Risk Perception of Finance Inclusion by Small and Medium Enterprises

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Abstract

The study ranks different risk perceptions on financial inclusion by Small and Medium-sized Enterprises (SMEs) within Nigeria. Data were collected through a randomly distributed questionnaire from a sample of 800 SMEs in Adamawa, Bauchi, Borno, Gombe, Taraba, and the Yobe States. Thus, model robustness was achieved by the Chi-square test in SPSS. The study compared how important different types of risk perception relate to the quest of getting SMEs financially included in Nigeria, in line with the global trend of achieving 80% objectives by 2020. The study concludes that the perception of financial risk was a rank higher by 38%. For this reason, SMEs in Nigerian must therefore prioritize and mitigating financial risk through diligent planning, limit loans, taking insurance cover among others, if they want to be financially included.

Keywords: Risk Perception, Finance Inclusion, SMEs

1 Introduction

The term Inclusive Finance or financial inclusion is broadly defined, as the access to and use of recognized financial services by individuals and companies, those without such, are financially excluded (Financial Inclusion Newsletter, 2019). Bruhn and Love (2014) defined financial inclusion, as the use of formal financial services that significantly shape economic development. Besides, Han and Melecky (2013) speculate that access, quality, and uses of financial services typically allow for smooth investment and capital build-up over time. They stress that being financially included also helps build-up the deposit base that is needed especially during troubled times for future sustainability. More captivating is the position supported by Dupas and Robinson (2013) concerning micro-entrepreneur supplementary their businesses by accessing savings services.

Accordingly, Inclusive Finance is considered an important pointer to economic growth (Levine, 2004; Park and Mercado, 2015). Despite the poor availability of data, Africa economic development is clear evidence of the positive impact of the financial service sector (Otchere, Senbet & Simbanegavi 2017). Zacharakis, Neck, Hygrave, and Cox (2002) agreed that Small and Medium Enterprises (SMEs) are the mainstay of all nations and also acknowledged as a prime vehicle for economic development especially in developing nations. SMEs contribute to the growth of a country's Gross Domestic Product (GDP), they are key sources of job creation, the engine of innovation, and help simulate other economic activities (Kotey & Meredith 1997; Gamage 2003). According to Burgess and Pande (2005) and Levine (2004), SMEs ' inclusiveness in access, quality, and usage of financial services speak volumes in terms of economic growth and development, as this utilization often leads to the actual improvement of the business.

Risk is vested in all the activities carried out by an enterprise (Zoghi 2017). SMEs in particular are mostly exposed to diverse types of risks, due to their structural features. That is why Gayan and Koperunthevy (2016) concludes that SMEs need to carefully monitor current expenses and forecast their potential costs, which could be caused by their risky preference in the process of utilizing different financial services.De Weerdt (2005) had earlier asserted that the data on risk perceptions is particularly relevant for understanding savings and investment behaviour especially in the developing world, where risk is pervasive and often posited to have significant costs.

Armed with this knowledge of SMEs' risk perception can help manage the challenges of being financially included. Because, in contrast to larger companies, SMEs often lack the necessary resources, concerning manpower, databases, and speciality to perform standardized and structured risk management. According to both Gayan and Koperunthevy (2016), SMEs' perceptions of risk are not sufficiently analyzed. Therefore, using sophisticated financial products and or services can create uncertainties that can affect the drive of getting them financially included. No wonder their seeming low patronage to financial services in running their businesses despite various government incentives.

Vasvári (2015) posits that the risk appetite of SMEs is an enterprise characteristic that differentiates them from those of large businesses. Therefore, to help address the apparent setback of getting SMEs financially included in Nigeria for better and specific policy interventions. The study empirically ranks various risk perceptions of SMEs about access, quality, and usage of financial services in Nigeria to explore the current financial ecosystem and outlines the opportunities that exist for SMEs to maximizing wealth and minimizing distress.

Despite the continuous policy strategies to attract SMEs to inclusive finance, most of them have remained unattractive. Beck and Cull (2015) observe that Africa are worried about financial inclusion giving that their banking systems are less inclusive compared to developed countries. The 2019 World Bank report also noted that the per cent of SMEs with an account in the financial institution is the lowest when compared with other industrialized countries like the UK and USA (World Bank, 2019). The Financial Access Survey (FAS) 2019 data report the same story for SMEs in nations that have per capita of $1,026 to $4,035 like Nigeria. The survey report also shows that bank lending to SMEs has hovered around 6 per cent of GDP for the past five years. And that their loans outstanding also contribute largely to existing bad loans (World Bank Report, 2019). Therefore, understanding what influences financial inclusion a major question is to support the economic development of the world’s second largest and second-most-populous continent (Zins and Weill, 2016).

