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Assessing the Potential of Fintech Lending Platforms as Viable Alternatives for the Funding of Small and Medium Scale Enterprises in Nigeria

Okoronkwo, Scholastica[1*], Uchegbulam, Joachin Chetachi[1]
[1]Department of Political Science, University of Nigeria, Nsukka
[2]Department of Economics, University of Nigeria, Nsukka

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***Corresponding author:** Okoronkwo, Scholastica
Department of Political Science, University of Nigeria, Nsukka

Abstract

This study examines the potential of FinTech money lending platforms, as viable alternatives for funding SMEs in Nigeria. The motivation for the study arises from the increasing role of FinTech platforms, when it comes to providing financial services to SMEs and the need to enhance their effectiveness and contributions. The study objectives focus on evaluating the accessibility of funds, user interface, transparency, risk management, regulatory compliance, and reputation of the FinTech lending platforms, in terms of their trustworthiness. Data was collected through focused group discussions with 20 SME owners who have used the lending platforms to access business funds, and content analysis was employed to collect relevant information from secondary data sources. Data collected was analyzed using a theme-based qualitative descriptive analysis approach. Amongst others, findings of the study highlight the importance of trustworthiness in determining SME's perception of FinTech platforms, as practices like transparent disclosures and customer friendly policies were found to foster trust. Amongst others, this study recommends more collaboration between FinTech platforms and the government, as well as other traditional lending institutions, in order to enhance the effectiveness of their services and build trust amongst SME users.

Keywords: FinTech, Lending, Small, Medium, Scale, Enterprises, Nigeria.

INTRODUCTION

Small and Medium Enterprises (SMEs) play a crucial role when it comes to the economic development of Nigeria and other countries around the world (Bello *et al*., 2018). SME enterprises, are usually characterized by their relatively small workforce and revenue compared to large corporations (Ndiaye *et al*., 2018). As noted by Onwuchekwa (2023), in Nigeria, SMEs are defined as businesses with assets that are valued at less than N500 million, with the exception of land and buildings. They are seen as the backbone of the economy, as they contribute significantly to job creation, innovation, and poverty alleviation (Taiwo & Falohun, 2016).

The history of SMEs in Nigeria can be traced back to pre-colonial times, when small-scale trading and craftsmanship were the prevalent economic activities (Kom, 2022). As highlighted in the work by Okonkwo (2017), during the colonial era, the focus of business owners and even government, shifted towards the extraction of natural resources, thereby leading to the neglect of indigenous industries. The era of military rule in Nigeria further relegated SMEs to the background, as government policies favored large corporations and foreign investors (Usman, 2022). However, with the return to civilian rule in 1999, there has been a renewed emphasis on the development of SMEs as viable means of diversifying the Nigerian economy, and reducing dependence on oil revenue (Abdullah, 2018). As noted by Nwosu *et al*., (2016), over the years, various State arrangements have been introduced, to provide funding for SMEs in Nigeria. These include; the establishment of specialized agencies such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) as well as the Bank of Industry (BOI). These agencies were specifically created to provide financial support, capacity building, as well as other forms of assistance to SMEs in various sectors of the economy.

Despite the efforts of government agencies, SMEs in Nigeria continue to face numerous challenges, especially in terms of accessing funding (Abdullahi *et al*., 2016). Traditional lending institutions in Nigeria, like banks often usually have quite stringent lending criteria and are usually not too willing to extend credit to small businesses, with limited collateral (Omede, 2018). This has contributed to creating a financing gap for many SMEs, thereby hindering their growth and expansion. According to the National Bureau of Statistics (NBS), SMEs in Nigeria make up above 96% of the total number of businesses operating in Nigeria and contribute about 50% of the Nigerian GDP (Nigerian Bureau of Statistics, 2022). Given their prominence in the economy, it is paramount to create more accessible avenues for SMEs to obtain funding for their businesses.

So far, government led initiatives have not been very effective, when it comes to sufficiently addressing the funding needs of SMEs in Nigeria (Adegoke *et al*., 2022). That underscores the need for the introducing or supporting more viable alternative financing options. In that regard, FinTech lending platforms have emerged as one of the potential alternatives that could provide easier access to credit for SMEs in Nigeria. These platforms leverage on technology to stream line their lending process, thereby making their services more efficient and accessible to a wider range of borrowers. Though many studies like those conducted by Taiwo and Falohun (2016), Hassan *et al*., (2020) and Onyedikachi *et al*., (2022), have examined the impact of government led SME funding initiatives, there is a paucity of research, when it comes to non-State linked funding options, such as FinTech platforms. Therefore, having an in-depth understanding of the potential of these platforms as viable alternatives for funding SMEs is required, in order to leverage on the services they provide, to diversify funding sources and increase access to finance for small businesses in Nigeria.

