Innovations

# Entrepreneurial Financing and Small Business Enterprise Performance in Enugu State

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***Abstract***

*This study explores the effect of entrepreneurial financing on the financial performance of small business enterprises (SBEs) in Enugu State, Nigeria. The purpose is to investigate both formal and informal financing sources influence on small business success. A descriptive survey design was used.The sample size was determined based on the Borg & Gall formula, resulting in a total of 270 respondents. A structured questionnaire was developed as the primary data collection instrument, and administered to 270 small businesses cut across the State.Descriptive statistics, such as frequencies, percentages, means, and standard deviations, were utilized to summarize survey responses. The study also used regression analysis for data analysis at 5% level of significance.The findings show that both formal and informal financing have significant positive effects on business performance. The study concludes that policymakers should support both financing avenues and recommends further research on their long-term impact. Entrepreneurs should also be educated on optimizing these financing sources.*

***Keywords:*** *Entrepreneurial Financing, Small Business Enterprise, Performance, Enugu State.*

## Introduction

Small business enterprises (SBEs) are crucial drivers of economic growth, employment creation, and poverty reduction, particularly in developing countries like Nigeria. These enterprises dominate Nigeria's private sector and contribute significantly to GDP, accounting for 48% of national output and 84% of total employment (SMEDAN, 2021). Small enterprises employ between 10 and 49 employees and having a capital base from ₦5 million to ₦50 million so once a

business is within that confine, it is running a small enterprise (SMEDAN, 2021). However, the performance and sustainability of SBEs are often constrained by inadequate access to financing, a key factor influencing their survival and growth. Entrepreneurial financing—comprising formal and informal funding sources—plays a pivotal role in enabling SBEs to innovate, expand operations, and improve efficiency.

Enugu State, located in South-East Nigeria, serves as a hub for small-scale businesses, particularly in trade, services, and agriculture. Despite the acknowledged importance of small businesses in Nigeria's economic development, many SBEs struggle to achieve sustainable performance. One of the most critical barriers is access to financing, which remains a persistent issue for small business owners. Reports suggest that over 70% of SBEs in Nigeria are self-financed or rely on informal funding sources, which are often insufficient for long-term growth and competitive advantage (SMEDAN, 2021). Limited access to institutional financing, compounded by bureaucratic hurdles, high-interest rates, and collateral requirements, further exacerbates the problem (Onugu, 2005; Eniola &Entebang, 2015).

Furthermore, small businesses face unique challenges in accessing and effectively utilizing entrepreneurial financing. While formal institutions such as banks and microfinance organizations are present, their offerings often fail to meet the specific needs of SBEs. Informal sources like money lenders and personal networks, while accessible, are rarely adequate for funding growth-oriented projects. The lack of tailored financing solutions stifles innovation, limits business expansion, and ultimately hampers economic development in the region (Onugu, 2005).

Existing studies on entrepreneurial financing in Nigeria have primarily focused on broad national trends, often neglecting regional disparities and context-specific dynamics. There is a dearth of empirical research investigating the specific financing challenges and performance implications for SBEs in Enugu State. This gap underscores the need for localized research to uncover the nuanced relationship between financing and small business performance in the state. This purpose of this study is to explore entrepreneurial financing as affecting performance of SBEs in Enugu State. Specific objectives of the study are to;

1. Examinethe effect of formal sources of entrepreneurial financing on financial performance small businesses in Enugu State.
2. Assess the effect of informal sources of entrepreneurial financing on financial performance small businesses in Enugu State.

**Research Questions**

1. What is the effect of formal sources of entrepreneurial financing on financial performance small businesses in Enugu State?

2. What is the effect of informal sources of entrepreneurial financing on financial performance small businesses in Enugu State?

**Hypotheses**

To further direct our analysis and research, the following null hypotheses were tested:

1. $H_0$:Formal sources of entrepreneurial financing have no significant effect on financial performance small businesses in Enugu State.
2. $H_0$: Informal sources of entrepreneurial financing have no significant effect on financial performance small businesses in Enugu State.

