

The Impact of Microcredit on Entrepreneurship Development in Nigeria

¹Abdulraheem Isah, & ²Isah David

^{1&2}Department of Business Administration,
Faculty of Management Sciences, University of Abuja

Article DOI: 10.48028/iiprds/ijsrsm.v9.i1.09

Abstract

This study examined the impact of microcredit on entrepreneurship development in Nigeria, using selected SMEs in Bauchi Metropolis as a case study. A descriptive research design was adopted, with a population of 373 staff from ten entrepreneurial firms. Using stratified sampling, 193 respondents were selected, and 192 valid responses were analyzed. Data were analyzed using Pearson correlation for hypothesis one and ANOVA for hypotheses 2 and 3, respectively. The findings revealed that microcredit has a significant positive impact on entrepreneurship development. However, several challenges hinder effective financing of SMEs, including limited access and high costs. The study concludes that while microcredit is a vital tool for promoting entrepreneurship, its full potential remains underutilized. It recommends that financial institutions and policymakers expand access to affordable microcredit, particularly for start-ups and small-scale enterprises, to enhance business performance and support economic growth in Nigeria.

Keywords: *Microcredit, Entrepreneurship Development, Small and Medium Enterprises (SMEs), Financial Inclusion, Nigeria*

Corresponding Author: Abdulraheem Isah

Background to the Study

In today 's dynamic and competitive business environment, entrepreneurial success is increasingly influenced not just by innovation and market insight but also by the entrepreneur's financial acumen (OECD, 2022). Entrepreneurship development has been widely recognized as a fundamental driver of economic growth, job creation, and poverty reduction in developing economies such as Nigeria. However, access to finance remains a persistent constraint for many aspiring and existing entrepreneurs, particularly those operating outside formal financial systems. Microfinance, the provision of small loans, savings facilities, and related financial services, was introduced in Nigeria to bridge this gap and empower underserved entrepreneurs. Microfinance institutions (MFIs) are intended to provide collateral-free credit to small-scale entrepreneurs who lack access to traditional banking, potentially stimulating enterprise creation, innovation, and economic participation.

Microcredit refers to the provision of very small loans to individuals, often the poor or those excluded from formal banking, so they can start or expand income-generating activities. Originating with targeted lending programs in the mid-20th century and popularized globally by the Grameen model, microcredit is a central tool within the broader microfinance movement aimed at financial inclusion and poverty reduction (Yunus, 2023). Contemporary microcredit programs combine credit with savings, insurance, and training services to enhance the productive use of funds and to promote borrower resilience (Ledgerwood & White, 2024). Microcredit remains a powerful but nuanced instrument for promoting financial inclusion and enterprise development. Its effectiveness hinges on loan design, complementary services (training, market linkages), responsible lending practices, and a supportive regulatory and technological environment.

Entrepreneurship is widely recognized as a key driver of economic growth, innovation, and job creation. However, a significant proportion of new ventures fail within the first few years of operation, with poor financial management and decision-making often cited as leading causes (Fatoki, 2021). Recent empirical and policy literature underscores microcredit's multifaceted impacts. Studies from diverse contexts find that access to small loans can increase business investment and household consumption and may improve welfare indicators such as schooling and health expenditures (Adebayo et al., 2024; Chen & Akande, 2025). Yet outcomes are heterogeneous: positive impacts frequently depend on complementary factors like market access, borrower skills, and the appropriateness of loan terms (Ramirez & Okoye, 2025). For example, research in West Africa shows that when microloans are paired with business training and mentorship, enterprise survival and growth rates improve markedly compared with credit-only approaches (Bamidele et al., 2023).

Critiques of microcredit in the recent literature emphasize risks of over-indebtedness, high interest rates, and the commercialization of microfinance institutions that shifts focus from outreach to profitability (Nkosi & Ojo, 2026). Evidence from Nigeria and other low- and middle-income countries points to instances where rapid scaling of microcredit, absent adequate consumer protection and financial literacy, has led to borrower stress and default cycles (Musa & Akintoye, 2026; Ifamuyiwa & Bello, 2023). These findings have driven policy

attention toward regulatory safeguards, transparent pricing, and integrated poverty-alleviation models that combine credit with savings, insurance, and capacity-building services (Central Bank of Nigeria, 2025; World Bank, 2024).

Recent efforts by the Nigerian government, regulatory agencies, and international partners have emphasized the role of microcredit in expanding financial inclusion and fostering entrepreneurship. Despite these efforts, empirical evidence on the effectiveness and impact of microcredit on entrepreneurial development presents mixed findings, suggesting the need for a comprehensive assessment of microfinance performance within the Nigerian context. This study examines the impact of microcredit on entrepreneurship development in Nigeria, drawing on recent research and empirical studies to evaluate outcomes, challenges, and policy implications.

Statement of the Problem

The Federal Government of Nigeria (FGN) has adopted monetary, fiscal, industrial, and developmental policy measures at the macro level to facilitate and support entrepreneurial activities, and at the same time, specific financing arrangements are being made in respect of funding programmes at the micro level to boost entrepreneurship activities in Nigeria. Notwithstanding these policies, entrepreneurs still face challenges in getting enough support and adequate funding from microfinance banks. In practice, many small businesses struggle with unfavourable loan terms, high interest rates, limited product diversity, and inconsistent technical support, which constrain their growth potential and sustainability. There are concerns that microfinance services have not fully delivered on their promise of driving entrepreneurship development, especially in rural and economically disadvantaged regions. Against this backdrop, this study therefore aims to make a close evaluation of the impact of microcredit on the development of entrepreneurial activities in Bauchi State, with special reference to selected small-scale entrepreneurs in Bauchi State.

