RELEVANCE OF DIGITAL FINANCIAL SERVICES FOR SUSTAINABILITY OF SMALL SCALE BUSINESS IN NIGERIA

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Abstract

Digital financial services are particularly relevant for the sustainability of small scale enterprises in Nigeria. Hence, this paper emphasizes on how digitalization holds great potential for the supply of, access to, and diversification of lending to small scale business owners for at least three reasons. Firstly, it drastically reduces transaction costs associated with lending instruments; secondly, it broadens access to more and alternative data (e.g. transaction data from mobile payment platforms, mobile savings accounts or other financial footprints, social media and other sources) and thus allows the extension of loans to previously underserved groups without requiring collateral; lastly, it increases the simplicity and convenience for customers by providing almost instant service, without paperwork, anywhere with mobile phone or internet coverage for the sustainability of small scale business. In this paper, different digital finance platforms available for sustainability of small scale enterprises in Nigeria are identified as online lender, mobile lender, p 2 p lending, eCommerce, palm credit , market place platform, pay later and supply chain lender, just to mention but a few. Based on the discussion, it is suggested that Regulators of digital finance need to introduce or modify specific licenses and regulations for all digital financial service providers and also national regulatory authorities need to ensure that customers are sufficiently educated about digital credits.

Introduction

In the past few years, digital financial services have emerged as an alternative mechanism for providing short-term loans for small scale business enterprises. In a typical digital credit offering, a mobile phone operator will partner with a financial institution to provide small, short-term loans directly to small scale business owners in order to enhance sustainability over an existing mobile money ecosystem (Ozili, 2018).

Mommanyi et al. (2018) observed that lack of access to finance is suspected to be an important impediment to development of small scale business in Nigeria. Digital payment is one of the financial services that have many functions not only as an online transaction service, but also to provide financial services to small scale business owners in order to invest in real terms using an online platform. Research results from Djkasaputra et al. (2021) and Gutierrez et al. (2016) show that the digital platforms are very popular and is one of the solutions for financial inclusion disparities encountered for sustainability of small scale business.

Over recent years, demand for digital finance for sustainability of small scale enterprises in Nigeria has risen significantly. This is part of a wider trend of rapidly expanding digital financial services (Djakasaputra, et al., 2021). Alongside traditional financial institutions, have started gradually to transform some of their financial instruments into online and digital services, FinTech and other new players have entered the market. Affandi et al. (2020) opine that digitalization holds great potential for the supply of, access to, and diversification of lending to small scale business owner in Nigeria. Hence, there is need to look in to how digital financial services are relevant for the sustainability of small scale business in Nigeria.

Concept of Small Scale Enterprises

Generally speaking, the definition of small scale business varies from country to country, from industry to industry and from one financial institution to another. If project cost is used as the criteria for measuring the size of a business, price inflation may render the definition meaningless over time. If number of employees engaged in a business forms the yardstick for measurement, it may not be realistic bearing in mind that some firms are capital intensive needing only very few employees. Other firms are labour intensive employing large number of people but utilizing only small capital fund (Osadi, 2018).

Nicholas (2019) posits that small scale enterprise is one that is independently owned and operated, and in which the owner is the sole decision maker and the overall boss. In general, a small scale enterprise is a business in which its owner influences the entire decision-making process and the business has relatively small market share and low capital requirement for its operation.

Significance of Small Scale Enterprises for Socio-Economic Development

The role small scale enterprises play in the development of Nigeria and indeed any country is very important. According to Peaking (2022), small scale enterprises have greatly contributed to the Nigerian development in terms of employment, growth and development, and marketing of goods and services. Peaking (2022) discusses the significance of Small Scale Enterprises for Socio-Economic Development as follows:

Food Security: Small scale businesses in the Agricultural sector of the economy have done so much to ensure food security. Most of the crop farmers in Nigeria are small. Although they are mostly based in the hinterland, where an ancient system of cooperation exists among crop farmers they remain independent, and many have adopted a system of employing workers who are mostly paid on a daily basis. Animal farmers are also mostly small scale businesses as they operate their poultries, piggeries, and cattle ranches on a small scale, most of them employing less than 10 workers (Fatai, 2018). These are the businessmen and women who are responsible for the vast majority of the food, poultry and meat that are served on the dining tables in Nigeria.

