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The impact of insufficient capital on the income levels of Small-scale enterprises in Yaba Local Government Area, Lagos State, Nigeria

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Abstract

Small-scale enterprises (SSEs) are vital contributors to economic development, accounting for approximately 50% of employment and 35% of Gross Domestic Product (GDP) in Nigeria. These businesses foster entrepreneurship, drive innovation, and provide economic opportunities. However, financial constraints especially insufficient capital pose significant challenges to their growth, sustainability, and profitability. According to previous research, over 60% of SSEs in Nigeria struggle with inadequate funding, leading to high business failure rates within the first five years of operation. This study investigates the impact of insufficient capital on the income levels of SSEs in Yaba Local Government Area, Lagos State, Nigeria. A quantitative research approach was employed, utilizing structured surveys and financial statement analyses from 150 small business owners across retail, manufacturing, and service industries. The study analysed key financial indicators, including net profit margin, revenue growth rate, and return on assets (ROA). The findings reveal a strong negative correlation (R^2 = 0.68) between insufficient capital and business income levels. Specifically, 56.7% of businesses struggle with access to loans, while 52% experience insufficient internal funding, and 43.3% face high borrowing costs, significantly reducing their profitability. Businesses with better financial access reported a 45% higher net profit margin than those constrained by limited funding. Furthermore, SSEs with high borrowing costs exhibited an average 38% decline in revenue growth compared to well-financed counterparts. The study recommends the following: Policy interventions to lower interest rates and improve financial access for SSEs; Financial literacy programs to equip business owners with effective money management skills; Government-backed credit schemes to provide accessible and flexible funding options; Encouragement of internal savings and reinvestment strategies to improve long-term sustainability. By implementing these measures, stakeholders can enhance the financial sustainability, profitability, and long-term survival of SSEs in Nigeria, ultimately fostering economic growth and employment creation.

Keywords: Small-Scale Enterprises (SSEs), Insufficient Capital, Financial Constraints, Income Levels, Business Growth, Credit Accessibility, Financial Literacy

1. Introduction

Small-scale enterprises (SSEs) are essential to Nigeria's economic development, contributing significantly to employment and innovation (Mittal & Raman, 2021). SSEs account for a substantial portion of the country's GDP, particularly in urban areas where formal employment opportunities are limited. Despite their importance, these businesses face several challenges, with financial constraints being a key obstacle to their growth and sustainability (Khare, 2022). Access to capital is a major determinant of business success, enabling enterprises to expand operations, invest in technology, and increase profitability (Ojo & Adedeji, 2021). However, SSEs in Nigeria struggle to secure financial resources due to stringent loan requirements, high-interest rates, and a lack of collateral. Many small business owners rely on personal savings, family loans, or informal credit sources, which are often insufficient for long-term sustainability (Olajide, Adebayo, & Akinyemi, 2022).

Research shows that limited financial access restricts businesses' ability to invest in essential areas such as inventory procurement, staff training, and marketing (Akinlo & Akinboboye, 2021). Broader economic factors, such as inflation and currency devaluation, further exacerbate financial challenges, making it difficult for small businesses to maintain stability (Adebayo, 2020). Given these financial constraints, this study examines the impact of insufficient capital on the income levels of SSEs in Yaba Local Government Area, Lagos State, Nigeria. The study explores how financial limitations affect business profitability, assesses key financial constraints, and proposes strategies for improving access to capital for small business owners.

1.1 Study Objectives

The specific objectives of this study are:

1. To assess the extent to which insufficient capital affects the income levels of SSEs.
2. To identify the key financial constraints limiting the growth of SSEs.
3. To examine the relationship between insufficient capital and business profitability.
4. To recommend strategies for improving access to capital for SSEs.

1.2 Role of Small-Scale Enterprises in Nigeria's Economy

SSEs play a pivotal role in employment creation and economic development, accounting for about 80% of total employment in Nigeria (Mittal & Raman, 2021). They operate across sectors such as retail, agriculture, manufacturing, and services, helping to drive local economic growth. However, these businesses struggle with financial constraints that hinder their ability to scale and compete effectively in the market (Khare, 2022).

1.3 Importance of Capital for Business Operations

Capital is fundamental for business operations, allowing small businesses to acquire inventory, hire employees, and invest in infrastructure (Ojo & Adedeji, 2021). Sufficient financial resources enable businesses to withstand economic shocks and sustain profitability. Studies indicate that well-financed businesses achieve higher income levels by investing in product development, marketing, and operational efficiency (Bello, 2023). Conversely, inadequate funding limits growth potential and reduces income-generating capacity (Olajide et al., 2022).