Research Objectives

The broad objective of this study is to examine the impact of microcredit on entrepreneurship development in Nigeria. Specifically, the study seeks to:

- i. Ascertain the effect of unfavourable loan terms on the development of entrepreneurial activities in Nigeria.
- ii. Examine the influence of high interest rates on the growth of entrepreneurship in Nigeria.
- iii. Determine whether limited product diversity is a problem militating against the effective funding of entrepreneurship development in Nigeria.

Research Questions

From the statement of the problem above, the major problems that this research work aims to evaluate are captured in the following research question.

- i. What is the effect of unfavourable loan terms on the development of entrepreneurial activities in Nigeria?
- ii. What is the influence of high interest rates on the growth of entrepreneurship in

- Nigeria?
- iii. In what way does limit product diversity affect the effective funding of entrepreneurship development in Nigeria?

Hypotheses

To answer the research question posed for the study, the following null hypotheses were formulated in a null form.

- H₀₁:** There is no significant relationship between unfavourable loan terms and entrepreneurship development in Nigeria.
- H₀₂:** High interest rates on microcredit have no significant effect on entrepreneurial development in Nigeria.
- H₀₃:** There is no significant relationship between limited product diversity and effective funding of entrepreneurship development in Nigeria.

Scope of the Study

The scope of this study focuses on the impact of microcredit on entrepreneurship development in Nigeria. The study was restricted to Bauchi State. The target population of the study was drawn from ten (10) selected entrepreneurial firms in Bauchi State.

Literature Review

This aspect of the research work examined available literature on the subject matter. This is categorized into three for clarity as follows: theoretical framework, conceptual review, and empirical literature.

Theoretical Framework

The theoretical framework for this study is anchored on the innovation theory of entrepreneurship, Financial Intermediation Theory, Schumpeter's Theory of Entrepreneurship, and Social Capital Theory. These theories collectively explain how access to microcredit influences entrepreneurial growth, performance, and sustainability.

Innovation theory of entrepreneurship

The best exponent of the economic/sociological approach in all history is Joseph Schumpeter. Schumpeter's theory of entrepreneurship is a major part of his general theory of economic development, espoused in his 'Theory of Economic Development' (1934). Schumpeter defined entrepreneurship as a creative activity. An innovator who brings new products or services into the economy is an entrepreneur. Schumpeter thought innovation was a function consistent with all entrepreneurs. The innovator is the entrepreneur, and the entrepreneur is the innovator. He undertakes new combinations of the existing factors of production in any of the following ways (Meir and Baldwin in Idemobi, 2010).

- a. In the introduction of a new good
- b. In the use of a new method of production
- c. In the opening up of a new market
- d. In the exploitation of a new source of raw material supply
- e. In the reorganization of any industry

In the Schumpeterian general economic theory, economic development occurs through a dynamic process of boom and depression. In line with a synthesis of Schumpeter's work by Mbaegbu (2008), the depression that follows a boom is caused by the entrepreneur when he/she initiates an innovation. The recession or depression comes through a process of "creative destruction," which is Schumpeter's way of expressing market saturation and decline. With innovation, old firms find their markets being destroyed by the advent of new competing products, and new firms market the old products at much lower prices, taking a competitive advantage. The process forces some established firms that cannot compete to go under or become bankrupt. When the state of instability (disequilibrium) in the industry makes it unattractive for new firms to move in, the business cycle is completed. The cycle starts again once a new state of equilibrium higher than the old one is restored, and the stage is set again for a new wave of innovations, and repetition of the business cycle commences. In summary, therefore, economic development in the Schumpeterian model is an uneven and disharmonious process that ebbs and flows like the waves at the seaside.

In Schumpeter's view, the supply of entrepreneurship is a function of the rate of profit and the 'social climate'. He further posited in this model that a good economic system would normally encourage entrepreneurship, while a moribund economic system would discourage entrepreneurship. This theory is relevant because access to funding enables entrepreneurs to innovate and implement new ideas. In Nigeria, where the entrepreneurial landscape is heavily influenced by informal markets and limited resources, microcredit can provide the necessary capital that facilitates innovation. This theory helps to explain how microcredit can empower entrepreneurs to not only start businesses but also to improve existing operations, thus driving economic growth and development in the region. This theory is the basis for this study because, if microfinance banks are active and playing an essential role in the development of entrepreneurship in Nigeria, young entrepreneurs will have insight, self-esteem, and knowledge to act where others have hesitated.

Financial Intermediation Theory

Financial Intermediation Theory explains the role of financial institutions in mobilizing savings and allocating credit to productive sectors of the economy. The theory posits that financial intermediaries reduce transaction costs, information asymmetry, and credit risks between lenders and borrowers. In developing economies such as Nigeria, many potential entrepreneurs face credit constraints because they lack collateral, credit history, or access to formal banking services. Microfinance institutions, therefore, serve as alternative financial intermediaries by providing small-scale loans, savings facilities, and financial services to low-income individuals who are often excluded from conventional banking systems.

Through microcredit schemes, financial institutions bridge the financing gap faced by small entrepreneurs, enabling them to start new businesses or expand existing enterprises. Access to such financial support increases business investment, improves production capacity, and promotes income generation among entrepreneurs. However, the effectiveness of microcredit depends on factors such as interest rates, repayment conditions, and institutional support mechanisms. In the case of microcredit in Nigeria, microfinance institutions serve as

intermediaries that provide capital to small-scale entrepreneurs who might be overlooked by traditional banks. This theory is relevant as it underscores the importance of microcredit in bridging the financial gap faced by entrepreneurs. By analyzing how financial intermediation through microcredit influences entrepreneurship development, the study can reveal how access to essential funding sources contributes to business growth, expansion, and sustainability among Nigerian entrepreneurs.

