in the study area are experiencing positive growth trends in terms of revenue, customer base, diversification, and profitability.

Table 4:9 Normality Test

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
SMEG	.205	385	.000	.909	385	.000
TL	.233	385	.000	.861	385	.000
NIP	.160	385	.000	.912	385	.000
FIR	.199	385	.000	.907	385	.000
NDA	.169	385	.000	.924	385	.000
a. Lilliefors Significance Correction						

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.9 presents the results of the normality test for the study variables — SME Growth (SMEG), Transparency in Loan Terms (TL), Non-Interest Payment (NIP), Fair Interest Rates (FIR), and Non-Discriminatory Access (NDA) — using the Kolmogorov–Smirnov and Shapiro–Wilk tests. For all variables, the significance values (Sig. = 0.000) are below the

0.05 threshold, indicating that the data for each variable deviates significantly from a normal distribution.

Nonetheless, given the large sample size ($N = 385$), such deviations from normality are not considered critical, as regression and other parametric analyses are generally robust to moderate non-normality. Hence, the dataset remains suitable for further statistical analysis and interpretation.

Although the results of the Kolmogorov–Smirnov and Shapiro–Wilk tests indicated deviations from normality ($p < .05$), the large sample size ($n = 385$) satisfies the conditions under the Central Limit Theorem, which ensures that the sampling distribution approximates normality. Therefore, the study proceeded with parametric analysis, as parametric tests are generally robust to minor violations of the normality assumption in large samples (Ghasemi & Zahediasl, 2012; Hair, Black, Babin, Anderson & Tatham 2019).

Nonetheless, such deviations from normality are not considered critical, as regression and other parametric analyses are generally robust to moderate non-normality. Hence, the dataset remains suitable for further statistical analysis and interpretation.

Table 4:10 Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	.264	.102		2.592	.010
TL	.229	.050	.212	4.627	.000
NIP	-.151	.044	-.154	-3.415	.001
FIR	.369	.054	.368	6.848	.000
NDA	.467	.044	.472	10.637	.000
Durbin-Watson	R Square	Adjusted R Square	R Std. Error	F	Sig.
1.906	.721	.718	.4206	245.162	.000 ^b

Source: Authors| Fieldwork, 2025 (SPSS 27)

Table 4.10 presents the results of the multiple regression analysis examining the effect of ethical finance variables—Transparency in Loan Terms (TL), Non-Interest Payment (NIP), Fair Interest Rates (FIR), and Non-Discriminatory Access (NDA)—on Small and Medium Enterprise Growth (SMEG) in Nigeria.

The model shows an R Square value of 0.721, indicating that approximately 72.1% of the variation in SME growth is explained by the combined influence of the independent variables. The Adjusted R Square of 0.718 further confirms the model's strong explanatory power. The Durbin-Watson value of 1.906 suggests that there is no significant autocorrelation in the residuals, confirming the model's reliability.

From the coefficients, Transparency in Loan Terms (TL) ($B = 0.229$, $t = 4.627$, $p = 0.000$), Fair Interest Rates (FIR) ($B = 0.369$, $t = 6.848$, $p = 0.000$), and Non-Discriminatory Access (NDA) ($B = 0.467$, $t = 10.637$, $p = 0.000$) all have positive and significant effects on SME growth. However, Non-Interest Payment (NIP) ($B = -0.151$, $t = -3.415$, $p = 0.001$) shows a

negative but significant effect, suggesting that while non-interest financing supports ethical principles, it may limit profit accumulation or reinvestment potential for SMEs.

The overall F-statistic of 245.162 ($p = 0.000$) confirms that the regression model is statistically significant. In summary, the results indicate that ethical finance practices—particularly fair interest rates, transparency, and equal access to finance—play a crucial role in enhancing SME growth in Nigeria.

4.4 Test of Research Hypotheses

This section presents the test of the four research hypotheses formulated for the study using the regression analysis result in Table 4.10. The hypotheses were tested at a 0.05 level of significance. The decision rule states that if the p-value is less than 0.05, the null hypothesis (H_0) is rejected; otherwise, it is accepted.

Hypothesis One (H_{01}):

Transparency in loan terms has no significant effect on the growth of Small and Medium-sized Enterprises (SMEs) in Nigeria.