The National Financial Inclusion Strategy (NFIS) anchored by the Central Bank of Nigeria (CBN) revised in 2018, shows that SMEs are more financially excluded than larger businesses. The document cast doubt in the attainment of 80% (formal & informal) 2020 target objective. Findings reveal that bank credit makes up merely 21.6 per cent as formal sources of capital with 49.5 per cent of SMEs making the list even at the national level. Women groups were also highly excluded. Hence, the need to continuously apply a lens of inclusivity to achieve the needed impact particularly on the most excluded region of the north-east and north-west in the country (NFIS Revised, 2018).

Consequently, The National Survey on MSMEs conducted by the duo of SMEDAN and National Bureau of Statistics (NBS) in 2017 confirms that 2,889,714 individual’s employments were generated by SMEs (including owners, as of Dec. 2017). However, large numbers of un-served and under-served SMEs exist in Nigerian. The sub-sector is characterized by a huge financing gap which hinders the development of this critical segment of the economy despite the affordable funds for growth particularly the N220 billion CBN MSMEs intervention funds (MSMEDF Revised Guidelines – August 2014).

Additionally, no more than one per cent of SMEs were able to access credit from Development Finance Institutions (DFIs) such as the Development Bank of Nigeria (DBM) and Bank of Industry (BoI) that are major drivers of the economy. The situation is attributed to lack of adequate collateral and promoters risk apatite, a major challenge that needs to be addressed (NBS –SMEDAN National Survey of MSMEs, 2017). Similarly, Lajis (2017) confirmed the support of SMEs to economic growth but was quick to note their lending constraints, especially after the 2007 crisis. The perceived high risk of SMEs hinders them from fairer access to credit despite the present debt-based financial system.

According to a 2017 survey report from NBS –SMEDAN, about 78 per cent (or 6,236) of SMEs put together have limited financial capacity, 69.1 and 8.5 per cent reported start-up capital of less than N5 Million and between N5 - N10 Million respectively. This was complicated by their limited access and or uses of formal credit. Only 21.6 per cent of SMEs across all the states had bank credit, with 40 per cent of their promoters having personal accounts. Oyo leads the pack followed by Jigawa, then Lagos, Kano, and FCT.

Also, Sheriff (2019) argued that despite financial inclusion programs in Nigeria, SMEs have grossly under-performance due to their poor access to financial resources from the financial institutions. Indeed, this has undermined their contribution to economic output and growth. Furthermore, Fouejieu, Ndoye, and Sydorenko (2020) declared that small and medium enterprises (SMEs) are the least in financial inclusion in the world, especially in emerging countries. The paper concludes on the need to adopt holistic policy strategies that take into account the full range of macro and institutional requirements and reforms and prioritize these reforms following each country's specific characteristics. However, Balliester-Reis (2020) say there is no consensus on what financial inclusion comprises, who should be included and who will deliver this inclusion. The different interpretations of the concept may lead to implementations that do not correspond to the original intent.

Therefore, there is the need to help SMEs gauge their risk perceptions against the much talk about inclusive finance and its antecedent benefits, this study will help all promoters of financial inclusion and other stakeholders have a different approach to inclusive finance by changing the narrative hitherto about SMEs risk perception. However, ranking a complex, multi-determined phenomenon such as risk perception which is usually influenced by heuristics and biases of participants, tenses, and the specificity of the type being evaluated concerning access, quality, and usage of financial services can only but limit the generalization of findings to some extent. Thus, the study aims to find out whether the disparity in the financial inclusion can better be explained by the inherent risk perception of SMEs in Nigeria, and to what extent will this study make contributions by filling some literature gap and put forward practical solutions.