Therefore, this study aims to assess the potential of FinTech lending platforms as viable alternatives for funding SMEs in Nigeria. The study examined factors such as access to credit, user interface, the transparency and governance factor, risk management practices, regulatory compliance, as well as the reputation and trustworthiness of the FinTech platforms.

METHODOLOGY

This study adopts a mixed-method methodology, as it combines focus group discussions and content analysis, as the methods for gathering data on the potential of FinTech lending platforms, as viable alternatives for funding SMEs in Nigeria. Focus group discussion was employed for the collection of relevant information from 20 SME owners that actively utilize FinTech platforms for business loans. On the other hand, content analysis will be used to extract relevant information from secondary sources, to support the findings from the primary sources. A theme based qualitative descriptive method was employed as the method of data analysis.

RESULT

The Most Used Platforms by SMEs in Nigeria

Based on the information gotten from the study participants and from secondary data sources, below are the FinTech platforms used the most for obtaining of business loans, by SMEs in Nigeria.

Table 1: Most Used Online Lending Platforms by SMEs in Nigeria

S/N	Platform Name	Year of Establishment	Year of Operations Commencement in Nigeria	Nigerian Head Quarters	Loan Durations	Loan Ranges	Interest Rates	Criteria for Interest Rates	Other Services Provided
1.	Carbon (formerly Paylater)	2012	2016	Lagos, Nigeria	15 Days-6 months	₦10,000 - ₦20,000,000	5% - 30%	Credit Worthiness and Repayment History	Bill payments and Investments Opportunities
2.	Renmoney	2012	2014	Lagos, Nigeria	1-9 months	₦50,000 - ₦4,000,000	4% - 4.5%	Credit Score and Income Level	Savings and Fixed deposits
3.	Branch	2015	2017	Lagos, Nigeria	1-5 Months	₦1,500 - ₦200,000	14% - 28%	Credit score, and Repayment history	Savings and Investments
4.	Lidya	2016	2017	Lagos, Nigeria	1-12 Months	₦50,000 - ₦5,000,000	3.5% - 12.5%	Business revenue and Credit History	Invoice financing and Credit scoring
5.	Fairmoney	2016	2018	Lagos, Nigeria	2-18 months	₦1,500 - ₦3,000,000	2.5% - 30%	Repayment Behavior and Creditworthiness	Bill Payments, and Investments

6.	Aella Credit	2015	2019	Lagos, Nigeria	1-12 Months	₦2,500 - ₦1,500,000	2% - 20%	Credit score, and Employment status	Insurance and Wealth Management Services
7.	KiaKia	2016	2017	Lagos, Nigeria	6-12 months	₦100,000 - ₦10,000,000	12% - 40%	Credit score and Income verification	Investment opportunities and Insurance Services
8.	Zedvance	2016	2017	Lagos, Nigeria	1-12 Months	₦50,000 - ₦5,000,000	7.5% - 58%	Credit Score and Income Level	Asset financing and Savings Services
9.	Kudimoney	2016	2016	Lagos, Nigeria	1-12 Months	₦10,000 - ₦500,000	3% - 29%	Repayment History and Credit Check	Investments and Bill Payments
10.	Quickcheck	2015	2019	Lagos, Nigeria	3-12 months	₦50,000 - ₦3,000,000	5% - 30%	Credit Score and Employment Status	Investment Opportunities and Insurance Services
11.	Page Financials	2014	2015	Lagos, Nigeria	3-12 months	₦200,000 - ₦5,000,000	3% - 37%	Credit Score and Income Verification	Savings and Investments Services
12	C24	2015	2016	Lagos, Nigeria	1-6months	₦40,000 - ₦1,000,000	4%	Repayment Behavior and Creditworthiness	Bill Payments and Investments Services
13.	Palmcredit	2018	2018	Lagos, Nigeria	2 Weeks-6 months	₦2,500 - ₦300,000	24%-56%	Credit Score, and Employment Status	Insurance and Wealth management Services
14.	Specta	2018	2018	Lagos, Nigeria	1-12 months	₦100,000 - ₦5,000,000	25.5% - 28.5%	Credit score, repayment history	Investment Plans Opportunities and Bill Payments Services
15.	Quick Credit			Lagos, Nigeria	1 month	₦5000-₦200,000	5%	Credit score, repayment history	
16.	FastCredit	2017	2018	Lagos, Nigeria	3-12 months	₦200,000 - ₦2,000,000	5% - 35%	Repayment History and Credit Check	Investments Services and Bill Payments Services
17.	Kwikmoney (Migo)	2013	2015	Lagos Nigeria	1-6 months	₦2,500 - ₦500,000	6%	Credit Score and Employment Status	Investment Opportunities and Insurance Services
19.	Credit Direct	2007	2007	Lagos, Nigeria	1-12 months	₦10,000 - ₦2,500,000	21% - 35%	Creditworthiness, and Repayment History	Bill payments and investments