## Literature Review

### Conceptual Review

#### Definitions and Scope of Entrepreneurial Financing

In a general sense, financing has been described as the process of acquiring funds or capital to support various activities, investments, or projects. This can be achieved through equity, debt, or hybrid instruments (Fabozzi et al., 2021). From a corporate financing perspective, Brealey et al., (2020), defines financing as the strategic process of securing monetary resources to meet a firm's operational, investment, or strategic goals, balancing cost and risk. Financing can also be viewed from the personal financing perspective. Gitman et al., (2018) defines financing from this perspective, as pertaining to obtaining money for personal purposes, such as education, housing, or entrepreneurship, typically through loans, savings, or credit. Observably, the definition of Fabozzi et al., (2021) is most suitable, for its comprehensiveness across sectors and contexts.

Entrepreneurial financing refers to the process by which entrepreneurs secure financial resources necessary to start, sustain, or expand their businesses. It encompasses a broad range of funding sources, from formal mechanisms such as bank loans and government grants to informal methods like personal savings and angel investments (Beck &Demirgüç-Kunt, 2006). Scholars have defined this concept from various perspectives. Kuratko, (2020) defines entrepreneurial financing from a basic perspective, as the provision of funds to start, operate, and expand new ventures, encompassing formal and informal sources. While Shane, (2003) defined it from a more holistic perspective, as the process of securing monetary resources for entrepreneurial activities through diverse sources, including bootstrapping, crowdfunding, traditional bank loans, or partnerships. This definition is most inclusive as it covers traditional and modern funding avenues.

The primary goal of entrepreneurial financing is to bridge the gap between an entrepreneur's resources and the financial requirements of the business, thus enabling operational efficiency and long-term growth.

The scope of entrepreneurial financing is multifaceted and includes startup capital, working capital, growth financing, and rescue funding for struggling businesses. These funds are typically categorized into debt, equity, and hybrid financing models. Debt financing involves borrowing funds with a commitment to repay with interest, while equity financing entails selling ownership stakes in the business. Hybrid models, such as convertible debt, combine aspects of both (Berger & Udell, 1998).

In developing economies, entrepreneurial financing is particularly significant because limited access to financial resources often restricts entrepreneurial potential. This highlights the importance of creating inclusive financial ecosystems that cater to the unique needs of small and medium enterprises (SMEs) (Schindehutte et al., 2005).

**Sources of Entrepreneurial Financing for Small Businesses**

Small businesses typically rely on diverse funding sources, categorized as formal, semi-formal, and informal.

**Formal Sources**

Formal sources of entrepreneurial financing refer to institutionalized and structured ways of raising funds for business purposes. These sources are bank loans, government schemes, private equity firms and so on. Banks loans remain a dominant source of financing for small businesses, offering structured loans for working capital, equipment purchase, and expansion (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2007). However, stringent collateral requirements and high-interest rates often limit access. Also, government schemes as formal sources, support SMEs through grants, subsidized loans, and tax incentives. For example, Nigeria's Development Bank of Nigeria provides financing to small businesses through partner institutions.

**Semi-Formal Sources**

Semi-formal sources of entrepreneurial financing refer to funding options that combine elements of both formal and informal financing. These may include microfinance institutions, peer-to-peer lending, crowdfunding and so on. Microfinance institutions (MFIs) provide small-scale loans to businesses that cannot access traditional banking services. They are particularly important in rural and underserved areas (Ledgerwood, 1999); and could offer some elements of informal options in the process. Peer-to-Peer lending, which most often are online platforms that connect borrowers with investors, often providing loans to small businesses and entrepreneurs.

**Informal Sources**

Informal sources of entrepreneurial financing refer to non-institutionalized and unstructured ways of raising funds for business purposes. Informal sources of entrepreneurial financing include personal savings, family and friends, community contributions, trade credits, self-help groups and so on.

