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STRATEGIC WAYS OF RAISING FUNDS FOR SMALL SCALE BUSINESS: THE PROSPECT

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ABSTRACT

This study examined the strategic ways of raising funds for small scale business, assessing the prospect. Starting and sustaining a small-scale business requires more than just an innovative idea and a determined entrepreneur; securing adequate funding is crucial for business growth and survival. In the context of carrying out this research the following subheads among many others were expounded on: concept of funding, concept of small scale business and types of small scale business. The study mentioned retail businesses, service-based businesses and manufacturing businesses as types of small scale businesses. Furthermore, it mentioned bootstrapping, government grants and crowdfunding as some of the strategic ways of raising capital to fund small scale businesses. Some of the notable challenges of raising capital to fund small scale business as mentioned in the study included: limited access to formal credit, high cost of borrowing and insufficient investor confidence. More so, the study mentioned: enhancing financial literacy and leveraging digital financial platforms as some of the mitigating strategies to the challenges of raising capital to fund small scale business. Securing adequate funding is crucial for the growth and survival of small-scale businesses. While financial constraints remain a major challenge, entrepreneurs can explore various funding options beyond traditional bank loans. One of the recommendations made was that small-scale business owners should explore multiple funding avenues, including bootstrapping, crowdfunding, government grants, and angel investors.

KEYWORDS: Funds and Small Scale Business

INTRODUCTION

Starting and sustaining a small-scale business requires more than just an innovative idea and a determined entrepreneur; securing adequate funding is crucial for business growth and survival (Johnson-Hart, 2023). However, access to capital remains a significant challenge for many small business owners, especially in developing economies where financial institutions are often hesitant to lend to startups with limited collateral (Agboh, 2021). This financial limitation has driven businesses to investigate strategic and alternative funding solutions beyond standard bank loans. Understanding these finance methods is vital for supporting firm sustainability and expansion in competitive marketplaces.

The concept of small-scale businesses has gained global recognition as a vital contributor to economic development, job creation, and poverty reduction (Al-Haddad, Sial, Ali and Rahmat, 2019). The concept of small-scale businesses has gained global recognition as a vital contributor to economic development, job creation, and poverty reduction (Al-Haddad, Sial, Ali and Rahmat, 2019). This financial limitation has driven businesses to investigate strategic and alternative funding solutions beyond standard bank loans. Understanding these finance methods is vital for supporting firm sustainability and expansion in competitive marketplaces. (Ezekiel and Toba, 2020).

CONCEPT OF FUNDING

In its most basic definition, funding is the process of allocating monetary resources to support a certain project, program, or effort. Numerous sources, such as grants, loans, gifts, investments, and even internal reserves, might provide funding. According to Papaya Global (2025) funding can be defined as any money that is provided, usually by a business, an organization, or a government, for a particular purpose. Investments, grants, loans, and even donations are all forms of funding. Funding refers to the amount of additional money a company needs to operate during a certain period of time. Some of the common funding options include investments such as debt financing, donations, equity, or traditional bank loans (Abacum, 2025). The money needed to launch and maintain a firm is referred to as funding. The financial resources given to people, companies, or organizations to support their operations, expansion, or particular projects are referred to as funding. It can come from different sources, including personal savings, loans, grants, venture money, or crowd funding. In business, finance is vital for covering initial costs, purchasing equipment, hiring people, and expanding operations.

CONCEPT OF SMALL SCALE BUSINESS

A small-scale business, often called a small and midsize enterprise (SME), is a privately owned business with limited capital, a small number of employees, and operations typically within a localized area or niche market. According to Lawal (2021) small-scale business is a business that is not large in terms of its size, scope of operation, financial involvement, and the workforce involved. Most small-scale enterprises are owned by one entrepreneur.

In Nigeria

- The Third National Development Plan defines a small-scale business as a manufacturing establishment employing less than ten people or whose investment in machinery and equipment does or exceed six hundred thousand naira (N600,000.00) only.
- The Central Bank of Nigeria in its credit guideline classified small scale business as those businesses with an annual income/asset of less than half a million naira (N500, 000.00).
- The Federal Government Small Scale Industry Development Plan of 1980 defines a small-scale business in Nigeria as any manufacturing process or service industry with a capital not exceeding N150, 000.00 in manufacturing and equipment alone.
- The Small-Scale Industry Association of Nigeria (1973) defines small scale businesses as those having investment (i.e. capital, land, building and equipment) of up to N60, 000.00 (pre-SAP value) and employing not more than fifty (50) persons.
- The federal ministry of industries defines it as those enterprises that cost not more than N500, 000.00 (pre-SAP value, including working capital) to set up.
- The Centre for Management and Development (CMD) defines small scale industry in the policy proposal submitted to the Federal Government as manufacturing, processing or service industry involved in a factory or production types of operation employing up to 50 full/ time workers.