Source: Author

Access to Credit

In terms of the loan approval process, the SME users mentioned that platforms like Carbon and Lidya offer fast loan approval processes, compared to traditional banks. One participant said;

> *"I applied for a loan on Carbon and was approved within hours, which saved me a lot of time compared to going to a bank."*

The forgoing was also echoed in a report by Babajide *et al.*, (2020), which highlighted that SMEs are increasingly patronizing FinTech platforms for business loans.

In terms of Interest Rates, it was found that while platforms like Renmoney and Branch have slightly higher interest rates, the SME owners appreciated the ease of access and quick approval times. Based on the information provided by the study participants, it was found that the average interest rates of FinTech lending platforms in Nigeria largely range from about 2% to 30%, depending on the platform and the specific loan product. But for Lidya interest rates, they range from 3.5% to 12.5% per month. It was also found that platforms like Renmoney provide personal and business loans with interest rates ranging from about 4% to 4.5%, while Carbon (formerly known as Paylater), offers personal loans with interest rates starting from about 5%

monthly. It is important to note that the interest rates can vary based on the credit worthiness of the borrower, the loan amount, as well as the repayment term. Prospective borrowers should carefully review the terms and conditions of each platform before applying for a loan. In the words of one of the participants, he said;

> *"Branch's interest rates seem to be higher than that of the other platforms, but the convenience and speed of their services make it worth it for my business."*

The forgoing aligns with what was reported by Kola-Oyeneyin *et al*., (2020), who stated that some of the online lending platforms in Nigeria have quite high interest rates.

In terms of the repayment terms, the study participants highlighted the flexible repayment terms usually offered by platforms like; FairMoney and Carbon (Paylater). One of the participants mentioned that FairMoney allows him to adjust repayment schedule based on my business needs, which is quite helpful.

In terms Collateral Requirements**,** the study participants noted that platforms like KiaKia and QuickCheck have lower collateral requirements, compared to traditional banks. It also revealed that the lending platforms do not generally request for collaterals, but rather makes use of factors like; an applicants credit score, repayment history, credit worthiness, employment status and income level, to determine their eligibility for a loan. That makes their services to be more accessible for SMEs that have limited assets.

User Interface

Note that for the FinTech platforms, all loan application is done online. In terms of their platform Usability**,** the study appreciated the user-friendly interfaces of platforms like Branch, Fairmoney, Aella credit and Carbon, which according to them, made it easy for them to navigate around the platforms and apply for loans easily. One of the participant shared that;

> *"Carbon is a simple and straight forward platform, and that makes the borrowing process seamless for me."*

In terms of the automation of the application processes, the study participants noted that the automated processes on platforms like Palmcredit and Branch, such as the instant loan approvals and the automated repayment deductions were quite effective. When it comes to the data analytics capabilities of the platforms, some of the participants mentioned that platforms like Aella Credit and Carbon provide valuable data analytics services, which help them to effectively track their business finances and make informed decisions. When it comes to integration with other financial services, it was found that many of the platforms like Aella Credit, Carbon, Branch, etc have included additional services like savings mediums, providing investment opportunity, as well as providing insurance services. The study participants expressed that they appreciated the integration of the additional financial services on, as it is quite beneficial for SMEs that are looking for a one-stop financial solution.

Transparency and Governance

The study findings revealed that there are mixed experiences, when it comes to transparency and governance amongst FinTech lending platforms in Nigeria. Some of the study participants praised platforms like Renmoney and FairMoney for their clear disclosure of terms and charges, though the same applies to many of the lending platforms. For example, the participants highlighted that the platforms clearly outlines interest rates and repayment schedules, and that enables SMEs to make informed decisions. However, the participants also stated some negative practices of some platforms like Branch and Aella Credit, where participants reported hidden charges and unclear terms, thereby leading to confusion and dissatisfaction amongst their clients. This aligns with the recent complaints of online lenders as reported by Africa China Reporting (2022), about the unethical loan retrieval tactics such as cyber bullying employed by the online lending platforms, such as exposure of sensitive information of the customers to third parties, which violates the customer's rights to privacy.

Risk Management and Regulatory Compliance

The study findings highlighted the importance of having robust risk management practices, on the part of the FinTech platforms, and having simple user interfaces. The study participants lauded the efforts of platforms like Lidya and Carbon, for conducting thorough risk assessments before granting loans, thereby protecting themselves from potential default risks. However, regulatory compliance emerged as a significant concern in the course of the discussions with the study participants, as a majority of them revealed that there are many unregistered online platforms in Nigeria. The inability of relevant authorities to bring all online lending platforms under firm regulatory control, has exposed borrowers to many risks.

