

Impact of Digital Financial Services on the Growth of Small and Medium Enterprises (SMES) in Lafia, Nasarawa State, Nigeria

Mohammed Atose Abdullahi

Department of General Education,
Federal College of Education (Technical), Keana,
Nasarawa State, Nigeria
atosemohammed12@gmail.com
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Abstract

The diffusion of digital technology into the financial sector has reshaped how small and medium enterprises (SMEs) in Nigeria access, manage, and deploy financial resources. This article presents a theoretical analysis of the impact of digital financial services (DFS) on the growth of SMEs in Lafia, Nasarawa State. Anchored on the Technology Acceptance Model, the Diffusion of Innovation Theory, Financial Intermediation Theory, and the Schumpeterian finance-growth perspective, the article examines how mobile money, agency banking, point-of-sale platforms, and mobile/internet banking shape SME performance in a semi-urban Nigerian setting. A qualitative, desk-based theoretical design is adopted, complemented by an illustrative sampling exercise in which respondents were randomly drawn from one polytechnic in each of Nigeria's six geo-political zones, to assess the wider plausibility of the study's conceptual claims. The analysis suggests that DFS enhance SME growth by lowering transaction costs, widening access to credit, improving record-keeping, and extending market reach, but that infrastructural deficits, low digital literacy, cost sensitivity, and trust concerns constrain the full realization of these benefits in Lafia. The article concludes that DFS hold substantial promise for SME growth in Lafia and similar towns, and recommends targeted infrastructure investment, digital and financial literacy programmes, cost moderation, and trust-building measures.

Keywords: Digital Financial Services; Small and Medium Enterprises; SME Growth; Financial Inclusion; Lafia; Fintech; Nigeria

1. Introduction

Financial services worldwide have undergone a profound digital transformation, moving from banking halls, cheque books, and manual ledgers toward mobile applications, agent banking, point-of-sale (POS) terminals, unstructured supplementary service data (USSD) codes, and internet-enabled platforms (Ozili, 2018). Digital financial services (DFS) have been embraced across developing economies, with sub-Saharan Africa recording some of the fastest growth rates in mobile money usage globally (GSMA, 2021). In Nigeria, DFS adoption has been driven by the Central Bank of Nigeria's cashless policy, the licensing of mobile money operators, and the Shared Agent Network Expansion Facilities (SANEF) scheme, alongside rising smartphone and internet penetration even in semi-urban communities (CBN, 2020). Small and medium enterprises (SMEs),

which constitute over 80 percent of registered Nigerian businesses and contribute significantly to GDP and employment (SMEDAN & NBS, 2021), are key beneficiaries of, and active participants in, this transformation.

Lafia, the capital of Nasarawa State, is a fast-growing commercial centre with a sizeable SME population spanning trading, agro-processing, artisan work, hospitality, and services. As with many comparably positioned Nigerian towns, Lafia combines expanding mobile network coverage and agent banking presence with persistent infrastructural gaps, low digital and financial literacy, and residual cash preference among many operators (Nwankwo & Eze, 2013; Ibor et al., 2017). This article theoretically analyses how DFS have affected, and may continue to affect, SME growth in Lafia, drawing on established technology-adoption and financial-development theories rather than fresh primary quantitative data. To broaden the conceptual grounding, an illustrative sampling exercise involving respondents drawn randomly from one polytechnic per geo-political zone of Nigeria is incorporated, as detailed in Section 4.

Existing Nigerian literature on DFS and SME performance concentrates heavily on major metropolitan centres such as Lagos, Abuja, Kano, and Port Harcourt (Ediagbonya & Tioluwani, 2023), leaving a contextual gap regarding smaller state capitals such as Lafia. There is also a theoretical tension between an optimistic technology-adoption narrative, which holds that digital tools automatically enhance business efficiency (Davis, 1989; Rogers, 2003), and a structural-constraints narrative, which stresses that infrastructural deficits and low digital literacy can neutralise expected benefits in developing economies (Asongu, 2013). This article addresses both the contextual and theoretical gaps by asking: (i) to what extent have Lafia's SMEs adopted DFS; (ii) what is the theoretical relationship between DFS and SME growth indicators; (iii) which theories best explain this relationship; (iv) what challenges hinder effective DFS utilisation; and (v) what measures can enhance DFS' contribution to SME growth in Lafia.

The article is significant for policymakers (CBN, SMEDAN, Nasarawa State Government) seeking context-sensitive financial-inclusion policy, for fintech operators and banks designing SME-appropriate products, for SME operators making adoption decisions, and for the academic literature, which it extends to an under-studied locality.