2 Literature review

Developing countries have gradually moved Financial inclusion to the front burner of their agenda especially after 2016 G20 Hangzhou summit, majority of them created a dedicate division within their apex banks and finance ministries with clear ambitious goals (Karlan & Morduch, 2010; Beck, 2015). Bruhn and Love (2014) perceive the affordability of both individuals and businesses in accessing and making use of financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered with care and continuously as financial inclusion. Beside, Mehrotra and Yetman (2015) broadly defined financial inclusion as the ability to access financial services, which is expanding globally and remains a key issue for policy-makers worldwide. Hence, an important public policy goal that directly relates to central banks' key objectives and activities. Also, Arya (2018) speculates that financial inclusion is an essential condition for promoting social justice, it is sequentially and consistent with economic development goals. And so, the main purpose of the inclusion movement is to facilitate the availability of financial services that allow maximum investment in business opportunities, education, retirement savings, and insurance to guide against risk. The World Bank Group report (2019) describe financial inclusion as a key enabler of reducing severe poverty and boost shared prosperity, chronicles as the global ambitious goal of Universal Financial Access (UFA) by 2020.

The scene of Nigeria's financial inclusion has both its expectations and challenges. As the largest economy in Africa, the country has the potential to further its financial inclusion drive among its citizenry; however, internal discord and economic unsteadiness have continued to slow this progress. 40.1% of the population in Nigerian lived in poverty, and it is recognized that poverty, illiteracy, and living in rural than in urban areas are barriers to financial inclusion. Hence, access to banking being the forerunner of financial inclusion that facilitate consumption and engage low-income earner in economically productive activities is very low in Nigeria. Its only 29% of adult that are having bank accounts, 3%, with mobile money accounts, and other 3% with non-bank financial accounts. After the 2011 Maya Declaration, which is a global initiative for responsible and sustainable financial inclusion that aims to reduce poverty and ensure financial stability for the benefit of all. The Nigerian government launched the National Financial Inclusion Strategy in 2012 to increase financial inclusion from 44.7% to 80% by 2020. To achieve this ambitious goal, CBN undertook a number of other strategic initiatives which include revision of the Microfinance Policy, Regulatory and Supervisory Framework to increase access and uses of financial services to the unmet populations.

Consequently, the National Financial Inclusion Strategy (NFIS) was revised and adopted by the Central Bank of Nigeria (CBN) in 2018. The policy document incorporates both the consumers, producers, and the needed regulations to financial inclusion. It identifies some focal points as part of the apparatus of execution, with clear key performance indicators (KPIs) for achieving the desired results. In addition, Agency banking, mobile banking/mobile payments, linkage models, and client empowerment were also recognized as the four main focuses of NFIS. Guideline and framework were also developed in four key priority areas of Tiered Know-your Customer (T-KYC) regulations, agent banking regulations, national financial literacy strategy, and consumer protection.The literacy aspect of financial inclusion sums up the enablers that defined the strategy that set out the targets for products and channels. While, the various dimensions of financial inclusion such as access, usage, affordability, appropriateness, financial literacy, consumer protection, and gender are the basis that defines the KPIs. Moreover, the proposed strategies by NFIS for each of these elements included a comprehensive set of guidelines, changes in regulations plus recommended business models. Also, The Global Findex indicators differentiate between access and use of financial services. While, access most often refers to the supply of services, use on the other hand is determined by demand as well as supply factors— access and use do not mean the same (World Bank, 2008).

Similarly, Cáamara and Tuesta (2014) gathered information from both consumers and producers of eighty-two industrialized and less industrialized countries to gauge the scope of financial inclusion. The study concluded that usage, barriers, and access are the three key dimensions of financial inclusion that determined its scope. A two-stage Principal Component Analysis was employed in assigning weights to the dimensions that were endogenously determined. Accordingly, the easy to compute and understand composite index comprehensively measure the degree of financial inclusion. In the implementation of the Strategy, SMEs as consumers of financial services were identified as active participation in the implementation of the revised NFIS. Financial Inclusion has always supported SMEs ' economic activities, it helps them manage their risks and improve the standard. It also helps them release their full potential as an agent of growth that critically fuels the economy. That is why; the synergic effort of CBN and other stakeholders on financial inclusion is giving the SMEs sub-sector the attention it deserves.

SMEs are broadly defined according to circumstance and place of usage. Though, the numbers of those who work for an employer frequently distinguishes SMEs from big enterprises. However, this measure is regularly combined with other criteria such as turnover and or bank credit size (Ardic, Mylenko & Saltane, 2011). To further complicate the matter, there is no uniform definition of what represents SMEs in Nigeria. For example, the Corporate Affairs Commission (CAC) definition of SMEs as assigned by the Companies and Allied Matters Act is different from the definition provided by the act that established SMEDAN that champions the operations of SMEs. Consequently, the meaning of SMEs is not the same but depends on who is using the word. This lack of universal definition makes comparisons between countries even more difficult. Countries must therefore be cautious in how they describe and control SMEs in their domain.