Manufacturing of Daily Need Commodities: Small scale industries are important role players in contributing to the transition of agriculture led economies to industrial ones. Small scale enterprises also play a vital role in absorbing agricultural products and by-products and transforming them into useful commodities that would otherwise have been imported from abroad. Commodities like soap which use palm kernel oil as a vital manufacturing ingredient, foot-ware which uses locally harvested rubber and leather, and other such important needs of the people are manufactured locally using locally sourced ingredients.

Employment Creation: Small scale enterprises provide employment for the teeming population. This is true not only in Nigeria but in most developed and developing economies. It is an obvious fact that the government alone cannot employ all the people. Small scale enterprises employ a larger number of the Nations' workforce.

Youth Engagement and Development: Small scale enterprises, although they may not pay as much as the government or large companies, also play another vital part in the country's life; one that goes beyond providing money and giving people a chance to put food on their tables, they engage the young people in the country. Small scale enterprises engage the young ones, thereby taking them off the streets keeping them occupied, and so away from various crimes. Furthermore, small scale enterprises integrate the young ones into the working environment, teaching them vital skills that can help them succeed in life, including how to relate with workmates in a work environment, how to set and meet targets, how to market products and services, and so on.

Improving Nigeria's Technical Capacity: Small Scale enterprises have done and continue to do so much for Nigeria in the area of improving Nigeria's technical ability. Small scale businesses in the field of engineering have contributed more to the engineering sector than any school system or government initiative to date. Auto mechanics have done so much by way of technical skill acquisition and teaching the younger generation so as to ensure that we remain self-sufficient in the area of technical ability now and the future. Technical ability in the area of pipeline installation and maintenance has also recently been on the rise.

Concept of Digital Financial Service

From practitioner's viewpoint, digital finance is financial service delivered through mobile phones, personal computers, the internet or cards linked to be liable digital payment system. Similarly, a McKinsey report identify digital finance as financial services delivered via mobile phones, the internet or cards (Omotola, 2008). Digital finance encompasses a magnitude of new financial products, financial businesses, finance-related software, and novel forms of customer communication and interaction-delivered by FinTech companies and innovative financial service providers.

Moreso, Digital Financial Service can be referred to arrangement of some blend of money related and installment benefits that involve utilization of portable or web advances and a system of specialists (Michelle, 2016). Michelle (2016) computerized money related administrations allude to the utilization not advanced innovations (web, versatile correspondence innovation) to get to monetary administrations and execute budgetary exchanges. Thus, digital financial services generally refer to the far-reaching technologies available to perform financial services from a widespread range of providers to an extensive category of recipients. This is possible by the use of digital remote means including e-money, mobile money, card payments, and electronic funds transfers (Michelle, 2016).

Business Sustainability

Before defining the term itself it is necessary to characterize sustainability and business separately and highlight briefly where both terms derive from. Sustainability derives from the sustainability development and is defined by the Brundtland Report as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland Report, 1987).

Therefore, business sustainability can be seen as a societal change within society that aims to change the established order of unsustainable consumption (Nash, 2019).

Digital Financial Services for Small Scale Business Sustainability

There is a paradigm shift in the field of lending. Lending is undergoing a fundamental transformation from traditional 3-6-3 formula to 3-1-0 formula. 3-6-3 formula is more prevalent in the traditional banking which means ―raise deposit at 3 percent, lend at 6 percent and play golf after 3 percent. But, FinTech powered Digital lending firms practice the new global formula 3-1-0 which refers ―3 minutes to decide, 1 minute to transfer the money and 0 human touch (Boston Consulting Group, 2018). The followings are the online loan platform:

E-Commerce and Social Platforms: Digital platforms wherein credit is not their core business, but that leverage their digital distribution, strong brand, and rich customer data to offer credit products to their customer base. Through this platform, consumable goods seller is able to offer credit goods to their customers virtually thereby, facilitate sustainability of marketing activities because the consumable goods seller will add more value to the society where the business takes place which will build good image about the business (Affandi et al., 2020).

P2P Lender: Digital platforms that facilitate the provision of digital credit between many borrowers and lenders, typically playing an ongoing central role in the relationship between these parties. Here both the lender (Digital loan provider) and borrower (Consumable goods seller) come in contact virtually, in order to deliberate on the terms and conditions of the mobile credit. In lieu of this, the consumable goods seller is able to raise fund through this platform with the attempt to finance business which facilitate sustainability of marketing.

Online lender: Financial Service Provider (FSP) that provides end-to-end digital lending products via a website or mobile application. Hence, the consumable goods seller is able to raise fund through this platform with the attempt to finance business which facilitate sustainability of marketing.