Personal savings as an informal source of financing often has theentrepreneurs bootstrap their businesses using personal savings, which is a common practice for startups and is easy to access.

Angel investors and venture capitalists can be informal sources of financing. Angel investors offer capital to early-stage businesses in exchange for equity, while venture capitalists invest in businesses with high growth potential. Both play a significant role in scaling enterprises (Mason & Harrison, 2008). As for family and friends as a source of informal financing, many small businesses rely on informal loans or contributions from personal networks that comprise of these group of persons, due to accessibility and lower transaction costs.

**Small Business Enterprise Performance**

The performance of small business enterprises is assessed using quantitative and qualitative indicators that evaluate financial, operational, and market outcomes.

**Financial Performance**

Leon (2013) posits that financial performance encompasses various financial metrics, including profitability ratios (e.g., profitability growth rate, earnings per share, asset efficiency, and return on share capital). It also considers institutional strength, assessed through indicators such as net institutional capital, adequacy of provisioning for periods exceeding one year, and provisioning adequacy for 31 days to one year. Additionally, the structure of assets is crucial, evaluated through measures like the percentage of non-earning assets to total assets, member equity to total assets, deposit liabilities to total assets, external borrowings, and receivables to total assets.

Operational resilience or staying power is another dimension, assessed through indicators such as the volume of business relative to total assets, liquidity, cost per unit of business, administrative efficiency, and turnover ratio. Murphy, Trailer, and Hill (1996) further emphasize revenue growth, defined as the percentage increase in sales over time, reflecting market penetration and customer retention, alongside profit margins, such as net and gross profit margins, which serve as indicators of financial health and operational efficiency.

**Operational Performance**

Operational performance can be evaluated through metrics such as productivity, which measures output per unit of input and reflects efficiency in utilizing resources like labor or capital. Another critical factor is cost efficiency, defined as the ability to minimize costs while maintaining or enhancing output quality. These measures are essential for assessing the operational soundness of a business.

**Market Performance**

Market performance indicators include market share, the proportion of total market sales a business captures, which reflects its competitive positioning. Additionally, customer satisfaction serves as a vital measure of market performance, using metrics such as repeat purchases and customer feedback to evaluate brand loyalty, service quality, and overall customer experience.

**Long-Term Sustainability**

Long-term sustainability emphasizes factors like business longevity, measured by survival rates over a defined period, indicating the resilience of a business. Another critical dimension is innovation and adaptability, highlighting the business's ability to introduce new products or adjust to market dynamics, a key driver of sustained growth (Neely et al., 2005).

**Theoretical Review**

**Resource-Based View (RBV) Theory**

Resource Based-View theory emphasizes the strategic role of an organization's resources in achieving and sustaining competitive advantage. The RBV theory posits that an organization's resources, both tangible and intangible, are critical to gaining and sustaining a competitive advantage (Barney, 1991). Financial capital is one such key resource that enables businesses to acquire other essential resources, such as skilled labor, technology, market access and so on. In the context of small business performance, access to financing enhances resource acquisition, operational efficiency, and market competitiveness, leading to improved performance metrics such as profitability and growth (Wernerfelt, 1984).

**Tenets of Resource-Based View (RBV) Theory**

RBV assumes resources as the basis of competitive advantage for a firm. Resources are the assets, capabilities, processes, information, and knowledge controlled by the firm; which can be categorized as tangible (for example, financial capital, physical assets) and intangible (for example, brand reputation, intellectual property). Firms that effectively acquire, utilize, and protect unique resources can outperform competitors (Barney, 1991).

RBV assumes resources are heterogenous. By uniqueness of resources, it is meant that not all firms possess the same resources, and this heterogeneity allows some businesses to achieve superior performance by leveraging resources more efficiently or innovatively (Wernerfelt, 1984). Therefore, entrepreneurial financing as a resource varies by type, (for example, debt vs. equity) and source (for example, banks, venture capital), and this diversity affects how firms perform in their environments.