From the regression result, transparency in loan terms (TL) has a coefficient value of **B = 0.229**, **t = 4.627**, and a **p-value = 0.000**. Since the p-value is less than 0.05, the null hypothesis (H_{01}) is **rejected**. Therefore, transparency in loan terms has a **significant effect** on the growth of SMEs in Nigeria.

Hypothesis Two (H_{02}):

Non-interest payment has no significant effect on SME growth in Nigeria.

The regression output shows that non-interest payment (NIP) has a coefficient of **B = -0.151**, **t = -3.415**, and a **p-value = 0.001**. Since the p-value is less than 0.05, the null hypothesis (H₀₂) is **rejected**. This implies that non-interest payment has a **significant effect** on SME growth in Nigeria.

Hypothesis Three (H₀₃):

Fair interest rates have no significant impact on the growth and performance of SMEs in Nigeria.

The result indicates that fair interest rates (FIR) have a coefficient of **B = 0.369**, **t = 6.848**, and a **p-value = 0.000**. Since the p-value is below 0.05, the null hypothesis (H₀₃) is rejected. Hence, fair interest rates have a significant impact on SME growth and performance in Nigeria.

Hypothesis Four (H₀₄):

Non-discriminatory access to finance does not significantly influence the growth of SMEs in Nigeria.

According to the regression result, non-discriminatory access (NDA) has a coefficient of **B = 0.467**, **t = 10.637**, and a **p-value = 0.000**. Since the p-value is less than 0.05, the null hypothesis (H₀₄) is **rejected**. This means that non-discriminatory access to finance has a **significant influence** on SME growth in Nigeria.

The overall regression model produced an **R² value of 0.721** and an **Adjusted R² of 0.718**, indicating that **72.1% of the variation in SME growth** is explained by the

independent variables (TL, NIP, FIR, and NDA). The **F-statistic (245.162, p = 0.000)** shows that the model is statistically significant, and the **Durbin-Watson value (1.906)** indicates no autocorrelation in the residuals.

Thus, all four null hypotheses were rejected, showing that the explanatory variables jointly and individually have significant effects on the growth of SMEs in Nigeria.

4.4 Discussion of Findings

Four hypotheses were empirically tested to examine the relationship between ethical finance and the growth of Small and Medium-sized Enterprises (SMEs) in Nigeria. The regression results indicated that transparency in loan terms, non-interest payment systems, fair interest rates, and non-discriminatory access to finance all have significant effects on SME growth. Transparency, fair interest rates, and non-discriminatory access were found to positively influence SME performance, while non-interest payment exhibited a significant but negative effect.

First, the study found that **transparency in loan terms** has a significant positive relationship with SME growth in Nigeria. This implies that when financial institutions provide clear, well-communicated loan agreements and disclose all risks and obligations, SME owners develop greater trust and confidence in engaging with formal credit systems. Transparency reduces information asymmetry and helps entrepreneurs make better financial decisions that foster growth. This finding aligns with Adeoye and Olowolaju (2022), who observed that financial

transparency enhances borrower trust and credit utilization among small firms in Lagos State. Similarly, Olanrewaju and Alabi (2023) reported that clarity in loan documentation improves financial discipline and repayment performance, thereby contributing to business sustainability.

Secondly, the result revealed that **non-interest payment systems** significantly influence SME growth, but with a negative relationship. This suggests that although ethical financing principles such as profit-sharing and interest-free loans promote inclusiveness and align with moral finance frameworks, their operational structure may not always yield immediate growth benefits for SMEs. The finding is consistent with Bello and Yusuf (2021), who noted that many Islamic finance models in Nigeria face implementation inefficiencies, limiting their effectiveness in supporting small businesses. Likewise, Abdullahi and Suleiman (2022) found that profit-sharing arrangements often expose SMEs to higher financial risks, thereby affecting their reinvestment capacity.

Thirdly, the study established that **fair interest rates** have a significant positive impact on SME growth and performance. This implies that equitable and affordable borrowing costs enhance business expansion, innovation, and profitability. When interest rates are fair, SMEs are more willing to access formal loans to finance operations and pursue investment opportunities. This finding agrees with Nwokoro and Ogbu (2023), who discovered that fair credit pricing promotes financial inclusion and enhances SMEs' long-term viability.

Similarly, Eze and Okafor (2024) reported that accessible and reasonably priced loans enable small businesses to invest in technology, expand production, and improve competitiveness.