While platforms like Page Financials and Carbon were commended by the study participants, for adhering to regulatory requirements set by the Central Bank of Nigeria, others like QuickCheck were accused of flouting regulations by charging exorbitant interest rates and engaging in aggressive debt collection practices like harrassments; a claim that was also reported by Loan Shark Review (2025). The study participants emphasized the need for tighter regulatory control to monitor and enforce compliance standards across all FinTech lending platforms in Nigeria.

Reputation and Trustworthiness

In terms of the reputation and trustworthiness of FinTech platforms, it was found that platforms such as

Carbon and FairMoney were most preferred by SME borrowers because of their transparent and customer-friendly practices, which helps to foster trust and loyalty amongst SMEs. In contrast, negative practices by platforms like Renmoney and Aella Credit, such as sudden interest rate hikes and harsh penalties for few days late payments, eroded trust and credibility, leading to negative perceptions among SMEs.

DISCUSSION OF FINDINGS

This study found that SME borrowers who patronize online lending platforms in Nigeria, valued user friendly interfaces and prioritized the reputation and trustworthiness of lending platforms, in their decision making. Comparing the findings of with related studies from other regions in Asia, indicates similar patterns. For instance, a study carried out by Choi *et al*., (2019), in South Korea highlighted the significance of user interface design when it comes to driving FinTech adoption. The study findings indicate that platforms with intuitive interfaces and seamless navigation, similar to what was appreciated by SME borrowers in Nigeria, saw higher levels of adoption and satisfaction among users. In the case of Europe, a study conducted by Stewart and Jürjens (2018), on perceptions about FinTech platforms in Germany, highlighted the importance of transparency and regulatory compliance in fostering trust amongst corporate clients. The study revealed that platforms that prioritized data security and consumer trust, had higher credibility as well as loyalty from users. Similarly, findings of a study conducted in India by Jain (2024) highlighted that platforms with user friendly interfaces and well streamlined processes for funding purposes, had more trust from their clients. This aligns with the findings of our study, where SMEs in Nigeria appreciated the ease of use and automation features of the lending platforms.

The unique contribution of this study lies in it's focus on the Nigerian context, as it specifically sheds light on the challenges faced by SMEs, when it comes to accessing business funding, including through FinTech lending platforms, in Nigeria. The study findings provides more insights to policy makers, regulators, as well as industry stake holders, on how to improve the effectiveness of the platforms, with regards to the financial support they provide to SMES, and address regulatory inadequacies as well.

CONCLUSION

This study assessed the potential of FinTech lending platforms as viable alternatives for funding SMEs in Nigeria. The study findings highlighted factors like the user friendly interfaces, transparency and governance issues, regulatory compliance concerns, as well as reputation and trustworthiness of these platforms, as some of factors. The importance of having more easily accessible SME funding options in Nigeria cannot be overstated. Small and medium-sized enterprises are paramount drivers of economic growth as well as job creation in the country. Hence, ensuring that they have access to affordable and flexible financing options is important for ensuring their sustainability and success. As such, the following recommendations are proposed to better leverage on the FinTech platforms to provide more accessible loans for SMEs and better loan terms in general:

1. The Nigerian government should collaborate more with FinTech platforms, in order to establish clear regulatory standards which ensure compliance to regulatory standards. That will protect SMEs from some predatory lending practices, which have been reported by borrowers. Regulatory bodies such as the Central Bank of Nigeria should regularly monitor as well as audit FinTech lending platforms, in order to ensure that they adhere to set standards, especially those that concern interest rate caps, transparency of their loan terms and conditions, as well as fair debt collection practices.
2. FinTech platforms should collaborate with government agencies, non-profit organizations, as well as educational institutions, in order to provide financial literacy programmes that are tailored to the needs of SME owners, and also raise awareness about the existence of alternative funding sources offered by FinTchs, amongst more SME owners
3. FinTech platforms should forge better partnerships with traditional banks as well as microfinance institutions, in order to leverage on their expertise in credit assessment, risk management, as well as ensuring regulatory compliance. This collaboration will help FinTech platforms to enhance their lending practices and also offer more competitive loan products to SMEs.
4. FinTech platforms should establish more robust customer feedback mechanisms, which should aim at gathering insights on the experiences as well as preferences of SMEs. This feedback can be used to continuously improve the services provided by FinTech lending, platforms, and address any concerns raised by SMEs, as well as enhance overall customer satisfaction and trust.

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