However, this study adopted the definition of SMEs offered by SMENDA. SMENDA is an agency of government responsible for the development of the MSMEs sub-sector in Nigerian. SMENDA acts define Small Enterprises as those “enterprises whose total assets (excluding land and building) are above Ten Million Naira but not exceeding One Hundred Million Naira with a total workforce of above ten, but not exceeding forty-nine employees” (SMEDAN National Policy on SMEs, 2015). Even though the variety and numbers of SMEs make it difficult to correctly measure their impact, their prevalence, however, symbolizes them as major sources of employment, economic development, and entrepreneurship that shape the basis of an all-inclusive economy (Sachikonye and Sibanda (2016).

In both developed and developing countries like Nigeria. SMEs are central to the economy for contributing significantly to Gross Domestic Product (GDP), and generation of employment. As of December 2017, SMEs generated 2,889,714 employments out of 59,647,954 total employments generated by the MSMEs sector in Nigeria. Besides, this notable achievement, they also increase in number to 73,081, especially in education and manufacturing subsectors. Not to talk of the positive record of overall business performance even within a period of recession suffered by the economy. Overall, they are vehicles of wealth creation that support the socio-economic conditions of Nigerians, particularly those individuals that are directly engaged in the sub-sector (NBS -SMEDAN National Survey of SMEs Report, 2017).

Conversely, SMEs also suffer some setbacks in Nigeria from a blend of problems that are either inherent to the promoters or their external environments, such as lack of good roads, electricity, inconsistencies in government policy, and the likes (NBS -SMEDAN National Survey of SMEs Report, 2017). Therefore, the imperative of risk perception being an intrinsic phenomenon of the operators of SMEs cannot be overemphasized, especially when the expected synergy between CBN and other friendly banks is to undoubtedly foster greater financial inclusion for SMEs and engender wealth creation and accelerated job creation in the country. Hence, the objective of this paper is to contribute to the understanding of risk perception and financial inclusion of SMEs in Nigeria.

Chavas (2004) defined risk as any situation, where results are not known with certainty. Vasvári (2015) agreed that no society can function without risk. They are present in all human endeavors, so the ability to manage them will help companies especially SMEs act more confidently on future business decisions. Their knowledge of the risks they are facing will give them various options on how to deal with potential problems. Zoghi (2017) affirm that risk affects all aspects of business activities, it could be considered not only as a possible loss but also as a possible gain. Hence, risk-taking is inborn and spurs creativity in us. That is why it is very important we should not be ignorant of the numerous factors that influenced our attitudes and perceptions towards risk. Accordingly, The Global Risk Alliance identifies 14 different risks that are specific to small businesses to include financial risks, organizational risks, Legal risks; operational risks market/business risks Reputation risks, Technological risks among others (Risk management guide for small businesses, 2005).

On the conceptual definition, risk perception is occasionally defined in different ways. Some examples that regularly comes in handy is that of equating risk perception to feelings of disquiet, fear, nervousness, or agonize (Fuchs et al., 2013) or equating perceived risk to perceived probability (Ritchie et al., 2017). While the former correspond to the severity of risk perceptions, the latter corresponds to the likelihood of perceived risk. Many research points out factors that manipulating peoples' perception of risk. Hence, the call for an intersection of understanding from stocks of knowledge to make sense of this human action (Nair & Rustambekov, 2015). They also suggest that perception is a mental action that deals with how people view and understand one or more sensory details. Thus, SMEs' financial inclusion is somewhat subject to the promoters' exposure, giving the understanding and motivation of their perceived risk.

Research on risk perception among SMEs is vast in both generic and applied fields. It has been a focus of interest of policy-makers and researchers for some decades now. It appears to hold a central and crucial position in the agenda of many developing countries like Nigeria especially in the understanding of SME's involvement in financial inclusion. Remember that SME decision-making often revolves around an individual. Therefore, his perception of risk is likely to be affected by emotional and personal values.