RBV assumes resources are immobile. Certain valuable resources are difficult to replicate or transfer across firms due to their specificity, embedded nature, or high cost. For small businesses, building unique advantages like; superior customer networks or skilled teams through financing can provide enduring performance benefits.RBV also, assumes that resources are valuable, imitable, rear, and non-Substitutable.

By applying the RBV theory, this study can examine how entrepreneurial financing—viewed as a strategic resource—affects the performance of small enterprises in terms of growth, sustainability, and operational success. This theoretical framework underscores the importance of resource mobilization and allocation in determining the success of small businesses.

**Key Relevance of RBV to the Study**

The Resource Base View theory is relevant this study as it presents a connection between financing and resources. RBV directly links financial access to the acquisition and utilization of resources that drive performance. The strategic implications of this, isthe aligning of financing with business goals to achieve competitive advantages, which is important in driving performance. The theory provides a basis for measuring how specific types of financing (e.g., debt, equity, or informal sources) contribute to performance indicators such as revenue growth and sustainability, which is critical to this study.

**Empirical Review**

Peer reviewed study of Emad et. al.(2014),investigated the Influence of Finance on Performance of Small and Medium Enterprises (SMES). The background to the study was based on the debate on which finance affect company performance, haven been deemed as a controversial issue in accounting and finance. This study was undertaken to highlight the issues facing small and medium enterprises (SMEs) in Iraq in their quest to accessing finance to undertake various activities; be it general business operations or carrying out expansion project all in the name of fulfilling the objectives as being job creators and helping to reduce poverty. There are financial institutions that are willing to provide funds to small and medium enterprises (SMEs) but Iraq small and medium enterprises (SMEs) are not able to meet the requirements

of these financial institutions. Chief among these requirements is the issue of collateral, which most small and medium enterprises (SMEs) cannot provide. This study contributes to the literature on finance of companies and performance of small and medium enterprises (SMEs) by testing the relationship between the finance and the performance of small and medium enterprises (SMEs), and by providing new insights about the need for promoting a truly cognitive entrepreneur.

Mwangi, et. al. (2024) researched on the topic, Entrepreneurial Finance and Performance of Small and Medium Sized Enterprises in Kiambu County, Kenya. The study, observably noted that, Small and Medium Enterprises (SMEs) significantly contribute to Kenya's economy, accounting for over 90% of businesses and providing widespread employment. This study assessed the impact of access to entrepreneurial finance on SME growth in Kiambu County, focusing on 889 registered SMEs. Using a descriptive research design and a sample of 276 SMEs derived from the Yamane formula, 214 valid responses were analyzed (77.5% response rate). Key findings revealed that both angel financing and venture capital positively and significantly affect SME performance, with correlation coefficients of 0.544 and 0.535, respectively. The coefficients for angel financing (0.188, p=0.001) and venture capital (0.218, p=0.000) were statistically significant. Own funding also positively contributed to SME growth. The study concluded that access to adequate capital is essential for SME success. It recommended collaboration between SMEs, venture capitalists, and relevant authorities to develop financing frameworks anchored on angel financing and venture capital, supporting sustainable SME growth.