TYPES OF SMALL SCALE BUSINESS

Due to their capacity to provide jobs and encourage innovation, small firms are essential to economic growth. These companies usually focus on local markets, have a small workforce, and little funding. The main categories of small enterprises are shown below, arranged by activity:

Retail Businesses: Retail businesses involve selling goods directly to consumers. These include grocery stores, clothing boutiques, bookshops, and convenience stores. They operate on a small scale, often within a community, and rely on customer loyalty and consistent demand.

Service-Based Businesses: These businesses provide specialized services rather than physical products. Examples include salons, barbershops, dry cleaning services, event planning, photography, and repair services. Their success depends on expertise, customer satisfaction, and referrals.

Manufacturing Businesses: Small-scale manufacturing businesses produce goods in limited quantities. Examples include furniture-making, food processing, textiles, and handicrafts. These businesses often serve local markets and may expand with increased demand and investment.

Agriculture-Based Businesses: These include small farms, poultry businesses, fish farming, and food packaging ventures. With Nigeria's vast agricultural potential, small-scale agribusinesses contribute significantly to food production and supply chains.

Online and E-commerce Businesses: The rise of digital technology has enabled small businesses to operate online. These include drop shipping, online retail stores, social media marketing, and digital content creation. E-commerce businesses allow entrepreneurs to reach a broader audience with minimal overhead costs.

Cottage and Handicraft Industries: These businesses focus on traditional skills and handmade products, such as pottery, weaving, beadwork, and leather crafting. They help preserve cultural heritage while providing economic opportunities for artisans.

Hospitality and Food Services: Small-scale businesses in this sector include restaurants, catering services, food trucks, and local eateries. These businesses thrive by offering quality meals and exceptional customer service.

STRATEGIC WAYS OF RAISING CAPITAL TO FUND SMALL SCALE BUSINESS

Bootstrapping and Personal Savings: Bootstrapping remains a fundamental strategy for small businesses, allowing entrepreneurs to rely on personal savings, family contributions, and reinvested profits. According to Ogoke (2024), small-scale business owners who effectively manage their finances and prioritize cash flow sustainability have higher survival rates.

Microfinance and Government Grants: Microfinance institutions (MFIs) provide small-scale businesses with low-interest loans, particularly in developing economies. Research by Ajisebiyawo et al. (2024) highlights that microfinance plays a critical role in reducing poverty by offering capital to underserved businesses.

Crowdfunding: Digital crowdfunding platforms have emerged as an effective method for raising capital. Platforms such as Kickstarter, GoFundMe, and Indiegogo allow small businesses to attract funding from a large number of individuals, (Adebiyi et al. 2025).

Angel Investors and Venture Capital: Angel investors and venture capitalists provide funding in exchange for equity. Ogbulu et al. (2025) argue that small-scale businesses with strong business models and high growth potential are more likely to attract such investments.

Digital Lending and Fintech Solutions: The rise of digital lending platforms and fintech solutions has significantly improved access to credit for small businesses. Xiaowen et al. (2025) discuss how AI-driven lending models assess creditworthiness based on transaction history rather than traditional credit scores, making funding more accessible.

Strategic Partnerships and Joint Ventures: Strategic alliances with larger firms or industry leaders provide small businesses with both funding and market exposure. Kassa & Kegne (2025) highlight how partnerships enable resource sharing, mentorship, and skill development, which increase the chances of business sustainability.

Employee Ownership and Internal Funding: Employee ownership schemes, such as Employee Stock Ownership Plans (ESOPs), allow businesses to raise capital by offering shares to employees. This method enhances employee commitment while reducing external dependency. Sari et al. (2025) found that businesses implementing ESOPs experienced higher resilience during economic downturns.

Bank Loans and Credit Facilities: Despite stringent lending requirements, bank loans remain a primary source of business financing. Piot-Lepetit (2025) recommends that small businesses improve their creditworthiness through proper bookkeeping and financial reporting to access bank credit more easily.

CHALLENGES OF RAISING CAPITAL TO FUND SMALL SCALE BUSINESS

Raising capital remains a significant barrier for small-scale businesses, particularly in developing economies. Despite the availability of multiple financing options, these businesses face challenges such as stringent loan requirements, limited investor confidence, and inadequate financial literacy.

Limited Access to Formal Credit: One of the biggest obstacles for small businesses is access to formal bank credit. Financial institutions often impose strict lending requirements, including high collateral demands and creditworthiness assessments, which small businesses struggle to meet. Paul (2025) highlights that most micro, small, and medium enterprises (MSMEs) in Southwest Nigeria face loan rejections due to inadequate collateral.

High Cost of Borrowing: Even when loans are accessible, the interest rates are often too high for small businesses to sustain. Small enterprises are considered high-risk borrowers, leading to increased loan interest rates. Sisay et al. (2025) report that MSMEs in Ethiopia struggle with excessive borrowing costs, making it difficult to maintain profitability while repaying loans.

Insufficient Investor Confidence: Many investors hesitate to fund small businesses due to high failure rates and lack of clear financial records. Start-ups often fail to present a strong business model or maintain proper financial documentation. Abuamria & Ajouz (2025) argue that the lack of financial transparency discourages venture capitalists from investing in small businesses.