Schumpeter's Theory of Entrepreneurship

The study is also supported by the theory of entrepreneurship advanced by the Austrian economist **Joseph Schumpeter**. Schumpeter argued that entrepreneurs are the key drivers of economic development through innovation, risk-taking, and the introduction of new combinations of resources. According to the theory, entrepreneurs create economic progress by introducing new products, new methods of production, new markets, and new forms of organization. In this context, access to finance is a critical factor that enables entrepreneurs to implement innovative ideas and expand their productive activities. Without adequate financial resources, individuals with entrepreneurial potential may be unable to translate their ideas into viable business ventures. Microcredit, therefore, plays a significant role in supporting entrepreneurial innovation by providing start-up capital and working funds required for small-scale enterprises. By reducing financial barriers, microcredit enhances the ability of entrepreneurs to initiate and sustain productive economic activities. This theory directly relates to the impact of microcredit as it highlights how financial support can enable entrepreneurs to experiment, take risks, and ultimately introduce innovative products and services. In the Nigerian context, where microcredit is often a lifeline for startups and small businesses, applying Schumpeter's theory helps in understanding how these financial resources may promote entrepreneurial ventures that challenge existing market structures, leading to new industry standards and growth.

Social Capital Theory

Social Capital Theory provides another important explanation for the role of microcredit in entrepreneurship development. The theory emphasizes the importance of social relationships, trust, networks, and cooperation in facilitating economic activities. In many microfinance programmes, lending is often organized through group-based mechanisms where borrowers form associations or cooperatives that guarantee loan repayment collectively. These social networks strengthen accountability among borrowers and reduce default risk for lending institutions. At the same time, they create opportunities for information sharing, mentorship, and mutual support among entrepreneurs. Through such networks, microcredit programmes not only provide financial resources but also foster collaboration and knowledge exchange among small business owners. This process contributes to the sustainability and growth of entrepreneurial ventures. In Nigeria, the interplay between microcredit and social capital can greatly impact entrepreneurial success. Access to microcredit often relies not only on financial metrics but also on social relationships and trust within communities. By examining how social capital affects the uptake and effectiveness of microcredit, the study can provide insights into how entrepreneurs leverage social networks to access funding, share resources, and collaborate, ultimately enhancing their

chances of success. This aspect of social capital also emphasizes community support as a driver for entrepreneurship development.

Literature Review

The Concept of Microcredit

Microcredit, a financial innovation aimed at enhancing financial inclusion, has gained significant traction as a powerful tool for poverty alleviation and economic development. Defined as small loans offered to individuals and small businesses who lack access to traditional banking services, microcredit serves to empower marginalized communities, particularly in developing countries. This concept was popularized by the Grameen Bank in Bangladesh, founded by Muhammad Yunus, which demonstrated how small loans could foster entrepreneurship among the poor (Yunus, 2023).

The appeal of microcredit lies in its ability to provide capital to those who have historically been excluded from formal financial systems. Recent studies show that microcredit not only helps individuals start or expand small businesses but also plays a crucial role in enhancing household welfare by enabling access to education, healthcare, and other essential services (Adebayo et al., 2024). Furthermore, the proliferation of microfinance institutions (MFIs) across the globe is indicative of the growing recognition of microcredit as a viable strategy for stimulating local economies and uplifting communities (Hassan & Emel, 2025). Despite its numerous benefits, the microcredit model has attracted criticism, particularly concerning its impact on debt levels among borrowers. Some researchers argue that the high interest rates associated with microloans can lead to over-indebtedness, pushing vulnerable borrowers further into financial distress (Ojo & Ibrahim, 2026). As such, the discourse surrounding microcredit necessitates a critical examination of its implications, effectiveness, and sustainable practices in the face of evolving economic landscapes.

Microfinance refers to financial services, primarily small loans (microcredit), savings, and insurance provided to low-income individuals and micro-enterprises that do not have access to traditional banking services. Entrepreneurship development involves enhancing the skills, capabilities, and capacity of individuals to start and grow businesses, contributing to economic growth and employment creation.

Challenges of Microcredit in Nigeria

Microfinancing has emerged as a crucial tool for economic development and poverty alleviation in Nigeria, providing financial services to individuals and small enterprises that lack access to traditional banking systems. Its primary aim is to empower low-income individuals by offering microloans, savings accounts, and other financial products tailored to meet the needs of underserved communities (Ojo & Hassan, 2024). However, despite its potential, the microfinance sector in Nigeria faces numerous challenges that impede its effectiveness and sustainability. One of the most pressing issues is the high cost of borrowing associated with microloans. Many microfinance institutions (MFIs) charge interest rates that can be significantly higher than those of commercial banks, often leading to over-indebtedness among borrowers. A recent study by Adebayo et al. (2025) noted that the average

interest rate for microloans in Nigeria ranges from 25% to 40%, which can burden borrowers who are already financially vulnerable. This financial strain often derails entrepreneurial ambitions instead of fostering them.