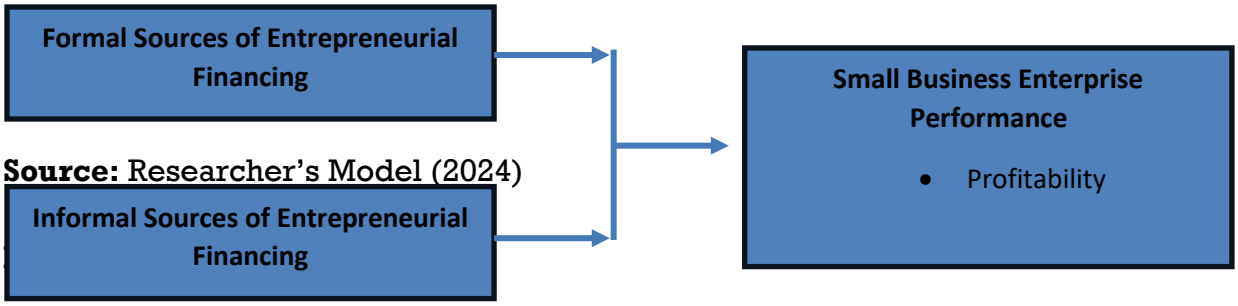
Ifionu& Omotayo (2017) investigated, The Role of Entrepreneurial Financing on National Output: An Empirical Analysis. This study explored the influx of entrepreneurial financing on output generation in Nigeria utilizing secondary sourced data over the period of 1992 to 2014. The study was carried out utilizing analytical tools such as the Unit root/Stationarity test, Ordinary Least Squares Regression, Johansen Co-integration, Error Correction Estimates and Pairwise Granger Causality tests. It was discovered that in both the short and long run relationship, analyses indicated that Micro-Credit (MC) and Commercial Banks Loans to Small and Medium Scale Enterprises (CME) influence on the Gross Domestic Output in the nation had been on the increase. It was discovered that Access to Credit Facilities (ASCF) and Small and Medium Equity Investment (SMIE) played insignificance role in the nation’s performance level. This study discovered the accessibility to fund a major problem. In this light, it was recommended that government ought to, as a matter of criticality, help planned business visionaries to have admittance to the public purse to back them up and provide them easy access to fundamental data identifying with business opportunities, present day innovation,

crude materials, business sector, plant and hardware which would empower them to diminish their working expense.

Maria &Sugeng (2018) studies Entrepreneurial finance: financing antecedents and SMEs performance. The purpose of this research is to test financing antecedents and SMEs performance. One kind of a creative industry, batik SMEs that are located in Pekalongan, Central Java, Indonesia, are the object of this research. There were 190 respondents chosen from batik entrepreneurs. The holistic testing of this empirical model used structural equation modelling (SEM) with an AMOS program. The research results found that an entrepreneur's cognitive bias has a significant positive bias towards financing. Meanwhile, entrepreneurial orientation and financing are proven to have a significant positive influence towards SMEs performance. No entrepreneurial orientation influence was discovered towards SMEs performance. Furthermore, the output analysis revealed there is an indication of a strong relationship between a cognitive bias and entrepreneurial orientation. Therefore, this model can be revised, developed, and retested by considering the agenda of this research to enrich insights in the entrepreneurial finance sphere.

Taiwo (2023) researched on Entrepreneurial Financing Options of Female Businesses and Enterprise Performance in Nigeria. This study aimed to examine the financing issues faced with female entrepreneurs in Nigeria in terms of supply side finance gap that hinders their performance. Other specific objectives are to: establish reasons for external source of finance; identify various financial options available for female-owned businesses in Nigeria; investigate the effect of financial options on the performances of female-owned businesses in Nigeria. Survey research design was employed with administration of structured questionnaire on nine hundred and seventy five (975) female entrepreneurs of selected Micro Small and Medium Enterprises (MSMEs) from the population of nine million, six hundred and two thousand, two hundred and forty nine (9,602,249). Data analysis was carried out using descriptive statistics (frequency, percentages, mean, standard deviation) and inferential statistics of regression analysis. Results of the regression analysis at 5% significant level using two-tailed test for all the variables of financial options displayed significant effects on the performance of female businesses in Nigeria. It was recommended that more female-owned businesses should take the advantage of these financial options to enhance business performance as only 38% of them have successfully utilized these financial sources to bridge the finance gap.

**Conceptual Framework**




**Source:** Researcher's Model (2024)

The descriptive survey design was adopted for the study.

**Population and Sample**

The study focuses on small business enterprises (SBEs) as defined under the legal and administrative classifications according to the Corporate Affairs Commission (CAC). Small business enterprises, in this context, are characterized by specific criteria such as the number of employees, that is 10–50 employees, annual income, and total assets, which differentiate them from micro and medium enterprises. The population of the study for small businesses, according to NBS -SMEDAN National Survey of Micro Small & Medium Enterprises (MSMES), 2017 for Enugu State is 1,404. Therefore, the sample size was determined using Borg & Gall formula. The Borg & Gall formula is represented as follows:

**n= [(Zx) 2 (e) (N)]**

Where:

n= the number of samples (?)