The objective in the least of all research regarding risk perception is to make clearer how individuals shape judgments about the risks they face (Wilkinson, 2001). In social science, risk perception is usually studied through a thought process that assumes people as rational; the way they think and make decisions is affected by their trait (Taylor- Gooby & Zinn, 2006). However, this perspective usually constraints individuals on the total amount of information their brain is capable of retaining at any particular moment. Hence, they employ a simple tactic of sets of rules to cope with the situation because information, time, and their processing capacity are inadequate (Bingham & Eisenhardt, 2011). Generally, this interrogative thought process may be quite helpful and potentially result in a more acceptable decision with a smaller amount of effort (Mousavi & Gigerenzer, 2014).

In an earlier paper on "Why Study Risk Perception" Slovic, Fischhoff, and Lichtenstein (1982) take a look at the differences of opinions expressed by individuals when they try to analyze and take group decision that supports risk analysis. They conclude that individual often differentiates and appraise risky activities in a variety of ways since the genesis of all research on risk-perception is judgmental. Their position is also in agreement with Mosteller and Nogee (1951), and Coombs and Pruitt (1960) that operationalize the self-evident formulations of utility theory publish by Von-Neumann and Morgenstern (1947), who maintained that cognitive psychology is and will continue to maintain its role as the root of all risk perception research. That is why von-Winterfeldt, John & Borcherding (1981) use psychophysical scale and multivariate analysis to produce quantitative representations of risk attitudes and perceptions.

Risk perception is an observable fact that needs clarification. Douglas (1998) defined Risk perception as the perceived damage from the future. Risk perception is the probability of an event combined with the magnitude of the losses and gains that it will entail (Khan, 2016). The concept of risk perception means how investors view the risk of financial assets, based on their concerns and experience (Biais, & Weber, 2009). For instance, the promoters of SMEs had divergent opinions and perceptions about the risk of being financially included which depends upon their prior information, responses, and knowledge about financial products. The study of risk perception and its impact is one of the core investigation issues in behavioural finance (Shafi, Muhammad, Hussain & Rehman, 2011). According to Emrah and Yasemin (2011), decisions about risk in small business most especially SMEs are usually based on the owner's attribute and not on a realistic assessment of the possibility and extent of the risks.

Accordingly, Vasvári (2015) acknowledged the critical nature of risk perception and its important role in enhancing the required competence for improved performance. Hence, SMEs seeking outside credit to develop for instance are prone to doing things ingeniously. Furthermore, SMEs pursuing financial inclusion strategies are more inclined to assume different risks, and that is why Douglas (1998) conclusions from most of the research papers are that every individual perceives risk differently. Wilson, Zwickle, and Walpole (2019) viewed risk perception as multifaceted but an essential concept. There exists a particular challenge in terms of quantifying perceived risk across different products, and regarding risk to the individual (or the user) in general.

However, Jones (2011) stated that “It’s easier to rank activity A compared with activity B rather than to give direct answers about the risks of A or B separately”. This is because the study views risk perception as “trying to catch the wind," as risk perception cannot be measured by adhering to past practices or conventions ways. The study further argues that individual judgment shapes once perceptions about risk. Therefore, a definite question about risk will not yield the desired outcome, but in the alternative respondents should be asked to rank a list of activities in either descending or ascending order. Hence, the most appropriate way to measure risk perceptions is to compare one risk with one another. Accordingly, the Mercy Corps' financial inclusion theory of change underpinning the study states that “within inclusive financial systems, if participants can access, use, and afford a range of financial services then they will better manage economic assets to cope with shocks and stresses, adapt to changing circumstances, and transform their lives”. The description of financial inclusion was extensively captured by the theory, as it propagates for better access, guaranteed quality and genuine use of financial products and services, such as savings, remittances, payments, leasing, insurance and credit.

SMEs are rottenly affected by their level of risk appetite, and various economic and political policy somersaults. In the study drive to better elucidate financial inclusion for MSMEs, Mercy Corps’ financial inclusion theory of change is used to underpin the study as it clearly explains the interrelationship between risk perception and financial inclusion.

Mercy Corps’ conclusions on financial inclusion emphasize the practical application of the findings of the best available current research and also target new customers in a new segment. However, “by its very nature.” financial inclusion is not “an end in itself”, but rather “a means to an end” - it’s extremely important in cutting back on poverty and boosting a wider-range of economic growth (World Bank, the Global Findex Database 2014). Therefore, having the premonition that financial inclusion is lopsided and not all-encompassing is an open invitation for criticism; the numerous interventions such as the trader-moni or market-moni program for micro-business by the present administration are clear testimony.