Additionally, the lack of financial literacy among potential clients poses a significant hurdle. Many borrowers lack an understanding of financial management, leading to poor utilization of funds and, ultimately, business failure. A study by Ifamuyiwa and Bello (2023) highlighted that over 70% of microfinance clients in Nigeria do not adequately understand the terms and conditions associated with their loans, resulting in defaults and a cycle of financial insecurity. Moreover, regulatory challenges further complicate the microfinance landscape. While initiatives have been put in place to enhance the governance of MFIs, bureaucratic inefficiencies and lack of adequate oversight continue to plague the system. Researchers such as Musa and Akintoye (2026) have pointed out that these regulatory issues often discourage new entrants into the microfinance sector, limiting competition and innovation. Consequently, many MFIs operate in isolation, lacking collaboration that could mitigate some challenges. Lastly, the impact of economic instability in Nigeria cannot be overstated. Inflation, currency fluctuations, and socio-political unrest contribute to a less favorable environment for microfinance operations. According to a recent survey conducted by the Central Bank of Nigeria (2025), more than 60% of MFIs reported significant negative impacts on their operations due to macroeconomic factors, further hindering their ability to support entrepreneurs effectively.

Despite its potential, microfinance services often face operational challenges, including stringent repayment schedules, inadequate loan amounts, high default rates, limited product diversification, and insufficient technical support for entrepreneurs. These issues tend to reduce the overall effectiveness of microfinance in driving sustained entrepreneurial growth, particularly in rural or underserved regions. To achieve sustainability, microfinance must devise strategies to effectively address the challenges of microfinance, which are as follows:

1. High operating cost: small units of services pose the challenge of high operating cost, several loan applications to be processed, numerous accounts to be managed and monitored, and repayment collections to be made from several locations, especially in rural communities.
2. Repayment problem: loan repayment default is a major threat to institutional sustainability. It can be described as a deadly virus that afflicts MFBs. It demoralizes staff and deprives beneficiaries of valuable services. However, it can also be seen as a symptom of poor leadership.
3. Inadequate experienced credit staff: micro financing is more than dispensing loans. To be viable, MFBs require experienced and skilled personnel. As a young and growing industry, there is a dearth of experienced staff in planning, product development, and effective engagement with clients. Most credit staff of MFBs in Nigeria are in their first jobs, and this limits expansion and institutional performance.
4. Lack of refinancing facilities: MFBs in Nigeria are not profit-oriented. Non-profit status of MFBs inhibits effective engagement with financial institutions like the commercial banks.
5. Client apathy and drop-out: Improper client services and delivery strategies could lead to client drop-out.
6. Internal Control challenge: Large transactions and an informal operational approach pose a serious internal control challenge. Operational procedures could be breached at disbursement and collection

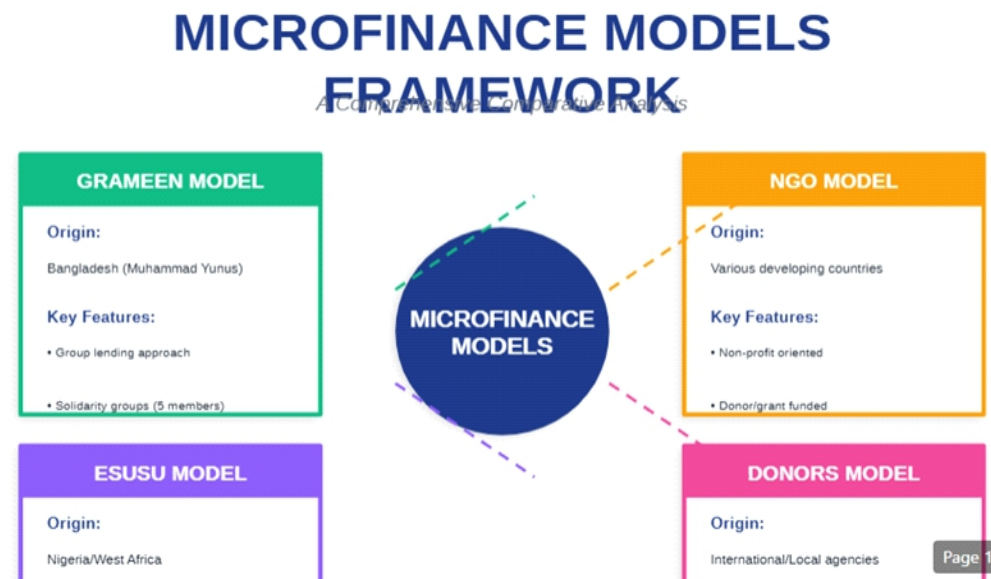
points. High cash transactions, which are features of micro financing, are a source of temptation for fraudulent practices.

The Concept of Entrepreneurship

In almost all the definitions of entrepreneurship, it is agreed that it is about a kind of behavior that includes initiative-taking, organizing, and reorganizing of social and economic mechanisms to turn resources and situations to practical account, and the acceptance of risk or failure. Entrepreneurship, at its core, is widely understood as a dynamic process involving initiative, the organization of resources, and the calculated acceptance of risk in pursuit of economic opportunity. While the classical definitions emphasize the combination of resources to create greater value, contemporary scholarship views entrepreneurship as a pervasive ideology that shapes social and economic action (Harvard Business, 2018). The essence of this behavior involves taking the initiative to reorganize existing social and economic mechanisms into new, practical accounts, often introducing innovation and a new order into the marketplace (NEXFORD, 2026).