Zx2= confidence level which is constant at √1.960 or 1.9602

N= the total population which is given as (1404).

e = level of significance (at 0.05 or 5%)

Therefore: n = [(1.960)2 (0.05) (1,404)]

n = [(3.8416) (0.05) (1404)]

n = [3.8416 × 0.05 ×1404]

n = 269.6

Thus, the sample size to be considered for this study is 270

**Data Collection Instruments**

A structured questionnaire was developed as the primary data collection instrument. The questionnaire was divided into five sections: demographic information, sources of entrepreneurial financing, utilization of financing, performance indicators, challenges and recommendations. The questionnaire comprised a combination of closed-ended and Likert scale items to enable robust quantitative analysis. A

preliminary pre-test was conducted with a small sample of respondents to verify its clarity, validity and reliability.

**Data Analysis**

The collected data were coded and input into SPSS for analysis. Descriptive statistics, such as frequencies, percentages, means, and standard deviations, were utilized to summarize demographic characteristics and survey responses. Regression analysis was employed to evaluate the effect of entrepreneurial financing on small business enterprise performance.

## 4.0 Data Analysis, Results/ Implication and Discussion

### 4.1 Data Analysis

270 questionnaires were distributed, 265 were retrieved.

**Demographic Characteristics of the Respondents**

Table 1: Demographic Profile of the Respondents

| Demographic Variables | Particulars | Frequency | Percentage |
|---|---|---|---|
| Age of Business | Less than 1 years | 128 | 48.3 |
| | 1 – 3 years | 49 | 18.5 |
| | 4 – 6 years | 26 | 9.8 |
| | 7 years and above | 62 | 23.4 |
| | Total | 265 | 100.0 |
| Sector/Industry | Education | 13 | 4.9 |
| | Food Business | 12 | 4.5 |
| | Manufacturing | 39 | 14.7 |
| | Retail/Wholesale | 52 | 19.6 |
| | Service/Retail | 11 | 4.2 |
| | Services | 138 | 52.1 |
| | | 265 | 100.0 |
| Number of Employees | 1 – 5 | 202 | 76.2 |
| | 6 – 10 | 13 | 4.9 |
| | 11 – 20 | 38 | 14.3 |
| | Above 20 | 12 | 4.5 |
| | | 265 | 100.0 |
| Primary Source of Financing | Angel investors or venture capital | 25 | 9.4 |
| | Family and friends | 38 | 14.3 |
| | Microfinance institutions | 12 | 4.5 |
| | Personal Savings | 127 | 47.9 |

| | | | |
|---|---|---|---|
| | Personal Savings; Family and friends | 25 | 9.4 |
| | Personal Savings; Family and friends; Cooperative societies | 26 | 9.8 |
| | Personal Savings; Government programs/grants | 12 | 4.5 |
| | | 265 | 100 |

Source: Field Survey, 2024

Table 1 above summarizes the demographic and operational characteristics of respondent. Concerning age of businesses sampled, majority of businesses were less than 1 year old representing 48.3%, 18.5% are between 1–3 years, while 9.8% are 4–6 years old. Businesses 7 years and above constitute 23.4%.

The largest segment operates in Services representing 52.1%, suggesting service-based businesses dominate. Retail/Wholesale follows with 19.6%. Manufacturing accounts for 14.7%, while smaller shares are in Education 4.9%, Food Business 4.5%, and Service/Retail 4.2%.

Most businesses representing 76.2% had 1 to 5 employees. 14.3% employ 11–20 workers, while only 4.9% and 4.5% have 6–10 and above 20 employees, respectively.

