The Importance of Banking Services for Small Business Owners: A Study on Financial Access and Business Growth

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DOI: https://doi.org/10.47772/IJRISS.2026.10100300

Received: 19 January 2026; Accepted: 24 January 2026; Published: 04 February 2026

ABSTRACT

Small and Medium-sized Enterprises (SMEs) are widely recognized as the backbone of local economies, serving as vital drivers of development, innovation, and employment generation. Despite their importance, SMEs often face significant survival challenges, primarily linked to limited interaction with formal financial institutions and lack of capital. This study investigates the critical relationship between the utilization of banking services and the operational growth of small businesses specifically within the municipalities of Balasan, Estancia, and Carles. Employing a descriptive quantitative research design, the research utilizes structured assessment tools to evaluate how financial access, usage patterns, and service costs directly influence business stability.

The findings reveal that business owners perceive a strong, statistically positive connection between banking accessibility and their ability to scale. Participants acknowledged that formal credit facilities, savings accounts, and modernized payment systems are indispensable tools for managing daily operations and fueling expansion. However, a critical paradox emerged: while services are available, the perceived high cost of banking remains a primary concern, potentially acting as a financial burden that deters full utilization. Furthermore, demographic analysis indicates that these perceptions remain consistent regardless of age or sex, suggesting that the reliance on—and barriers to—the banking sector are uniform across the region. Consequently, the research concludes that genuine financial inclusion is a fundamental prerequisite for sustainable scaling. It recommends that financial institutions develop flexible, low-cost lending models and prioritize digital efficiency. Simultaneously, policymakers must focus on enhancing financial literacy to bridge the gap between banks and small enterprises, ensuring long-term economic resilience.

Keywords: Small Business Growth, Financial Inclusion, Banking Services, SME Financing, Economic Development

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are widely regarded as the backbone of economic development, contributing significantly to employment generation, income distribution, and innovation. Globally, SMEs represent about 90% of businesses and more than 50% of employment (World Bank, 2024). In the Philippines, MSMEs comprise 99.5% of all business establishments, making them the primary engine of the local economy

(Department of Trade and Industry [DTI], 2023). However, access to financial services remains a major barrier to their growth and sustainability. In particular, limited access to banking services—such as credit, savings, digital payments, and financial advice—has been identified as a key challenge facing small business owners.

The relationship between financial inclusion and business performance is well-documented. Zulqarnain et al. (2025) argue that digital finance and technological adaptation are now the primary drivers of SME performance, allowing businesses to bypass traditional bureaucratic hurdles. Despite this, many small businesses in provincial areas, such as the 5th District of Iloilo, operate with limited formal integration. According to Paliwal (2025), the lack of financial literacy and complex application procedures often lead to a "financing gap," where businesses have the potential to grow but lack the capital to do so. This is further complicated by high collateral requirements which, as noted by Ali and Salman (2025), often sever the link between banking institutions and emerging enterprises.

Digital transformation has shifted the landscape of banking. Onaigbe and Ezeliora (2025) found that mobile banking serves as a critical tool for financial inclusion in developing regions, providing merchants with secure payment facilities that were previously unavailable. Similarly, Amnas et al. (2024) highlight that the mediating role of digital literacy is crucial; without it, even accessible FinTech tools remain underutilized. In the Philippine context, Llanto (2015) previously identified that while the banking sector is robust, the "missing middle"—small businesses that are too big for microfinance but too small for corporate banking—continues to struggle with high service costs.

Recent studies emphasize that the cost of services is as significant a barrier as physical access. Feyen et al. (2021) observed that during periods of economic volatility, businesses with established banking relationships showed higher resilience than those without. Furthermore, Beck et al. (2020) suggest that financial innovation, such as data-driven lending, can reduce the "cost of participation" for small owners. However, as Ayyagari et al. (2017) point out, the success of these innovations depends on a supportive regulatory environment that promotes fee transparency and competition. This study, therefore, investigates the importance of banking services in supporting the growth of small business owners in Iloilo, focusing on their access, usage patterns, and the challenges posed by service costs.

METHODOLOGY

This study utilized a descriptive quantitative research design to systematically assess the level of use, access, and perceived cost of banking services, as well as their impact on business growth. This design was deemed appropriate for quantifying respondents' perceptions through numerical data. The study’s population consisted of small business owners operating within the 5th District of Iloilo, specifically in the municipalities of Balasan, Estancia, and Carles. A purposive sampling technique was employed to select 150 respondents who actively operate businesses and have established interactions with banking institutions.

To ensure the instrument's validity and reliability, a pilot test was conducted with respondents outside the final sample prior to actual data collection. Internal consistency was measured using Cronbach’s alpha, yielding results that demonstrated excellent reliability across all variables. Specifically, the construct for Use of Banking Services obtained a coefficient of 0.913, Access to Banking Services recorded 0.919, Perceived Business Growth Impact yielded 0.928, and Cost of Banking Services resulted in 0.881. Since all coefficients exceeded the minimum acceptable threshold of 0.70, the instrument was confirmed to be highly reliable and suitable for the study.

For data analysis, the study employed descriptive statistical tools, including frequency, percentage, mean, and standard deviation, to summarize the respondents’ profiles and evaluate the key variables regarding banking services. Throughout the process, ethical considerations were strictly observed; participants provided informed consent, and all responses were maintained with strict confidentiality, ensuring the data was used solely for academic purposes.