Economically, the entrepreneur is viewed as the agent who synthesizes labor, materials, and assets into combinations that yield value exceeding their prior worth. More recently, this concept has been expanded beyond mere creation to encompass the relentless pursuit of innovation and disruption. Scholars now frame entrepreneurship as an ideology that extends beyond the marketplace, influencing social action, institutional norms, and even political choices (Taylor & Francis, 2025). This modern conceptualization recognizes that entrepreneurs are not just business founders but catalysts for societal change and economic restructuring (AFEUSA, 2024). The functions performed by entrepreneurs are multifaceted and dynamic. Traditionally, these functions included searching for and interpreting new information, translating that information into new markets, techniques, or goods, marshalling necessary financial resources, assuming ultimate management responsibility, and bearing the inherent business risk (Sulaimon & Adebayo, 2000). However, recent literature emphasizes that in the current era, these functions are heavily influenced by technological capability and purpose. Modern entrepreneurs must now navigate rapid digital disruption, often leveraging AI and lean operational structures to compete effectively (NEXFORD, 2026). The significance of entrepreneurship in the current economic climate cannot be overstated. It is recognized globally as the backbone of economic growth, driving innovation, creating employment opportunities, and enhancing the standard of living (AFEUSA, 2024). By continuously introducing novel products, services, or more efficient production methods, entrepreneurs foster competition, which benefits consumers through better quality and pricing. Furthermore, successful entrepreneurial activity is linked to increased national wealth generation and the optimal utilization of available resources (NEXFORD, 2026).

Figure 1: Microfinance Models



The Grameen Models

Grameen Bank of Bangladesh was established in 1983 as an independent specialized bank after an experimental period of six years starting from 1976 under the supervision of Professor Muhammad Yunus and financed by the Janata Bank, to provide credit to the rural poor, particularly women in Bangladesh. The Grameen Bank experience started with the group concept of informal lending to the poor. It was started to assist landless people in Bangladesh to obtain credit, which could not be obtained through the formal commercial banks' credit facilities. The bank was established in order to improve the economic condition of the rural poor through the creation of opportunities for their self-employment. Grameen Bank loans are not secured by physical collateral like other commercial banks; instead, they are secured by group collateral complemented with peer monitoring and pressure to enforce repayment. Loans are disbursed through banking units of separate groups of five members for men and women who apply for a loan. Individual members of each group receive loans, but the entire group is held liable for repayment. In the first round, a loan is granted to two members to invest in their business. If these members repay their loans successfully, then four to six weeks later, the next two members also will be granted a loan. The last member will be eligible for a loan if the previous two members are able to repay their loans. Repayment of each member gives room for the next loan, and continues like that if all members can repay their loans. Invariably, if a member defaults, no other member of the group is eligible to receive further loans. Six to eight groups are organized into a community referred to as the "centre," and this constitutes the second-tier level of participation by which a Bank official deals with all eight groups. However, this model operates using the modality of collective guarantees, close supervision, and peer pressure from other members of the group. Therefore, the model has been quite successful as a bank for the poor and as a social movement based on principles of awareness and training, which has facilitated active participation of the poor.

Non-Government Organization (NGO) Model

This is also grouped as an informal model as it tends to adapt the Gramscian principles and usually are gender specific and sectorally motivated. There are women's groups, farmers' union, traders' union, etc., in this organization. The NGOs with the features of Grameen Bank are formed in different countries in the world with different names, e.g., Left Above Poverty (LAPO) can be viewed as a typical example of an NGO that emulates the method of Grameen Bank by channeling credit facilities to the poor who are members in Nigeria. While in Ghana and Gambia, the most successful micro credit programs with these features are women finance association. The programs were reported to have had a high rate of repayment.

The Esusu Model

Esusu is a revolving loan scheme in Nigeria and is entrenched in most West African countries, operating as an informal micro-credit programme. The group formed to operate the revolving schemes are voluntarily. In this model of microfinance, members make fixed contributions of money at regular intervals. This is quite different from the Grameen model because at each interval, one member collects the entire contribution from all. Every member takes a turn until the cycle is completed, and then it starts again. One perfect function of Esusu is that it serves as a saving mechanism for the last person to take his or her turn. The Esusu is a very strong program that has assisted in promoting entrepreneurship in most of the West African countries, particularly among market women in rural/urban markets. Each Esusu's group has a recognized leader, and Esusos are often used as models by NGOs trying to establish micro-finance programme in urban settings (Akanji, 2008).

Donors Model

Donors have played a very important role in the micro-credit program, particularly international donors such as UNDP, through the NGOs. The alternative micro-credit delivery model proposed by Gabriel and Ibanga (1997), called "The Ekpuk (family) model worked perfectly well within an extended family structure, particularly proven successful in some villages in Akwa Ibom State.

Impact of Microcredit on Entrepreneurship Development in Nigeria

Microcredit has become a central instrument for promoting entrepreneurship and economic inclusion in Nigeria. By offering small, collateral-free loans to individuals and microenterprises excluded from formal banking, microcredit aims to lower entry barriers to business creation, support business expansion, and foster job creation at the grassroots level (Central Bank of Nigeria, 2025). In a country where the informal sector constitutes a large share of employment and many entrepreneurs lack access to traditional financial services, microcredit serves as a practical channel for mobilizing capital among low-income entrepreneurs and enabling them to seize economic opportunities (Adebayo, Ojo, & Hassan, 2025).

Recent empirical studies demonstrate that microcredit can increase enterprise investment, household income, and business survival, particularly when loans are combined with non-

financial services such as business training, mentorship, and market linkages (Ramirez & Okoye, 2025; Chen & Akande, 2025). For example, field evidence from Nigerian states indicates that beneficiaries who received integrated microfinance packages (credit plus training) were more likely to expand their product lines and increase revenues compared with recipients of credit-only programs (Bamidele, Okafor, & Nwankwo, 2023). These findings underscore that microcredit's effectiveness for entrepreneurship development is amplified when borrowers also acquire managerial skills and access to markets.