The predominant funding source is personal savings representing 47.9%. Family and friends contribute to 14.3%, and 9.4% rely on angel investors or venture capital. Other combined sources, such as personal savings with family and friends or cooperative societies, account for smaller shares (4.5–9.8%).

**Test of Hypotheses**

The test is used to know the statistical significance of the individual parameters.

**Hypothesis One**

$H_0$:Formal sources of entrepreneurial financing have no significant effect on financial performance small businesses in Enugu State.

Table 1 Coefficients[a] for Formal sources of entrepreneurial financing and financial performance of small businesses.

| **Model** | **Unstandardized Coefficients** | | **Standardized Coefficients** | **t** | **Sig.** |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (CONSTANT) | 6.725 | .890 | | 11.463 | 0.000 |
| Formal sources of entrepreneurial financing | .624 | .052 | 0.722 | 15.287 | *0.000 |

*Dependent Variable:* Financial Performance of Small Businesses

Note * means significant of 5% level.
***Source: Researchers computation, 2024***

**Interpretation**
This table presents the results of a regression analysis examining the relationship between formal sources of entrepreneurial financing and the financial performance of small businesses. From the regression analysis (Table 2), shows a **Constant (B = 6.725, Std. Error = 0.890).** The intercept indicates that the baseline financial performance of small businesses, without considering formal financing, is 6.725. This is statistically significant (p = 0.000). The unstandardized coefficient indicates that for every unit increase in formal entrepreneurial financing, the financial performance of small businesses increases by 0.624 units. The beta coefficient (0.722) shows a strong positive relationship between formal financing and financial performance, highlighting the significant influence of formal financing on business success.The t-value (15.287) and p-value (0.000) confirm that the relationship between formal entrepreneurial financing and financial performance is statistically significant at the 5% level (*).

**Decision**
Consequently, having established statistically that formal sources of entrepreneurial financing have significant effect on financial performance of small businesses in Enugu State, the null hypothesis is rejected and the alternate is accepted.

**Hypothesis Two**
$H_0$: Informal sources of entrepreneurial financing have no significant effect on financial performance small businesses in Enugu State.
Table 2Coefficients[a] for Informal sources of entrepreneurial financing and financial performance of small businesses.

| **Model** | **Unstandardized Coefficients** | | **Standardized Coefficients** | **t** | **Sig.** |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (CONSTANT) | 4.521 | .852 | | 13.833 | 0.000 |
| Informal sources of entrepreneurial financing | .673 | .041 | 0.786 | 14.145 | *0.002 |

*Dependent Variable:* Financial Performance of Small Businesses
Note*means significant of 5% level.
***Source: Researchers computation, 2024***

**Interpretation**

This table presents the results of a regression analysis examining the relationship between informal sources of entrepreneurial financing and the financial performance of small businesses. From the regression analysis (Table 2), shows a **Constant (B = 4.521, Std. Error = 0.852).** The intercept of the model indicates that when informal sources of financing are not considered, the baseline financial performance of small businesses is 4.521. This value is statistically significant (p = 0.000). The unstandardized coefficient suggests that for every unit increase in informal financing, the financial performance of small businesses increases by 0.673 units. The beta coefficient (0.786) indicates a strong positive relationship between informal financing and financial performance, suggesting informal financing significantly influences financial success. The t-value (14.145) and p-value (0.002) confirm that the effect of informal financing on financial performance is statistically significant at the 5% level (*).

**Decision**

Consequently, having established statistically that informal sources of entrepreneurial financing have significant effect on financial performance of small businesses in Enugu State, the null hypothesis is rejected and the alternate is accepted.