2. Literature Review and Theoretical Framework

2.1 Conceptual Clarification

Digital financial services denote financial products, payments, transfers, savings, credit, and insurance, delivered through electronic channels rather than paper-based or physically intermediated processes (Ozili, 2018), including mobile money, mobile/internet banking, POS terminals, ATMs, USSD, agent banking, and API-driven fintech solutions. The World Bank identifies DFS as critical to extending formal financial access to unbanked populations in developing economies (World Bank, 2021). SMEs, in the Nigerian context, are classified by SMEDAN using asset base and workforce size, with small enterprises holding assets of five to fifty million naira and ten to forty-nine employees, and medium enterprises holding assets of fifty to five hundred million naira and fifty to one hundred and ninety-nine employees (SMEDAN & NBS, 2021). Lafia's SME landscape is dominated by trading, agro-processing, artisan services, hospitality, and a growing cluster of technology-enabled services, typically informal or semi-formal, owner-managed, and reliant on personal savings and informal credit (Nwankwo & Eze, 2013). SME growth, for this article, is conceptualised as improvements in sales turnover, credit

access, operational efficiency, market reach, and business survival (Beck & Demirguc-Kunt, 2006).

2.2 Theoretical Framework

Four complementary theories anchor the analysis. The Technology Acceptance Model (TAM) holds that adoption intention is driven by perceived usefulness and perceived ease of use (Davis, 1989); applied here, SME operators in Lafia are more likely to adopt DFS where these are perceived as genuinely beneficial and simple to use, regardless of formal education level. The Diffusion of Innovation Theory identifies relative advantage, compatibility, complexity, trialability, and observability as determinants of adoption speed, and classifies adopters from innovators to laggards (Rogers, 2003); it explains why younger, more educated, urban-proximate SME owners in Lafia tend to adopt DFS earlier than others. Financial Intermediation Theory holds that financial platforms reduce transaction costs and information asymmetries between savers and borrowers (Levine, 2005); DFS extend this intermediation to previously excluded SMEs by generating digital transaction histories usable for alternative credit scoring (Aker & Mbiti, 2010). Finally, the Schumpeterian finance-growth perspective, building on Schumpeter's (1934) emphasis on credit and financial innovation in enabling entrepreneurial activity, frames DFS as a modern financial innovation capable of unlocking entrepreneurial potential among Lafia's SMEs.

2.3 Empirical Review

Ediagbonya and Tioluwani (2023) found a positive, significant relationship between digital payment use and SME sales revenue and efficiency in Nigeria, moderated by digital literacy. Ibor et al. (2017), studying Cross River State, reported that financial inclusion, including mobile banking, was associated with improved turnover, though many enterprises still relied on informal cooperative savings. Nwankwo and Eze (2013) found a positive e-banking-growth relationship in Anambra State, constrained by infrastructural challenges. Beyond Nigeria, Aker and Mbiti (2010) documented mobile money's transformative effect on small-business transaction efficiency and investment capacity in Kenya, while GSMA (2021) reports consistent growth in African mobile money accounts alongside improved SME financial resilience. Asongu (2013), however, cautions that in low-connectivity, low-literacy contexts, DFS growth effects may be muted, a caution highly relevant to a semi-urban town such as Lafia. This literature is dominated by major Nigerian cities, leaving a contextual gap that this article addresses.

3. Methodology

This article adopts a qualitative, theoretical, desk-based design, synthesizing established theory and literature and applying it analytically to Lafia, in line with theoretical-paper conventions (Creswell, 2014). To cross-validate the theoretical claims beyond Lafia, an illustrative sampling exercise drew respondents with SME, family-business, or entrepreneurship backgrounds from staff and students of six polytechnics, one randomly selected (by balloting from the National Board for Technical Education list) from each of Nigeria's six geo-political zones (North Central, North East, North West, South East, South South, South West). Respondents within each institution were similarly selected by simple random sampling. This national sample is illustrative and theory-testing rather than statistically representative. Insights, alongside secondary literature, were analysed thematically, with recurring themes on adoption drivers and constraints mapped onto the

theoretical constructs in Section 2.2, following standard thematic analysis procedure (Braun & Clarke, 2006).

4. Theoretical Analysis and Discussion

4.1 The DFS Landscape and TAM in Lafia

Lafia has seen steady DFS infrastructure growth: commercial banks maintain ATMs and, in some cases, SME desks; SANEF-driven agent banking and independent POS points have placed cash-in/cash-out services within reach of most neighborhoods (CBN, 2020); and fintech applications (e.g., OPay, PalmPay, Moniepoint) are gaining visibility, particularly among younger and more digitally exposed traders. Under TAM, operators who perceive POS and mobile money as reducing cash-handling risk and speeding transactions adopt more readily, while those serving cash-preferring customers, or distrusting network-dependent transactions, lag behind. Perceived ease of use is a particular constraint for older, less formally educated operators who find menu-driven applications unintuitive, implying that providers must prioritise simplified, low-literacy-friendly design and user education over mere availability (Davis, 1989).

4.2 Diffusion of Innovation and SME Segmentation

Diffusion of Innovation Theory explains differentiated adoption across Lafia's SME population. Relative advantage is strongest among higher-transaction-volume enterprises (e.g., building materials dealers), for whom digital security and record-keeping benefits are more tangible. Compatibility matters where digital payment has become a trading-network norm; complexity constrains artisans and micro-traders with limited digital exposure; trialability, through low-risk agent-assisted transactions, eases hesitant adopters in; and observability, via visible peer success, gradually normalises digital transactions, moving Lafia's SMEs along Rogers' (2003) diffusion curve.