Microcredit has also played a notable role in promoting inclusive entrepreneurship in Nigeria, with many MFIs deliberately targeting women and youth groups that systematically face greater constraints in accessing formal credit. Studies report that women borrowers frequently reinvest microloans into household enterprises and activities that generate community-level multiplier effects, contributing to improved welfare and local economic resilience (Ojo & Hassan, 2024; Ifamuyiwa & Bello, 2023). Youth-focused microcredit programs, when coupled with tailored skills training, have similarly shown promise in addressing unemployment by helping young entrepreneurs launch viable small businesses (Central Bank of Nigeria, 2025). However, recent literature cautions that microcredit is not a panacea. Challenges such as high effective interest rates, risks of over-indebtedness, limited financial literacy, and uneven access to complementary services can limit the developmental impact of microloans (Musa & Akintoye, 2026; Nkosi & Ojo, 2026). Moreover, the rapid digitalization of lending while expanding reach raises concerns about consumer protection, data privacy, and biased credit scoring if appropriate safeguards are not implemented (Hassan & Emel, 2025; UNCTAD, 2025).

Policy and practice implications from recent research emphasize designing microcredit interventions that integrate financial products with capacity building, market access, and regulatory protections. Strengthening MFIs' capacity to provide affordable credit, improving financial literacy among borrowers, and fostering an enabling environment through supportive regulations can enhance microcredit's role in sustaining entrepreneurship growth across Nigeria's diverse regions (World Bank, 2024; Central Bank of Nigeria, 2025). Aliyu, Muazu & Muhammed (2024) reported that microfinance credit, savings, and advisory services have a positive impact on MSME performance, with credit services showing the strongest effect on business growth. Awe & Omoniyi (2023) demonstrated that microfinance positively affects MSME growth in southwest Nigeria, though repayment conditions pose challenges for sustained impact.

The Relationship between Microcredit and Entrepreneurial Development in Nigeria

Microcredit, small, typically collateral-free loans extended to individuals and microenterprises, has become a central instrument for fostering entrepreneurship in Nigeria, a country where informal businesses and small-scale enterprises account for a substantial portion of economic activity and employment (Central Bank of Nigeria, 2025). By addressing liquidity constraints, microcredit enables aspiring entrepreneurs to start businesses, purchase productive assets, and smooth working capital needs, thereby potentially catalyzing enterprise creation and growth (Adebayo, Ojo, & Hassan, 2024).

Empirical evidence from Nigeria and comparable contexts indicates that microcredit can lead to increases in business investment, revenues, and short-term employment generation, particularly when loans are appropriately sized and accompanied by non-financial support such as business training and market linkages (Bamidele, Okafor, & Nwankwo, 2023; Chen & Akande, 2025). For example, field studies in urban and peri-urban Nigerian markets report that recipients of integrated microfinance packages combining credit with capacity-building display higher probabilities of business expansion and improved survival rates than recipients of credit-only programs (Ramirez & Okoye, 2025). However, the relationship between microcredit and sustained entrepreneurial development is complex and heterogeneous. Randomized evaluations and longitudinal studies suggest that while microcredit can boost short-term enterprise outcomes, its effects on long-term firm growth, job creation, and business sustainability are conditional on contextual factors such as market demand, borrower skills, macroeconomic stability, and the presence of complementary services (Banerjee et al., 2022; World Bank, 2024). In Nigeria, challenges including high effective interest rates, inadequate borrower financial literacy, and inconsistent regulatory environments have, at times, limited the developmental impact of microcredit and increased risks of over-indebtedness among vulnerable borrowers (Ifamuyiwa & Bello, 2023; Musa & Akintoye, 2026).

Digital financial services and fintech innovations have expanded access to microcredit in recent years, lowering transaction costs and enabling faster disbursements; yet they also introduce concerns related to data privacy, algorithmic credit scoring, and exclusion of the digitally illiterate (Hassan & Emel, 2025; UNCTAD, 2025). Policy recommendations emerging from recent literature emphasize integrating microcredit with savings, insurance, capacity building, and market linkage services, alongside consumer protection measures and tailored loan products, to maximize benefits for entrepreneurial development (World Bank, 2024; Central Bank of Nigeria, 2025).

Microcredit Access and Entrepreneurship Metrics (Growth, Job Creation, Sustainability)

Understanding the statistical relationship between microcredit access and entrepreneurship outcomes is central to evaluating microfinance as a development tool. Microcredit, small, typically collateral-free loans provided to low-income entrepreneurs, aims to reduce liquidity constraints, finance business start-ups or expansions, and ultimately improve firm-level performance and household welfare. Empirical research over the past decade has produced mixed but increasingly nuanced evidence: while microcredit can stimulate business investment and short-term income growth, its effects on long-term enterprise growth, job creation, and sustainability often depend on loan design, accompanying non-financial services, market conditions, and borrower characteristics (World Bank, 2024; Chen & Akande, 2025).

Statistical analyses commonly used to estimate these relationships include randomized controlled trials (RCTs), propensity score matching (PSM), difference-in-differences (DiD), instrumental variables (IV), and panel data regression models. RCTs in varied contexts have documented positive impacts of microcredit on business investment and household

consumption but more limited or heterogeneous impacts on enterprise profits and employment over the medium to long term (Banerjee et al., 2022; Adebayo et al., 2024). For instance, Banerjee et al.'s multi-country RCTs find improvements in business revenues for some subgroups but no uniform, large-scale effect on sustained job creation, suggesting that credit alone may be insufficient to overcome non-financial constraints such as skills gaps and market access. Quasi-experimental and observational studies using longitudinal firm-level data provide further insight into the heterogeneity of effects. Studies employing IV and DiD approaches indicate that when microcredit is accompanied by training, mentorship, or access to market linkages, the probability of business expansion and employment growth increases significantly compared with credit-only interventions (Chen & Akande, 2025; Ramirez & Okoye, 2025). Panel regressions tracking microenterprises over multiple years show that repeated access to appropriately timed small loans correlates with higher survival rates and incremental job creation, particularly in sectors with low entry costs and local demand (Ramirez & Okoye, 2025; Bamidele et al., 2023).