Marketplace Platforms: Digital platforms that originate and match one borrower with many lenders for an origination fee; the lender and borrower then enter into a bilateral agreement. This digital platform helps in connecting borrower (consumable goods seller) with many online loan providers to promote sustainability of marketing activities.

Supply Chain Lender: Non-cash digital loans for specific asset financing, invoice financing, or pay-as-you-go asset purchase within a supply chain or distribution network. Through this digital credit provider, platform consumable goods seller is able to acquire certain assets on credit to facilitate sustainability of marketing activities.

Mobile Money Lender: Partnership model wherein lenders work with mobile network operators (MNOs) to offer mobile money loans to their customer base, leveraging mobile phone data for scoring. The consumable goods seller gain access to this digital credit platform through mobile phone by connecting the mobile phone to internet service which will stimulate seller accessibility to online loan thereby, facilitate sustainability of marketing activities (Gregori et al.,2015).

Tec enabled Lender: Traditional FSPs that have digitalized parts of the lending process, either in-house or through partnerships. Online loan platform is the process of offering loans that are applied for, disbursed, and managed through digital channels, in which lenders use digitalized data to inform credit decisions and build intelligent customer engagement. Digital lending takes many shapes and forms from automating small pieces, to a fully digital lending process, from acquisition to renewal (Darma, 2020). Digital lending is not just doing the same thing better, but rather creating something new. It implies an end-to-end process of developing and delivering data-driven financial products that are applied for, disbursed, and managed through digital channels (Darma, 2020). Alternative lending is an asset class borne of bank disintermediation and technological innovation (Juan, 2017).

Digital finance and its Significance to Small Scale Business Sustainability

Digital finance improves the welfare of small scale business owners that have formal bank accounts and have funds in their bank accounts to complete multiple financial transactions. However, the expected benefits of digital finance can only be fully realized if the cost of providing digital financial services is negligible or zero (Ozili, 2018). The contributions of digital finance for small scale business sustainability in Nigeria was put forward by (Ozili, 2018) which are usage of internet, technological advancements and big data, digital ecosystem, innovative models, time saving and customer friendly approach.

international promoters of small scale enterprise need to provide longer-term funds to small scale business with the conditionality that some of the resulting loans maturity of more than two years.

iv. Digital credit providers need to offer loan sizes and repayment periods that allow small scale business to meet liquidity and working capital needs, which is essential and extremely valuable for financial service.

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Usage of internet: This is a digital era where behavioral pattern of people across the world has become ever changing. Businesses are extensively using online transactions in these days which are fueled by e-commerce websites, digital push of government, cashless economy, and so on. In 2014, only 7% of urban people in Kwara State engaged in online purchases and in 2018, this percentage has increased to 30% (Boston Consulting Group, 2018).

Technological advancements and big data: Technological advancements like artificial intelligence, block chain technology, cloud computing, big data and analytics have remodeled the way businesses are undertaken today. These technologies brought new Financial Technology companies into existence. One of such Financial Technology companies is Digital Lending companies.

Innovative Models: FinTech companies have revolutionized the financial service industry in general and the lending sector in particular, through innovative business models like point of sales based lending, invoice discounting exchanges, bank and FinTech partnership like capital float, market place lending, and bank led digital models (Nash, 2019).

Time saving and customer friendly approach: Availing loans through digital way is not cumbersome and tedious. But, in fact, digital lending is very simple and smart lending process. It has advantages in terms of time, cost and approach.

Conclusion

Digitalization of finance holds great potential for the supply of, access to, and diversification of lending for sustainability of small scale business owner for at least three reasons. Firstly, it drastically reduces transaction costs associated with lending instruments; secondly, it broadens access to more and alternative data (e.g. transaction data from mobile payment platforms, mobile savings accounts or other financial footprints, social media and other sources) and thus, allows the extension of loans to previously underserved groups without requiring collateral; lastly, it increases the simplicity and convenience for small scale business by providing almost instant financial service, without paperwork, anywhere with mobile phone or internet coverage.

Suggestions

Based on the above discussions, the following suggestions are made:

i. Regulators of digital finance need to introduce or modify specific licenses and regulations for all digital financial service providers to create a level playing field for digital lenders (fair competition) and to safeguard the integrity and stability of the credit market.
ii. National regulatory authorities need to ensure that small business owners are sufficiently educated about digital credits and their associated costs and risks, by requiring digital lenders to comply with a specified format for presenting the central loan terms in a consistent and clear manner that is comprehensible to the small scale business owners with limited financial literacy.
iii. Development Finance Institutions (DFIs) and other national and

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