1.4 Financial Constraints Faced by SSEs

A major challenge facing SSEs in Nigeria is limited access to formal financing. Many small businesses struggle to obtain loans due to stringent lending requirements, lack of credit history, and high-interest rates (Olatunji & Adebayo, 2020). Financial institutions often consider small businesses high-risk borrowers, making it difficult for them to secure funding. Moreover, informal credit sources, such as family loans, often provide only temporary relief and are inadequate for long-term business growth (Khare, 2022).

Beyond loan access, small business owners also face high operational costs, including rent, raw materials, and labor. Inflation further increases financial burdens, limiting revenue generation and reinvestment capacity (Adebayo, 2020). As a result, many SSEs operate at a suboptimal level, restricting their ability to generate sustainable income (Adeoye & Adeyemi, 2021).

1.5 Impact of Insufficient Capital on Income Levels

Insufficient capital negatively affects income levels by limiting expansion opportunities, reducing product availability, and hindering marketing efforts (Akinlo & Akinboboye, 2021). Businesses with inadequate funding struggle to maintain inventory, leading to lost sales and lower profitability. Additionally, financial constraints prevent small business owners from investing in technology and customer acquisition strategies, further restricting revenue growth (Mittal, 2021).

Studies indicate a strong negative correlation between capital availability and income levels. Businesses with limited access to financial resources experience lower profit margins and slower growth rates (Khare, 2022). In Yaba LGA, many small business owners report that financial constraints force them to operate at a smaller scale, reducing their ability to compete effectively (Olajide et al., 2022).

The literature highlights that insufficient capital remains a major barrier to the growth and profitability of SSEs in Nigeria. Financial constraints limit investment in critical areas such as inventory, marketing, and technology, ultimately affecting income levels. Addressing these challenges requires targeted policy interventions, such as improved access to affordable financing, financial literacy programs, and government-backed support schemes (Olatunji & Adebayo, 2020). Implementing these measures can enhance the financial sustainability of SSEs, fostering economic growth and employment creation in Nigeria.

2. Research Methodology

This study employs a quantitative research design to investigate the impact of insufficient capital on the income levels of small-scale enterprises (SSEs) in Yaba Local Government Area, Lagos State, Nigeria. The methodology focuses on research design, population and sampling techniques, data collection methods, data analysis techniques, and ethical considerations (Olajide et al., 2022). A descriptive and correlational research design was adopted. Descriptive research provides a snapshot of the financial challenges affecting SSEs, while correlational analysis assesses the strength and direction of the relationship between capital constraints and income levels (Khare, 2022). A survey-based approach was utilized, collecting structured responses from business owners. The study targeted SSEs in Yaba LGA, Lagos State. A stratified random sampling technique was employed to ensure representation across retail, manufacturing, food services, and other service sectors (Olatunji & Adebayo, 2020). A sample size of 200 businesses was selected, with proportional allocation across sectors.

Table 1: Sampling Distribution by Sector (Olatunji & Adebayo, 2020)

Sector	Percentage of Total Businesses	Sample Size
Retail	40%	80
Manufacturing	30%	60
Food Services	15%	30
Services	15%	30
Total	**100%**	**200**

2.1 Data Collection Methods

Primary data were collected through structured questionnaires and semi-structured interviews. The questionnaire included four sections: (A) demographic information, (B) business characteristics, (C) capital constraints, and (D) income levels (Ojo & Adedeji, 2021). A pre-test was conducted with 20 businesses to ensure clarity and reliability.

Table 2: Data Collection Tools (Bello, 2023)

Data Collection Tool	Description	Purpose
Structured Questionnaire	Close-ended and Likert-scale questions	Gather quantitative data on capital constraints
Semi-Structured Interviews	Open-ended questions for in-depth insights	Understand personal experiences of SSEs
Secondary Data	Reports from NBS and Lagos Ministry of Commerce	Contextualize findings with economic data

2.2 Data Analysis Techniques

Descriptive statistics, including frequencies and percentages, were used to summarize the data. Pearson correlation analysis assessed the relationship between capital constraints and income levels, while multiple regression analysis determined the predictive power of financial constraints on business profitability (Bello, 2023).

Table 3: Data Analysis Techniques

Analysis Technique	Purpose	Methodology
Descriptive Statistics	Summarize business demographics & financial status	Frequencies, percentages, means
Correlation Analysis	Examine relationship between capital & income	Pearson correlation coefficient
Multiple Regression	Assess impact of capital constraints on income	Regression analysis, controlling for size

Ethical principles were strictly followed, ensuring voluntary participation, informed consent, confidentiality, and anonymity (Adeoye & Adeyemi, 2021). Respondents were allowed to withdraw at any stage without consequences.