Sustainability of entrepreneurial ventures financed through microcredit, measured by business survival, profitability persistence, and capacity to access formal finance, appears contingent on borrower financial literacy, loan terms, and macroeconomic stability. Research from Nigeria and other low- and middle-income countries finds that short-term gains in household income or business activity frequently attenuate without continued support, highlighting the need for integrated microfinance models that combine savings, insurance, and capacity-building with credit (Adebayo et al., 2024; Musa & Akintoye, 2026). Moreover, inappropriate loan sizes or high effective interest rates can increase default risk and undermine long-term viability. From a methodological standpoint, recent meta-analyses emphasize the importance of addressing selection bias, treatment heterogeneity, and contextual moderators to draw reliable inferences about causality. Combining experimental and observational evidence with robust sensitivity analyses allows researchers to estimate average treatment effects while also exploring varying impacts across gender, sector, firm age, and regional market conditions (World Bank, 2024; Nkosi & Ojo, 2026). Microcredit access is associated with improved short-term investment and consumption outcomes and can support enterprise growth, job creation, and sustainability when embedded within broader, integrated support systems. The magnitude and durability of these effects are conditional on intervention design, complementary services, and contextual factors. Consequently, policy and programmatic efforts that aim to maximize entrepreneurship outcomes should pair microcredit with financial education, market linkages, and regulatory protections to promote sustained growth and employment.

Problems Militating Against Effective Funding of Entrepreneurship Development in Nigeria

Access to adequate and appropriate funding is widely recognized as a central constraint on entrepreneurship development in Nigeria. Despite numerous public and private initiatives to expand financing for small and medium enterprises (SMEs) and start-ups, persistent structural, institutional, and market failures continue to weaken the flow and effectiveness of funds. Limited access to formal credit remains pervasive. Banks and formal financial

institutions often require collateral and provide loan terms misaligned with the cash-flow realities of micro and small enterprises, excluding a large segment of potential entrepreneurs (Adebayo, Ojo, & Hassan, 2024; Ifamuyiwa & Bello, 2023). Microfinance institutions (MFIs) and specialized schemes attempt to bridge this gap, but many suffer from inadequate capitalization, governance weaknesses, and limited outreach problems that constrain scaling and long-run sustainability (Nkosi & Ojo, 2026; Musa & Akintoye, 2026). The high cost of capital and unfavorable loan terms impedes enterprise growth. Effective interest rates, factoring fees, and frequent rollovers often make borrowing prohibitively expensive for early-stage ventures, reducing investment incentives and increasing over-indebtedness risks among vulnerable borrowers (Musa & Akintoye, 2026; World Bank, 2024). Commercialization of microfinance and pressure to maintain returns have, in some contexts, led to aggressive lending practices that undermine developmental objectives (Nkosi & Ojo, 2026). Regulatory uncertainty and uneven policy implementation create an unstable financing environment.

Entrepreneurs and finance providers face shifting regulations, delays in implementing SME-support programmes, and inconsistent enforcement of contract and creditor rights, factors that elevate transaction costs and discourage long-term lending (World Bank, 2024; Central Bank of Nigeria, 2025). Weak credit information systems and limited use of collateral registries further increase information asymmetries and lender risk aversion (Adebayo et al., 2024). Gaps in entrepreneurial capabilities and financial literacy limit the effective use of funds. Studies show that financing alone has a limited impact when borrowers lack managerial skills, financial recordkeeping, and market linkages; capacity gaps reduce the likelihood that injected capital will translate into profitable, scalable ventures (Chen & Akande, 2025; Ifamuyiwa & Bello, 2023). This supports the growing consensus for integrated interventions combining credit with training and mentorship. market, infrastructure, and macroeconomic constraints restrict enterprise expansion even when funds are available. Inadequate physical infrastructure (power, transport), market fragmentation, and weak demand reduce the productive opportunities for financed businesses, limiting returns on investment and raising default risk (Ramirez & Okoye, 2025; World Bank, 2024). The rapid expansion of digital credit presents both opportunities and risks. While fintech platforms and mobile lending have broadened access and reduced transaction costs, they also raise concerns about data privacy, algorithmic bias, and unsustainable borrowing when regulatory safeguards and financial literacy are inadequate (Hassan & Emel, 2025; UNCTAD, 2025). Reports of over-indebtedness and aggressive collection practices in some digital lending markets underscore the need for consumer protection and responsible-lending frameworks.

Empirical Review

Chen and Akande (2025), in a field experiment, show that entrepreneurs receiving microloans combined with business training were more likely to increase product diversification, formalize recordkeeping, and expand employment relative to credit-only groups. Ramirez and Okoye (2025) find that microcredit paired with market-linkage support significantly raises the probability of firm expansion and repeated sales growth over a multi-year window. These results refine earlier prescriptions (Faseun & Bewayo, 2009; Ekpe et al., 2010) by providing causal evidence that human-capital and market-access complements materially improve microcredit's developmental payoff for entrepreneurship.