Lastly, the results showed that **non-discriminatory access to finance** has a strong and positive effect on SME growth in Nigeria. This indicates that equitable financial practices—where access is not limited by gender, ethnicity, or location—significantly enhance the capacity of entrepreneurs to start and scale their businesses. Inclusive financial systems enable broader participation in economic activities, thereby fostering innovation and job creation. This finding corroborates the work of Ojo and Olatunji (2021), who reported that eliminating discrimination in financial access increases business survival rates and supports regional development. In the same vein, Adebayo and Ibrahim (2023) emphasized that inclusive credit policies empower marginalized groups, especially women-led enterprises, contributing to national economic growth.

Overall, the study revealed that ethical finance dimensions—particularly transparency, fair interest rates, and equitable access—are critical drivers of SME development in Nigeria. However, for non-interest payment systems to yield optimal results, structural and policy frameworks must be strengthened to ensure that profit-sharing arrangements and Islamic finance products are efficiently implemented to meet the needs of small businesses.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study examined the effect of ethical finance on the growth of Small and Medium-sized Enterprises (SMEs) in Nigeria. The study specifically assessed how transparency in loan terms, non-interest payment systems, fair interest rates, and non-discriminatory access to finance influence SME growth. The research adopted a quantitative approach using a structured questionnaire administered to SME operators across selected states in Nigeria. Data were analyzed using descriptive and inferential statistics, including regression analysis. Findings revealed that all dimensions of ethical finance significantly affect SME growth in Nigeria. Transparency in loan terms, fair interest rates, and non-discriminatory access to finance showed strong positive effects on business expansion, profitability, and sustainability. These variables enhance trust in financial institutions, improve credit accessibility, and foster inclusive business environments. However, non-interest payment systems exhibited a significant but negative effect, suggesting that while they align with ethical financial principles, their current implementation may not sufficiently support rapid SME growth. Overall, the study established that ethical financing practices play a crucial role in promoting sustainable SME development in Nigeria. It further highlighted the need for financial

institutions and policymakers to adopt transparent, fair, and inclusive financing frameworks that reduce barriers for entrepreneurs and promote long-term economic growth.

5.2 Conclusion

The study concludes that ethical finance is a vital driver of SME growth in Nigeria, as it promotes trust, inclusiveness, and fairness in the financial ecosystem. Transparent loan terms enable entrepreneurs to make informed financial decisions, while fair interest rates lower borrowing costs and encourage investment in productive ventures. Moreover, equitable access to finance ensures that all entrepreneurs—regardless of gender, ethnicity, or location—have opportunities to grow their businesses.

However, the negative effect of non-interest payment systems suggests that although such models embody ethical principles, structural and operational challenges limit their effectiveness. Addressing these challenges through improved regulatory frameworks, awareness campaigns, and institutional capacity-building will ensure that ethical financing models contribute more effectively to SME sustainability.

In essence, adopting ethical finance principles in Nigeria's financial system enhances the credibility of financial institutions, promotes financial inclusion, and drives the overall development of the SME sector, which remains a key engine for employment generation and economic diversification.

5.3 Recommendations

Based on the findings and conclusions, the following recommendations are made:

1. Enhance Transparency in Lending:

Financial institutions should ensure that all loan terms, interest rates, and repayment schedules are clearly communicated to SME operators. Transparent disclosure will build trust and encourage more entrepreneurs to engage with formal credit systems.

2. Improve the Implementation of Non-Interest Financing:

Regulators and Islamic financial institutions should review and refine non-interest financing models to align them more closely with SME needs. This may involve simplifying contract terms, reducing administrative burdens, and providing advisory services for beneficiaries.

3. Promote Fair and Affordable Credit Pricing:

The Central Bank of Nigeria (CBN) should enforce policies that regulate interest rate ceilings for SMEs, ensuring affordability and fair competition among lenders. Lower borrowing costs will enhance SMEs' ability to invest, expand, and create jobs.

4. Ensure Inclusive Access to Finance:

Financial institutions should design gender-sensitive and regionally inclusive credit schemes that eliminate discrimination based on gender, ethnicity, or location. Support programs for women and rural entrepreneurs should be prioritized.

5. Strengthen Financial Literacy and Capacity Building:

Government agencies, in partnership with financial institutions, should organize regular financial literacy programs to educate SME owners about ethical financing opportunities, loan management, and repayment planning.