Bassey, Amenawo, and Enyeokpon (2017) study the impact of financial inclusion on the performance of micro, small and medium enterprises (MSMEs) in Nigeria using a survey research design. They recommended the need to develop more roads, rail network lines and several access points of financial services especially in the rural areas amongst others. They reach these conclusions after using Pearson Chi-square technique in analyzing data which the result shows financial inclusion has positively and significantly impacted the operations and growth of Nigerian MSMEs. And that they were deprived of the much talk about financial inclusion for lack of access and infrastructure deficit. Thus, MSMEs risk perception was not captured in the study roadmap recommendations cantered around increasing access to financial services to encourage those that do not have a bank account or they are under-served in the financial ecosystem.

Similarly, Duru, Yusuf, and Chukwuma (2018) study microfinance banks and the role their credit plays in developing Small and Medium Enterprises. Using a descriptive research design, both descriptive and chi-square statistics were analyzed to test the postulated hypothesis. Data were obtained from 100 small and Medium Entrepreneurs selected in Lokoja through a random sampling process. The result shows a positive impact of bank credits from microfinance on the spreading out of Small and Medium Enterprises in Nigeria in general and Lokoja in particular. And that beside bespoke intervention from the Central Bank of Nigeria, all the three levels of government should support and promote Small and Medium Enterprises in their various locations as part of the objective to drive, and foster the financial inclusion strategy of the country champion by the apex bank. However, bank credit alone is just a subset of financial inclusion. Hence, this study dips into this usage dimension of financial inclusion by looking at the risk aspect of the proposal to enhance conclusions that can be used and implemented across the country.

Also, Ademola, Musa, and Innocent (2019) examine financial knowledge, literacy and investment decision with a moderating effect of risk perception. Questionnaires were distributed and data collected from 378 investors analysed. Partial Least-square (PLS) regression was used in the study to test its hypotheses. The study concludes that the effect of financial knowledge, risk perception, and investment decisions are both positive and significant. On the other hand, financial literacy and investment decisions reported a positive but insignificant effect between them. While, risk perception moderates the effect between financial literacy, investment knowledge, and investment decisions. The study recommends that investors and policy-makers pursue enlightening campaigns to support the analysis of investment decisions before committing their funds. This study widens the scope of risk perception on financial inclusion that encapsulates their variables with a specific recommendation to SMEs.

Balliester-Reis (2020) speculate that financial inclusion has become a key policy in developing countries. But, quick to note that there is no consensus on what financial inclusion comprises, who should be included and who will deliver this inclusion. According, the studies acknowledge that these different interpretations of the concept may lead to implementations that do not correspond to the original intent. Moreover, by making certain assumptions implicit, financial inclusion may be a policy that merely replicates microfinance initiatives. To illustrate the inconsistencies in the existing literature, the article displays a literature review of 67 studies about the definition of financial inclusion. Built on this systematic review approach that is based on inclusion and exclusion criteria, as well as an explicit search strategy to enables a better understanding of financial inclusion it is framing. However, to conclude, a novel definition is suggested to ensure transparency and comparability of financial inclusion research. Furthermore, Ozili (2020) reassess world regions on financial inclusion with substantial facts and figures. The study indicates that the level of financial advancement, the strength of the financial sector, financial literacy, and regulatory compliance influence financial inclusion of countries.

3 Methodology

The study adopts a survey research design. All the 73,081 registered SMEs in Nigeria form the study population. 800 SMEs were sampled using Yamane's (1967) formulae plus 100% of the calculated sample size to care for the absent of a reply problem as suggested by Hair, Wolfinbarger, and Ortinau (2008). Primary data were gathered in a quantitative form via self-administered questionnaires distributed using a stratification sampling technique to decrease variances of sampling estimates and to correct the seeming imbalance of registered SMEs across states as follows:

Table 1: Number of SMEs & Sample per States

ADAMAWA	734	734/5449*800=108	108
BAUCH	2,241	2241/5449*800=329	329
BORNO	538	538/5449*800=79	79
GOMBE	904	904/5449*800=133	133
TARABA	930	930/5449*800=136	136
YOBE	102	102/5449*800=15	15
TOTAL	**5,449**		**800**

Source: NBS –SMEDAN National Survey of MSMEs (2017)

Besides, the study also applied a simple random sampling within each stratum to improve precision and reduce sample size error. The pilot-tested questionnaire adapted from Jones (2011} had closed-end questioned items that were quite simple, easy to convert into a numerical format, and also offer SMEs a defined response of choice on a nominal scale.