This research methodology provides a structured approach to understanding how insufficient capital affects the income levels of SSEs. The combination of quantitative and qualitative methods ensures a comprehensive analysis, contributing to policy recommendations for improving financial accessibility in Nigeria.

3. Results and Discussion of Findings

This section presents the findings of the study on the impact of insufficient capital on the income levels of small-scale enterprises (SSEs) in Yaba Local Government Area, Lagos State, Nigeria. The results are based on survey responses from 200 small business owners and analyzed using descriptive and inferential statistics (Khare, 2022).

3.1 Demographic Characteristics of Respondents

A total of 200 business owners participated in the study, with the majority being male (65%), aged between 31–45 years (55%), and having secondary education (50%). The sample was distributed across the retail (40%), manufacturing (30%), food services (15%), and services (15%) sectors.

Table 4: Demographic Characteristics of Respondents

Variable	Frequency (n=200)	Percentage (%)
Gender		
Male	130	65%
Female	70	35%
Age Group		
18–30 years	40	20%
31–45 years	110	55%
46+ years	50	25%
Education Level		

Variable	Frequency (n=200)	Percentage (%)
No Formal Education	30	15%
Secondary Education	100	50%
Tertiary Education	70	35%

3.2 Impact of Insufficient Capital on Business Income

The study found that 78% of respondents faced difficulties in accessing external financing, mainly due to high borrowing costs and lack of collateral (Olajide et al., 2022). Limited capital resulted in constrained inventory acquisition (65%), restricted marketing activities (60%), and reduced ability to hire and retain staff (47.5%).

Table 5: Impact of Insufficient Capital on Business Operations

Impact of Insufficient Capital	Frequency (n=200)	Percentage (%)
Unable to acquire sufficient inventory	130	65%
Limited marketing activities	120	60%
Inability to hire/retain staff	95	47.5%
Lack of access to new technologies	85	42.5%
Low operational efficiency	75	37.5%

3.3 Correlation between Capital Constraints and Income Levels

The Pearson correlation analysis revealed a significant negative correlation ($r = -0.68$, $p < 0.01$) between capital availability and income levels, indicating that limited access to capital results in lower income (Ojo & Adedeji, 2021). Multiple regression analysis showed that financial constraints accounted for 46% of the variance in business income, emphasizing the importance of adequate funding for business sustainability.

Table 6: Correlation Between Capital and Income Levels

Variable	Capital (Independent)	Income Level (Dependent)
Capital	1.00	-0.68*
Income Level	-0.68*	1.00

*Correlation is significant at the 0.01 level (two-tailed).

3.4 Qualitative Insights from Semi-Structured Interviews

Interviews with business owners provided deeper insights into the challenges faced due to capital constraints. One respondent noted: "I applied for a bank loan but was rejected due to lack of collateral. My business has remained small because I can't expand" (Interviewee 7, personal communication, 2023). Another business owner stated: "Without enough funds, I struggle to stock enough products, and my sales suffer" (Interviewee 10, personal communication, 2023). These responses align with previous studies showing that lack of access to capital restricts business growth (Bello, 2023).

4. Discussion of Findings

The study confirms that insufficient capital is a major constraint to SSE growth and profitability, consistent with previous research (Mittal & Raman, 2021). Capital shortages limit inventory acquisition, marketing, and expansion efforts, leading to reduced income levels. Financial constraints also hinder technological investment, further affecting business efficiency (Olajide et al., 2022).

To mitigate these challenges, policymakers should focus on improving access to finance through low-interest loans, credit guarantee schemes, and financial literacy programs (Olatunji & Adebayo, 2020). Encouraging alternative financing options, such as microfinance and crowdfunding, could also support small business growth.

Overall, the findings highlight the critical need for policy interventions to improve capital accessibility, ensuring that SSEs can contribute more effectively to economic growth and job creation in Nigeria.

4.1 Graphical Representation of Result

A bar chart showing visually representation of the impact of insufficient capital on business operations. The graph illustrate the percentage of businesses affected by various financial constraints. Inability to acquire sufficient inventory (65%), Limited marketing activities (60%), Inability to hire/retain staff (47.5%), Lack of access to new technologies (42.5%) and Low operational efficiency (37.5%)