6. Enhance Policy and Institutional Support:

Policymakers should integrate ethical finance principles into national SME and financial inclusion policies. Strengthening monitoring frameworks will ensure that lending practices adhere to fairness and transparency standards.

5.4 Contribution to Knowledge

This study makes several significant contributions to academic literature and policy development:

1. It provides empirical evidence on the relationship between ethical finance dimensions and SME growth in Nigeria, a topic that remains underexplored in the local context.
2. It highlights the moderating role of ethical lending practices—transparency, fairness, and inclusiveness—in enhancing SMEs’ access to finance and sustainability.
3. It adds to the body of knowledge by identifying non-interest payment models as a potential ethical financing tool that requires better structural alignment for optimal impact.

4. The study contributes a practical framework for policymakers and financial institutions to promote ethical finance as a catalyst for economic growth and SME development.

5.5 Suggestions for Further Research

Based on the limitations and scope of this study, the following areas are recommended for further research:

1. Future studies should investigate the moderating effect of government policy and regulatory frameworks on the relationship between ethical finance and SME growth.
2. A comparative analysis between conventional and Islamic financial institutions could provide deeper insights into the operational effectiveness of ethical finance practices.
3. Researchers may explore the role of digital financial inclusion and fintech innovations in promoting transparency and accessibility for SMEs.
4. Further studies could adopt a longitudinal research design to assess how changes in ethical finance practices affect SME growth over time.
5. Regional or sector-specific studies may also be conducted to understand the variations in ethical finance impact across different industries or geopolitical zones in Nigeria.

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QUESTIONNAIRE

ETHICAL FINANCE AND SMALL AND MEDIUM SIZE ENTERPRISE (SMES) GROWTH IN EDO STATE, NIGERIA

DEPARTMENT OF ENTREPRENEURSHIP
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF BENIN,
BENIN CITY.

Dear Participant,

I am conducting a study on the impact of ethical finance on SME growth in Nigeria. Your participation is voluntary, and all responses will be treated confidentially. Please answer the following questions honestly to the best of your knowledge.

Section A: Demographic Information

1. Gender: Male Female
2. Age: 18-25 26-35 36-45 46+
3. Educational Qualification: SSCE BSc/HND Masters
4. Marital Status: Single Married Divorced Widow Widower

Section B: Respondents Responses

Key: SA- Strongly Agree, A- Agree, N – Neutral, D- Disagree, SD – Strongly Disagree

S/N	ITEMS	SA	A	N	D	SD
	Transparency in Loan Terms					
1.	Loan agreements clearly explain all terms and obligations.					
2.	Risks and fees associated with loans are fully disclosed.					
3.	I understand my repayment schedule clearly.					
4.	Loan terms are explained without hidden conditions.					
5.	Transparency in loans builds my trust in financial institutions.					
	Non-Interest Payment					
6.	My financing agreements do not involve charging interest.					
7.	Profit-sharing arrangements are fairly applied in my business financing.					
8.	I prefer non-interest financing over conventional loans.					
9.	Sharing profits with financiers motivates better business performance.					
10	Non-interest payments reduce financial stress on my business.					

	Fair Interest Rates					
11	The borrowing costs charged are reasonable and affordable.					
12	Interest or profit rates consider my business's cash flow.					
13	I am satisfied with the pricing of financial services I use.					
14	Fair pricing encourages me to borrow from formal institutions.					
15	Excessive interest rates discourage business expansion.					
	Non-Discriminatory Access to Finance					
16	Financial institutions provide equal access regardless of gender.					
17	I have not been discriminated against based on location or ethnicity.					
18	Financing opportunities are available to all SMEs fairly.					
19	Policies support inclusive financing for marginalized groups.					
20	Equal access to finance has helped my business grow.					
	Small and Medium Enterprise Growth					

21	My business revenue has increased significantly.					
22	The number of customers has grown over time.					
23	I have expanded the range of products/services offered.					
24	My business has created new jobs recently.					
25	Overall profitability of my business has improved.					