**Discussion of Findings**

**Formal Sources of Entrepreneurial Financing and Financial Performance of Small Businesses**

The findings of this study are consistent with the empirical findings of some previous research studies, indicating that formal sources of entrepreneurial financing have a significant effect on financial performance of small businesses. Dada, et. al. (2023) revealed that entrepreneurial financing has positive and significant effect on financial performance of selected small and medium enterprises in Lagos State. The study employed both descriptive and inferential approaches, However, the study didn't make a distinction in its findings on formal or informal sources. Similarly, Adebola (2021) examined the effects of the COVID-19 pandemic on small and medium-sized enterprises (SMEs) and financial institutions in Nigeria. The study revealed that over 90% of the surveyed businesses relied on microfinance to sustain operations during the pandemic. Additionally, microcredit was found to improve the inventory levels of these SMEs, contributing to a modest profit increase for the majority of the enterprises studied. Also, Annor and Obeng (2017) found a significant link between credit risk management and bank profitability. While capital adequacy ratio positively correlated with profitability, nonperforming loans, loan loss provisions, and loan-to-asset ratio were statistically significant predictors of

bank profitability. In other words, financing affected performance in the form of profitability. Fatoki (2011) explored the influence of human, social, and financial capital on the performance of SMEs in South Africa, highlighting the need to address factors contributing to their high failure rates. Using self-administered questionnaires, data were collected and analyzed through regression and descriptive statistics. Performance was measured with both subjective and objective metrics, and the findings revealed a strong positive relationship between SME performance and their human, social, and financial resources.

**Informal Sources of Entrepreneurial Financing and Financial Performance of Small Businesses**

The findings of this study are consistent with the empirical findings of some previous research studies, indicating that informal sources of entrepreneurial financing have a significant effect on financial performance of small businesses. Mpofu, et. al. (2022) investigated Informal Finance: A Boon or Bane for African SMEs? The aim of this study was to ascertain what can be done by the informal finance sector to close the credit gap in order to improve access to finance by SMEs. The study identified two main scenarios where small businesses rely on informal finance. First, SMEs turn to informal finance as a last resort when unable to access formal credit due to challenges like information asymmetry, lack of collateral, or high default risks. Second, some entrepreneurs prefer informal finance over formal options because of its greater flexibility, convenience, and minimal administrative requirements. Similarly, Obadeyi& Wole (2022), informal sources of finance and smes performance sustainability in developing economy. This study employed both primary and secondary data sources. The collected data were examined using inferential statistical methods, specifically linear regression analysis. The results indicate that informal financing sources—such as Esusu, cooperative societies, and initial financial support from parents, uncles, and wealthy relatives—positively influence the growth of SMEs in terms of sales and revenue. Specifically, 82.3% of respondents, with a high mean score of 3.92 on a 5-point scale (78%), reported that informal financing significantly contributed to the expansion of SMEs in Nigeria's southwest region. Additionally, informal financing positively impacted the number of employees, as 74.4% of respondents agreed with this assessment, achieving a high mean score of 3.84 on a 5-point scale. Furthermore, 76.8% indicated that informal finance had fostered employment growth in the region. The study concludes that informal financing sources positively affect the performance of SMEs in Nigeria's southwest geopolitical zone, enhancing their sustainability and improving the employment situation within the economy. Consequently, the study recommends revitalizing informal financing methods to cultivate more viable SMEs, thereby leveraging their economic benefits in developing nations.

**Conclusion**

The study reveals that both formal and informal sources of entrepreneurial financing significantly influence the financial performance of small businesses in Enugu State. Formal financing, through structured avenues like banks, shows a strong positive impact on business growth, as does informal financing, which provides essential flexibility and accessibility for many entrepreneurs. The findings align with previous research, confirming the importance of these financing sources in enhancing the sustainability and profitability of SMEs.

**Recommendations**

Based on the findings and conclusion of this study, the following recommendations are put forth;

1. Policymakers should create supportive frameworks to encourage both formal and informal financing mechanisms, ensuring greater accessibility for small business enterprises.
2. Entrepreneurs should be educated about the advantages and limitations of both formal and informal financing to optimize their use.
3. Efforts to improve access to formal financing options, such as microfinance and credit facilities, should be intensified, particularly for small business enterprises in Enugu State.
4. Further studies should explore the long-term impact of formal and informal financing on the growth trajectory of small business enterprises, particularly in other Nigerian regions.

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