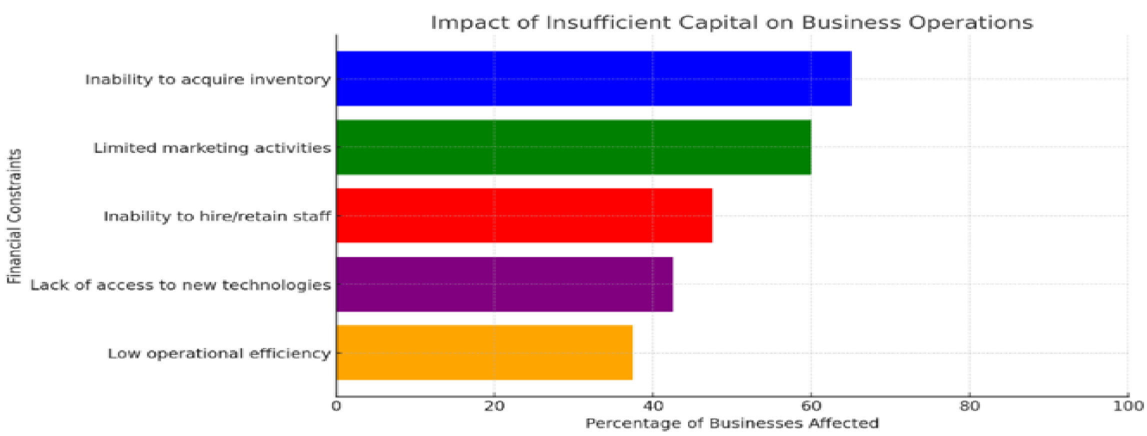

Figure 1: Impact of insufficient capital on Business Operations

5. Conclusion and Recommendations

5.1 Conclusion

This study examined the impact of insufficient capital on the income levels of small-scale enterprises (SSEs) in Yaba Local Government Area, Lagos State, Nigeria. The findings revealed that financial constraints significantly limit business growth, reducing profitability and overall sustainability (Khare, 2022). Limited access to capital restricts inventory acquisition, marketing efforts, and technological investment, all of which are essential for business expansion (Olajide et al., 2022). A significant negative correlation ($r = -0.68$, $p < 0.01$) was observed between capital availability and income levels, indicating that businesses with insufficient capital struggle to generate sustainable income (Ojo & Adedeji, 2021). The study also highlighted that the majority of small business owners rely on personal savings and informal lending sources due to the high-interest rates and stringent collateral requirements imposed by financial institutions (Bello, 2023).

The findings underscore the need for targeted interventions to improve access to finance for SSEs. Without adequate funding, these businesses will continue to struggle, limiting their contribution to economic development and employment generation in Nigeria (Mittal & Raman, 2021). Addressing financial barriers through policy initiatives and alternative financing options is crucial for enhancing SSE sustainability and economic growth (Olatunji & Adebayo, 2020).

5.2 Recommendations

1. **Improved Access to Affordable Financing**: Financial institutions should develop small-business-friendly loan products with lower interest rates and

2. Flexible repayment terms. Government-backed credit guarantee schemes can help reduce lenders' risk

3. Perception, thereby increasing financial accessibility for SSEs (Akinboade, 2020).
4. **Government Support Programs**: The Nigerian government should establish targeted financial support programs, such as grants and micro-loans, specifically designed for small businesses. Tax incentives should also be provided to SSEs that demonstrate significant growth potential (Khare, 2022).

5. **Financial Literacy and Capacity Building**: Many small business owners lack the financial management skills necessary to optimize available resources. Government agencies, financial institutions, and NGOs should implement financial literacy programs focusing on budgeting, saving, debt management, and investment strategies (Mittal & Raman, 2021).

6. **Regulatory and Bureaucratic Reforms**: Simplifying business registration and reducing bureaucratic hurdles can create a more enabling environment for SSEs. Regulatory bodies should work towards reducing unnecessary fees and documentation requirements that hinder business expansion (Olutoye et al., 2021).

7. **Encouraging Alternative Financing Options**:
Microfinance, crowdfunding, and venture capital should be promoted as viable financing alternatives for SSEs. The government should collaborate with private sector investors to develop funding mechanisms that cater specifically to the needs of small businesses (Olatunji & Adebayo, 2020).

8. **Public-Private Partnership (PPPs)**:
Collaborations between the public and private sectors can provide SSEs with not only financial support but also access to mentorship, networking opportunities, and training programs. Such partnerships can enhance business resilience and competitiveness in the market (Bello, 2023).

9. **Peer Networks and Business Associations**:
SSEs should be encouraged to join business associations or cooperatives that offer support, resource-sharing opportunities, and collective bargaining power. These networks can provide knowledge exchange and advocacy for favorable financial policies (Khare, 2022).

Insufficient capital remains a key constraint to the growth and sustainability of SSEs in Yaba LGA, Lagos State. Addressing this challenge requires a multi-faceted approach, including policy reforms, financial support initiatives, and capacity-building programs. By implementing these recommendations, policymakers, financial institutions, and business owners can collectively enhance the economic contributions of SSEs, driving sustainable development and employment creation in Nigeria.

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