APPENDIX

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	223	57.9	57.9	57.9
	Male	162	42.1	42.1	100.0
	Total	385	100.0	100.0	

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	28	7.3	7.3	7.3
	26-35	114	29.6	29.6	36.9
	36-45	153	39.7	39.7	76.6
	46+	90	23.4	23.4	100.0
	Total	385	100.0	100.0	

Educational Qualifications					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BSc/HND	251	65.2	65.2	65.2
	Masters	86	22.3	22.3	87.5
	SSCE	48	12.5	12.5	100.0
	Total	385	100.0	100.0	

Marital Status					
		Frequency	Percent	Valid	Cumulative

		y		Percent	Percent
Valid	Divorced	61	15.8	15.8	15.8
	Married	245	63.6	63.6	79.5
	Single	40	10.4	10.4	89.9
	Widow	19	4.9	4.9	94.8
	Widower	20	5.2	5.2	100.0
	Total	385	100.0	100.0	

Descriptive Statistics							
	N	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Loan agreements clearly explain all terms and obligations.	385	1	5	3.40	.938	.428	.248
Risks and fees associated with loans are fully disclosed.	385	1	5	3.26	.984	-.098	.248
I understand my repayment schedule clearly.	385	1	5	3.14	1.000	-.515	.248
Loan terms are explained without hidden conditions.	385	1	5	3.16	1.024	-.375	.248
Transparency in loans builds my trust in financial	385	1	5	3.15	1.021	-.454	.248

institutions.							
TL	385	1.0	5.0	3.222	.7308	3.025	.248
My financing agreements do not involve charging interest.	385	1	5	3.39	1.005	.020	.248
Profit-sharing arrangements are fairly applied in my business financing.	385	1	5	3.12	1.028	-.603	.248
I prefer non-interest financing over conventional loans.	385	1	5	3.27	1.050	-.444	.248
Sharing profits with financiers motivates better business performance.	385	1	5	3.35	.972	.176	.248
Non-interest payments reduce financial stress on my business.	385	1	5	3.32	1.041	-.263	.248
NIP	385	1.0	5.0	3.291	.8112	1.647	.248
The borrowing costs charged are reasonable and affordable.	385	1	5	3.19	.954	-.209	.248
Interest or profit rates consider my business's cash flow.	385	1	5	3.03	1.010	-.587	.248
I am satisfied	385	1	5	3.24	.991	-.122	.248

with the pricing of financial services I use.							
Fair pricing encourages me to borrow from formal institutions.	385	1	5	3.09	1.038	-.649	.248
Excessive interest rates discourage business expansion.	385	1	5	3.21	1.064	-.512	.248
FIR	385	1.0	5.0	3.154	.7911	1.538	.248
Financial institutions provide equal access regardless of gender.	385	1	5	3.12	1.024	-.346	.248
I have not been discriminated against based on location or ethnicity.	385	1	5	2.99	1.047	-.700	.248
Financing opportunities are available to all SMEs fairly.	385	1	5	3.04	1.045	-.651	.248
Policies support inclusive financing for marginalized groups.	385	1	5	3.05	1.084	-.688	.248
Equal access to finance has	385	1	5	3.16	1.083	-.740	.248

helped my business grow.							
NDA	385	1.0	5.0	3.070	.8014	1.190	.248
My business revenue has increased significantly.	385	1	5	3.07	1.052	-.619	.248
The number of customers has grown over time.	385	1	5	3.05	1.058	-.639	.248
I have expanded the range of products/services offered.	385	1	5	3.14	1.057	-.583	.248
My business has created new jobs recently.	385	1	5	3.09	1.068	-.538	.248
Overall profitability of my business has improved.	385	1	5	3.17	1.038	-.442	.248
SMEG	385	1.0	5.0	3.101	.7918	1.382	.248
Valid N (listwise)	385						

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
SMEG	.205	385	.000	.909	385	.000
TL	.233	385	.000	.861	385	.000

NIP	.160	385	.000	.912	385	.000
FIR	.199	385	.000	.907	385	.000
NDA	.169	385	.000	.924	385	.000
a. Lilliefors Significance Correction						

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.849 ^a	.721	.718	.4206	1.906
a. Predictors: (Constant), NDA, NIP , TL, FIR					
b. Dependent Variable: SMEG					

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	173.499	4	43.375	245.162	.000 ^b
	Residual	67.231	380	.177		
	Total	240.729	384			
a. Dependent Variable: SMEG						
b. Predictors: (Constant), NDA, NIP , TL, FIR						

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.264	.102		2.592	.010
	TL	.229	.050	.212	4.627	.000
	NIP	-.151	.044	-.154	-3.415	.001
	FIR	.369	.054	.368	6.848	.000
	NDA	.467	.044	.472	10.637	.000

a. Dependent Variable: SMEG