

## **Effect of Access to Finance on Innovation and Productivity of SMEs in Nigeria: Evidence from the World Bank Enterprise Survey**

**Authors :** Abidemi C. Adegboye, Samuel Iweriebor

**Abstract :** The primary link between financial institutions and economic performance is the provision of resources by these institutions to businesses in order to drive enterprise expansion, sustainability, and development. In this study, the role of access to finance in driving innovations and productivity in Nigerian SMEs is investigated using the World Bank Enterprise Survey (ES) dataset. Innovation is defined based on the ES analysis using five compositions including product, method, organisational, use of foreign-licensed technology, and spending on R&D. The study considers finance in terms of source in meeting investment needs and in terms of access. Moreover, finance access is categorized as external and internal to a firm with each having different implications. The research methodology adopted a survey analysis based on the 2014 World Bank Enterprise Survey of 19 states in Nigeria. The survey comprised over 10,000 manufacturing and services firms, both at the small scale and medium scale levels. The logit estimation technique is used to estimate the relationships in the study. The results from the empirical analysis show that in general, access to finance drives SME innovation in Nigeria. In particular, ease of accessing bank loans and credit is shown to be the strongest positive force in driving all types of innovation among SMEs in Nigeria. In the same vein, the type of finance source for investment matters in terms of how it affects innovation: it is shown that both internal and external sources improve investment in product, process, and organisational innovation, but only external financing has effect on R&D spending and use of foreign licensed technology. Overall spending on R&D is only driven by access to external finance by the SMEs. For productivity, the results show that while structure of financing investment improves productivity, increased access to finance may actually lead to productivity decline among SMEs in Nigeria. There is a need for the financial system to evolve structures to increase fund availability to SMEs in Nigeria, especially for the purpose of innovation investment.

**Keywords :** access to finance, financing investment, innovation, productivity, SMEs

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