RESULTS AND DISCUSSION

The demographics of the 150 respondents who participated in this study consist of 105 female (70%) and 45 male (30%) small business owners. These participants are located across the 5th District of Iloilo, specifically in the municipalities of Balasan, Estancia, and Carles. In terms of age, the sample is distributed among three categories: 44 are aged 45 and below (29%), 57 are aged 46–55 (38%), and 49 are aged 56 and above (33%). This distribution is consistent with the MSME landscape in the Philippines, where female entrepreneurs often lead the local retail and service sectors (Department of Trade and Industry, 2023).

As shown in Table 1, the overall status of banking services among respondents is highly positive. Access to Banking Services (M = 4.02, SD = 0.29) is described as high, indicating that financial institutions are physically and operationally reachable for local entrepreneurs. The Business Growth Impact (M = 3.96, SD = 0.38) is also high, suggesting a strong belief that banking tools directly contribute to scaling operations. While the Use of Banking Services (M = 3.88, SD = 0.52) is high, the larger standard deviation indicates some

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

variation in how frequently different owners utilize these tools. Notably, the Cost of Banking Services (*M* = 4.14, *SD* = 0.34) recorded the highest mean, signaling that while services are available, the financial burden of fees is a primary concern for the respondents.

Table 1: Descriptive Statistics of Banking Service Variables (Entire Group)

Variable	**Mean**	**SD**	**Interpretation**
Use of Banking Services	3.88	0.52	High
Access to Banking Services	4.02	0.29	High
Business Growth Impact	3.96	0.38	High
Cost of Banking Services	4.14	0.34	High

Table 2 presents the results when respondents are grouped by sex. Both male and female business owners reported high levels of access and usage. Interestingly, males reported a slightly higher perception of Business Growth Impact (*M* = 4.00) compared to females (*M* = 3.94). However, the Cost of Banking Services was rated identically by both groups (*M* = 4.14), showing a consistent regional consensus that banking fees are a significant operational expense regardless of gender.

Table 2: Perception of Banking Services by Sex

Variable	**Male(*M*)**	**Male (*SD*)**	**Female (*M*)**	**Female (*SD*)**
Use of Banking Services	3.81	0.36	3.90	0.57
Access to Banking Services	4.03	0.31	4.02	0.29
Business Growth Impact	4.00	0.36	3.94	0.38
Cost of Banking Services	4.14	0.36	4.14	0.33

Table 3, the analysis by age group reveals that respondents aged 46–55 experience the highest Cost of Banking Services (*M* = 4.21). This may be attributed to higher transaction volumes during the peak years of business management. Those aged 56 and above showed the highest variability in Use of Banking Services (*SD* = 0.70), suggesting a diverse range of technological adoption among older entrepreneurs.

Table 3: Perception of Banking Services by Age Group

Variable	**45 and Below**		**46 - 55**		**56 and Above**	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**
Use of Banking Services	**3.87**	**0.39**	**3.87**	**0.41**	**3.89**	**0.70**
Access to Banking Services	**4.03**	**0.26**	**4.02**	**0.34**	**4.02**	**0.28**
Business Growth Impact	**3.96**	**0.33**	**3.99**	**0.39**	**3.91**	**0.40**
Cost of Banking Services	**4.08**	**0.28**	**4.21**	**0.38**	**4.10**	**0.33**

The findings suggest that small business owners in the 5th District of Iloilo view banking services as a fundamental pillar for their operations. This conforms to the findings of Zulqarnain et al. (2025), who argued that financial inclusion and digital finance are critical for SME performance. However, the high scores for cost indicate a potential "pain point." As noted by Ali and Salman (2025), while digital transformation improves access, high costs can negate the benefits of financial inclusion if not managed by policy interventions. Overall, the data reflects a sector that is financially active and growth-oriented but sensitive to the overhead costs of formal banking.

CONCLUSION

Based on the findings of this study, it is concluded that banking services serve as a fundamental pillar for the operational stability and expansion of small businesses in the 5th District of Iloilo. The high levels of access and perceived growth impact across the municipalities of Balasan, Estancia, and Carles indicate that entrepreneurs have successfully integrated formal banking into their business models to facilitate daily transactions and long term scaling. While these services are viewed as essential catalysts for development, the research highlights that the cost of banking remains the most significant concern for owners. This suggests that while physical and digital barriers to banking have been largely addressed, the economic burden of fees and interest rates remains a potential deterrent to deeper financial integration and sustainability for small-scale enterprises.

Consistent perceptions across different sex and age groups further conclude that banking services are universally recognized as vital, regardless of demographic background. However, the higher variability in usage among older entrepreneurs suggests a persistent digital divide that may limit their ability to fully leverage modern financial tools. Ultimately, the study confirms that financial inclusion is not merely a supportive element but a prerequisite for business resilience. The high "Growth Impact" scores reflect a sector that is ready to expand, provided that the banking environment evolves to become more affordable and supportive of the unique cashflow realities of provincial small businesses.

In light of these conclusions, it is recommended that financial institutions develop tailored, low-cost product tiers specifically for SMEs, emphasizing minimized transaction fees and flexible, data-driven lending models. Policymakers should focus on enhancing financial literacy and implementing regulations that ensure fee transparency to protect small businesses from prohibitive overhead costs. Additionally, business owners are encouraged to utilize formal digital footprints to qualify for better credit terms, while future researchers should conduct inferential studies to establish the causal relationship between specific digital banking tools and actual revenue expansion. These collaborative efforts are essential to bridging the financing gap and fully unlocking the economic potential of the small business sector.

Ethical Considerations

This study involving human participants was conducted in accordance with the ethical standards of the institutional research committee. Informed consent was obtained from all individual participants involved in the study.

Conflict Of Interest

The author(s) declare(s) that there is no conflict of interest regarding the publication of this article.

Data Availability

The datasets generated during and/or analyzed during the current study are available from the corresponding author on reasonable request.

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ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

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