Scale reliability was assessed by administering the same questionnaire on two different occasions with similar scores obtained, while validity was achieved by comprehensively designing the instrument in terms of content, criterion, and construct to rank all the different types of risks according to SMEs perception as the best way to address the research questions.

Furthermore, age, educational level, and gender were all measured in the baseline questionnaires for the study of demographic attributes. The perceived risk types were exhaustive and mutually exclusive. SPSS version 22.0 was used to conduct the analysis using two approaches to assess the goodness of fit model thereby ranking respondent's preferences because of its simplicity and relevance to the study coded data. The first approach was to determine each perceived frequency distribution to compare both the observed distribution and the situation of indifference which is the theoretical distribution. The second approach was the calculation of the Chi-square value where the statistical significance was defined as $p < .05$

4 Results/Findings

Frequencies

Statistics

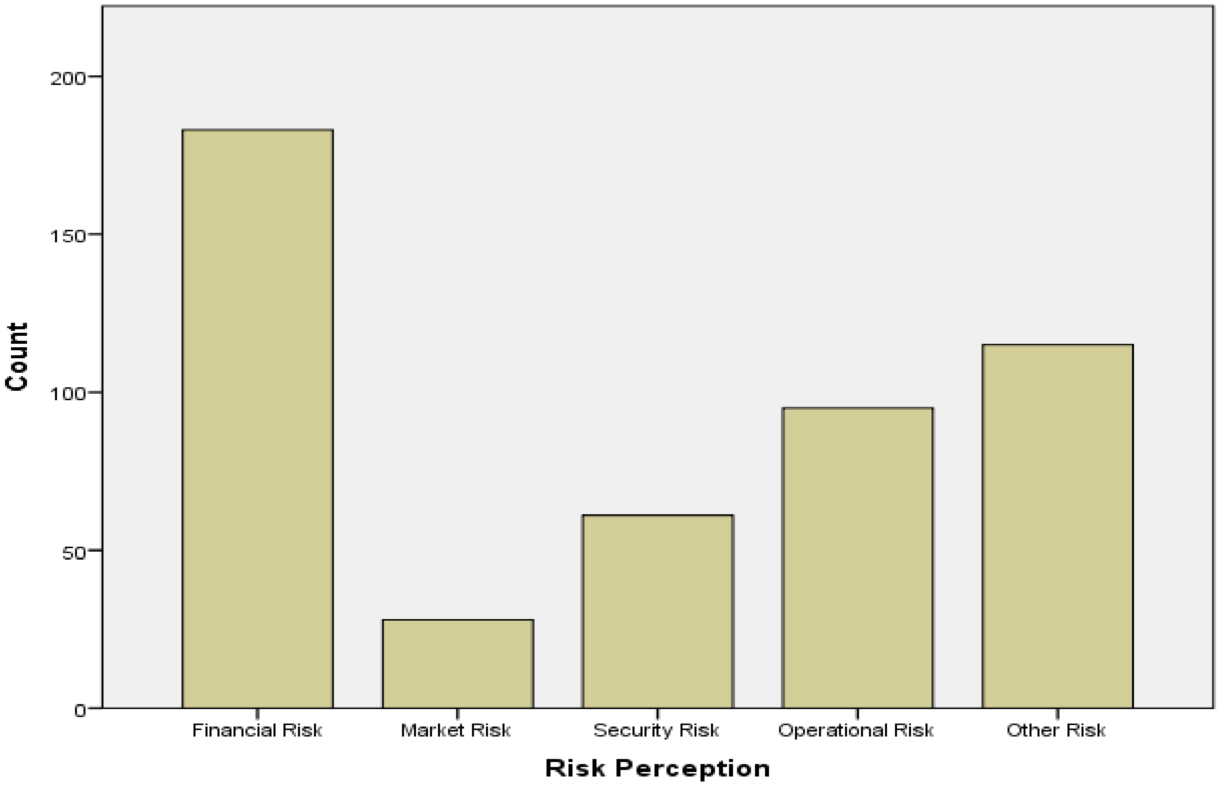
Risk Perception

N	Valid	482
	Missing	0

Risk Perception

		Frequency	Per cent	Valid Per-cent	Cumulative Percent
Valid	Financial Risk	183	38.0	38.0	38.0
	Market Risk	28	5.8	5.8	43.8
	Security Risk	61	12.7	12.7	56.4
	Operational Risk	95	19.7	19.7	76.1
	Other Risk	115	23.9	23.9	100.0
	Total	482	100.0	100.0	