4.3 Financial Intermediation and Credit Access

Financial Intermediation Theory highlights DFS' most consequential, yet underexploited, contribution: credit access. Traditional lending to Lafia's SMEs has been constrained by lack of collateral and inconsistent records (Beck & Demircug-Kunt, 2006); digital transaction trails theoretically enable alternative credit scoring that could ease these constraints (Ozili, 2018; GSMA, 2021). In practice, most Lafia SMEs still rely on personal savings, family support, and informal cooperatives, with formal digital credit uptake comparatively nascent, suggesting that this pathway remains only partially actualized.

4.4 Mapping DFS Functions to SME Growth Indicators

Building on the Schumpeterian perspective, specific DFS functions map onto specific growth indicators for Lafia's SMEs:

- Sales turnover: POS acceptance widens the customer base to include cashless customers (e.g., salaried workers), plausibly raising turnover relative to cash-only competitors.
- Credit and capital base: digital transaction histories can support alternative credit scoring, easing working-capital constraints.
- Operational efficiency: reduced cash-handling time, risk, and reconciliation cost frees managerial capacity.
- Market reach: mobile money and online payment integration enable SMEs to serve customers

beyond their immediate catchment area.

- Business survival: improved digital record-keeping supports better financial planning and, by extension, resilience (Beck & Demirguc-Kunt, 2006).

These pathways suggest DFS are a potential catalyst for multi-dimensional SME growth in Lafia, contingent on the adoption barriers identified under TAM and Diffusion of Innovation Theory being addressed.

4.5 Constraints on realizing DFS Benefits

Several structural challenges, consistent with the structural-constraints literature (Asongu, 2013; Nwankwo & Eze, 2013), temper these theoretical benefits in Lafia:

- Infrastructural deficits: unreliable electricity and network coverage periodically disrupt POS and mobile-money transactions, undermining perceived usefulness.
- Low digital and financial literacy: limits perceived ease of use and slows diffusion among older, less formally educated operators.
- Cost sensitivity: POS, transfer, and bank charges can erode thin margins, dampening relative advantage.
- Trust and cybersecurity concerns: fraud and failed-transaction reports undermine the intermediation function of digital platforms.
- Cash-preferring customer segments: limit compatibility with prevailing local commercial norms. Realizing DFS' theoretical growth potential in Lafia is therefore conditional on deliberate interventions targeting infrastructure, literacy, cost, and trust.

5. Discussion of Findings

The analysis indicates that DFS hold considerable, though conditional, promise for SME growth in Lafia. Consistent with TAM, adoption is strongly mediated by perceived usefulness and ease of use, implying that providers must prioritize simplicity and reliability over mere availability (Davis, 1989). Diffusion of Innovation Theory shows that adoption proceeds along a differentiated curve shaped by relative advantage, compatibility, complexity, trialability, and observability (Rogers, 2003), implying that interventions should leverage peer influence and low-risk trial mechanisms. Financial Intermediation Theory points to credit access, via digital-transaction-based alternative scoring, as the most transformative yet currently underexploited frontier (Ozili, 2018; GSMA, 2021). Read through the Schumpeterian lens, DFS emerge as an enabling but not sufficient condition for SME growth: infrastructural adequacy, literacy, cost moderation, and platform trustworthiness must be addressed concurrently. These theoretical findings are broadly corroborated by the illustrative national cross-validation exercise, in which respondents across Nigeria's six geo-political zones similarly emphasized usefulness, ease of use, cost, and trust as recurrent themes, lending external plausibility to the article's propositions beyond Lafia.

6. Conclusion and Recommendations

This article has theoretically analyzed the impact of digital financial services on SME growth in Lafia, Nasarawa State, using TAM, Diffusion of Innovation Theory, Financial Intermediation Theory, and the Schumpeterian finance-growth perspective. DFS offer substantial theoretical pathways for enhancing sales turnover, credit access, operational efficiency, market reach, and business survival, but realizing these benefits is conditional on overcoming infrastructural deficits, low digital and financial literacy, cost sensitivity, trust concerns, and cash preference among

certain customer segments. Overall, digital financial services represent a potentially transformative, though presently incompletely exploited, lever for SME growth in Lafia, requiring coordinated action by policymakers, financial institutions, fintech operators, and SME support agencies to convert this theoretical potential into measurable growth outcomes. Accordingly, the article recommends that:

1. government agencies, telecom operators, and power distributors prioritize electricity and network infrastructure investment in Lafia;
 2. CBN, SMEDAN, banks, and fintech operators design targeted digital and financial literacy programmes for Lafia's SME operators, especially older and less formally educated traders and artisans;
 3. financial service providers moderate transaction charges on low-value SME transactions to preserve DFS' relative advantage over cash;
 4. fintech and banking institutions strengthen platform reliability and fraud resolution to build SME trust in digital intermediation;
 5. SME associations and cooperative groups be leveraged as peer-influence channels to accelerate diffusion among hesitant adopters;
 6. financial institutions accelerate digital-transaction-based alternative credit-scoring products tailored to SMEs in towns like Lafia; and
 7. future researchers complement this theoretical analysis with a full-scale empirical survey of Lafia's SMEs to statistically validate its propositions.
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