Lack of Financial Literacy: Many small business owners lack the necessary financial knowledge to manage their finances effectively, access funding opportunities, or develop strong business proposals. Ahmad (2025) found that smallholder farmers who received financial training had better success in obtaining capital than those without financial literacy.

Bureaucratic Challenges and Regulatory Barriers: Small businesses often struggle with complex regulatory processes when trying to access government grants or formal financial institutions. Lengthy paperwork, corruption, and lack of streamlined funding processes create obstacles for business owners. Groenewold (2025) found that Dutch SMEs face bureaucratic delays that slow down capital access.

Gender-Based Discrimination in Funding: Women entrepreneurs often face greater difficulties in securing capital than their male counterparts due to gender biases in investment decisions. Ayentimi & Burgess (2025) found that in Sub-Saharan Africa, women-led businesses receive less funding due to investor skepticism and societal biases.

Limited Awareness of Alternative Funding Sources: Many small business owners are unaware of alternative financing options such as crowdfunding, angel investors, or fintech lending platforms. Koenigsmarck & Geissdoerfer (2025) found that digital finance solutions could bridge the funding gap, but low awareness among entrepreneurs remains a challenge.

Economic Instability and Market Fluctuations: Economic downturns, inflation, and currency instability further limit access to capital. Businesses in volatile economies struggle to secure loans or attract investors. Neshat et al. (2025) found that unpredictable economic conditions in Iran discourage investment in small enterprises.

Mitigating Strategies to the Challenges of Raising Capital to Fund Small Scale Business

The following are the strategies to mitigate the challenges of raising capital to fund small scale businesses:

Enhancing Financial Literacy and Business Planning: One of the most effective ways for small businesses to access funding is through improved financial literacy and strategic business planning. Entrepreneurs who understand financial management, credit systems, and investor expectations are better positioned to secure loans or attract investors.

Leveraging Digital Financial Platforms and Fintech Solutions: With the rise of digital lending and fintech solutions, small businesses can now access funding through online platforms, bypassing traditional banking barriers. Li (2024) suggests that venture capitalists are increasingly investing in businesses with strong digital financial records, making digital transaction tracking a vital strategy for securing capital.

Strengthening Business Governance and Financial Transparency: Good governance and transparent financial practices increase investor confidence and reduce loan rejection rates. Umobong (2024) found that businesses that adopt corporate governance strategies—such as independent audits, regular financial reporting, and compliance with regulations—are more likely to secure funding.

Diversifying Funding Sources: Relying on a single funding source increases financial vulnerability. Entrepreneurs should explore diverse funding options, including crowdfunding, angel investors, microfinance, and government grants. Mokopanela (2024) highlights that small businesses that combine grants with crowdfunding and partnerships experience more financial stability.

Government Policy Advocacy and Regulatory Support: Small businesses often struggle with bureaucratic obstacles and high taxation. Engaging with policymakers and advocating for SME-friendly policies can help reduce these financial burdens. Budotela (2024) found that when governments reduce interest rates and tax burdens for small businesses, access to capital significantly improves.

Utilizing Business Incubators and Networking Opportunities: Entrepreneurs who participate in business incubators and networking events can connect with investors and funding institutions. Plaikner et al. (2025) found that small business owners in tourism and retail who engaged in industry networks were 40% more likely to secure funding.

Establishing Strategic Partnerships and Joint Ventures: Small businesses can mitigate financial constraints by forming partnerships with larger firms or engaging in joint ventures. Pradhan (2024) emphasizes that businesses that leverage partnerships for shared costs and funding access have better financial sustainability.

Implementing Alternative Credit Evaluation Models: Traditional banks rely on credit history, which many small businesses lack. Alternative lending models, such as AI-based credit scoring, provide funding opportunities to previously unqualified businesses. Ben Hassen et al. (2025) found that AI-driven lending systems help small businesses obtain credit based on transaction data rather than credit scores.

CONCLUSION

Securing adequate funding is crucial for the growth and survival of small-scale businesses. While financial constraints remain a major challenge, entrepreneurs can explore various funding options beyond traditional bank loans. Bootstrapping, crowdfunding, angel investors, venture capital, and government grants provide viable alternatives for raising capital. Each method comes with its advantages and challenges, requiring strategic planning and adaptability. By leveraging diverse funding sources, small businesses can overcome financial barriers, scale their operations, and contribute to economic development.

RECOMMENDATIONS

1. Small-scale business owners should explore multiple funding avenues, including bootstrapping, crowdfunding, government grants, and angel investors. Relying on a single funding source may limit growth potential, whereas a diversified approach enhances financial stability and business expansion opportunities.
2. Entrepreneurs should utilize online crowdfunding platforms and digital marketing strategies to attract potential investors and customers. A strong online presence can increase brand visibility, build credibility, and facilitate financial support from a broader audience.
3. A well-structured business plan with clear financial projections, market analysis, and growth strategies can improve the chances of securing funding. Investors and financial institutions are more likely to support businesses with a solid roadmap and realistic financial goals.

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