Graph



Chi-Square Test
Frequencies

Risk Perception

	Observed N	Expected N	Residual
Financial Risk	183	96.4	86.6
Market Risk	28	96.4	-68.4
Security Risk	61	96.4	-35.4
Operational Risk	95	96.4	-1.4
Other Risk	115	96.4	18.6
Total	482		

Test Statistics

	Risk Perception
Chi-Square	142.938[a]
df	4
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 96.4.

5 Discussion and Conclusion

For this study, out of the 800 sampled SMEs for data collection only 482 representing 60.29% of the total administered questionnaire were returned valid for analysis and is considered good according to Babbie (2007), 132 were not returned at all, 107 amongst them were not registered SMEs and 78 incompletely filled. Three hundred and fifty seven Chairman/Owner and 126 MD/CEO participated, out of which 135, 236, and 111 accounts for less than 30, between 31 and 50, and over 50 respectively. The gender distribution was 116 females and 366 males. 135 respondents had a low level of education (primary or basic vocational school), 207 had a medium level of education (secondary vocational school or high school), and 140 had a high level of education (higher vocational school or university).

On the observed frequencies levels, no missing value was recorded, and 183 respondents rank Financial risk as to the highest with 38%, followed by Other types of risk with 115 respondents representing 23.9%, Operational risk had 95 respondents representing 19.7%, Security risk had 61 respondents representing 12.7% and Market risk had 28 respondents representing 5.8%. However, they all have equal expected frequencies of 96.4 each, the total numbers of respondents divide by the five variables in the study. The residual frequencies are the differences between them. The bigger in absolute value is the residual, the more chances that the distributions are different. Accordingly, the chi-square value for the study as presented in the test statistic was 142.938a with a degree of freedom of 4 and a p-value of less than 0.5% which were found to be statistically significant. Therefore, we turn down the null hypothesis as there is significant variation between the observed frequencies and the expected frequencies. In order words, SMEs ' perceptions of the different types of risk, if they want to be financially included are not equal.

Generally, the perceptions of the various types of risk by SMEs in Nigeria are an essential precursor in the enhancement of financial inclusion. Most SMEs had different risk perceptions especially on being financially included. The study findings are that the perception of financial risk by SMEs in Nigeria was ranked higher on the list, and needs to be prioritized and mitigated. This is like other finding declaring SMEs as less informed, and the reason why they face financial risks more intensively (Sobekova-Majkova, 2016). However, the most perceived financial risk, in and of itself is not the only risk in financial inclusion, the remaining types of risk were also found in the study with some degree of percentage which SMEs in Nigeria needed to also guide against to fully exploit all the associated benefit of being financially included.

Furthermore, contrary to the extant research evidence that financial inclusion positively and significantly impacts the operations, growth, and overall performance of SMEs in Nigeria (Bassey, Amenawo & Enyeokpon 2017). This study did find support that suggests SMEs should pursue financial inclusion with some degree of caution giving the presence of different types of risk which were perceived differently by a good number of MSMEs in Nigeria. Accordingly, the significant statistical differences observed among respondents indicate without a doubt that SMEs' business has inherent risks. However, the statistics also differ on the type of perception, as it is clear that financial risk is ranked the highest. Therefore all SMEs considering financial inclusion in Nigeria must do something to improve these odds to specifically reduce this and other types of risk. Hence, the study recommended that SMEs should:-

i. Have a solid plan on financial risk for greater chances of success of being financial inclusion.
ii. Perform quality control tests on financial inclusion similar to other larger businesses before accessing or using all financial products or services on a wide scale.
iii. Establish a good record-keeping system to access and uses especially growth funds. They are cheap and good sources of income diversification.
iv. Limit other forms of loans and purchase insurance cover to comfortably manage and reduce associated financial risk that could potentially jeopardize their business.

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