Ifamuyiwa and Bello (2023) identify financial literacy gaps among Nigerian micro borrowers that increase default risk and undermine business resilience. Musa and Akintoye (2026) and Nkosi and Ojo (2026) document concerns about rising over-indebtedness and the commercialization of MFIs, arguing that high effective interest rates and aggressive loan rollovers can erode long-term business viability. The World Bank (2024) and UNCTAD (2025) highlight the need for consumer protection frameworks, transparent pricing, and regulation to reduce these risks, recommendations that echo earlier calls. For Nigerian policy and practice, the evidence since 2022 supports a shift from credit-only programs toward integrated microfinance models that combine credit with capacity building and market support, alongside strengthened regulatory oversight and digital inclusion policies. For research, priority areas include long-term panel studies that trace enterprise trajectories post-loan, rigorous evaluations of digital microcredit innovations, and targeted studies on differential effects by gender, sector, and urban–rural location.

Ekpe, Mat, & Razak (2010) focused their article on 'The Effect of Microfinance Factors on Women Entrepreneurial Performance in Nigeria'. They agreed that women play a crucial role in the economic development of their families and communities, but certain obstacles, such as poverty, unemployment, low household income, and societal discrimination, mostly in developing countries, have hindered their effective performance of that role. They hypothesized that: credit, savings, training, and social capital are positively related to women entrepreneurs' performance in Nigeria, credit, savings, training, and social capital are positively related to opportunity for entrepreneurial activity of women entrepreneurs in Nigeria; and that opportunity for entrepreneurial activity acts as a link between microfinance factors and women entrepreneurs' performance.

Faseun & Bewayo (2009) observed that a direct relationship exists between governmental privatization and entrepreneurship within a country, and as a result, significant improvement has been made on the part of the Nigerian government to increase the participation of its citizens over the last two decades through privatization. However, while the government's effort to spur entrepreneurship has been genuine, it has not achieved its goal of economic prosperity. The entrepreneurial spirit has been enjoyed by a relatively small group of people, and there exist conditions that do not encourage but stifle the works of entrepreneurs. This is because banks' request for collateral (although a prudent thing to do in a developed country) has led to the exclusion of a majority of the population, especially the poor, in a developing country. They cited the case of Bolivia and urged Nigeria to learn from the mistakes of Bolivia to ensure that its microfinance sector can contribute economically to its progress. While noting that economic progress is important to entrepreneurship, they urged the Nigerian government to continue its steps in cleaning up the perception of corruption in government by enforcing its patent infringement laws against businesses that sell counterfeit products, because, similar to Bolivia, the Nigerian markets are filled with knock-offs of original merchandise. The perception problem of the poor is not unique to Nigeria but applies to a way forward in microfinance. They observed that the poor are not looking for a giveaway but value hard work as much as the rest of the population, so treating the poor then as an important sector in the building of Nigeria will be beneficial. They recommended that microfinance

institutions in Nigeria should hold innovative classes for their customers and teach them how to grow their business. By doing so, entrepreneurs will not be stuck producing the same product and will be more adaptive and dynamic. As is evident from the financial information, microfinance institutions in Nigeria suffer from an inadequate capital base. This small capital base affects the lending practices within a microfinance institution as lenders become pickier about who to lend money to, which in turn slows down the flow of capital to those who need it desperately. In the Bolivian framework, this problem was partially solved by the funding and grants the microfinance institutions received.

Hussain et al. (2018) conducted a study aimed at investigating the relationship between financial literacy and the success of small businesses owned by women. Utilizing a quantitative approach, the researchers distributed surveys to women entrepreneurs to assess their levels of financial literacy and corresponding business performance. The findings revealed a positive correlation, indicating that higher financial knowledge leads to better financial decision-making and improved business outcomes. The authors recommend implementing targeted financial literacy programs to enhance business performance among women entrepreneurs. However, the study highlights a gap in understanding how financial literacy impacts different sectors of entrepreneurship. Abor and Quartey (2021) explored how financial literacy contributes to the resilience of entrepreneurs during economic hardships. Utilizing qualitative interviews with entrepreneurs who successfully navigated economic downturns, the researchers assessed their financial literacy and resilience strategies. The study found that entrepreneurs with strong financial literacy demonstrated greater resilience, using their knowledge to make informed decisions during crises. The authors suggest integrating financial literacy training into resilience-building programs for entrepreneurs. A notable gap identified is the lack of quantitative measures linking resilience to financial literacy.

Chatterjee and Das (2021) aimed to determine whether financial literacy could predict the success of startups in emerging markets. The researchers conducted a survey among startup founders, measuring their financial literacy and various success indicators, such as revenue growth and sustainability. The results indicated a strong correlation between financial literacy and startup success, particularly in emerging markets. The authors recommend policies that promote financial literacy as a foundational skill for aspiring entrepreneurs. The study highlights a gap in understanding the barriers to financial literacy in different cultural contexts. Kauffman and Walstad (2022) analyzed how financial literacy impact decision-making processes among entrepreneurs. Employing a mixed-methods approach, the researchers combined surveys and case studies to explore decision-making scenarios influenced by financial literacy. The findings revealed that financially literate entrepreneurs make more informed and strategic decisions, leading to better business outcomes. The authors recommend incorporating financial literacy training into entrepreneurial programs to enhance decision-making skills. A gap identified in the study is the need to examine the role of financial literacy in collaborative decision-making among entrepreneurs. Eze and Nwankwo (2023) examined the impact of financial literacy on the entrepreneurial intentions of young adults. A survey was conducted among university students to assess their financial literacy levels and entrepreneurial intentions. The study found a significant positive relationship

between financial literacy and the intention to start a business among youth. The authors recommend integrating financial literacy education into high school and university curricula to foster entrepreneurship. The study points out a gap in longitudinal studies tracking the long-term entrepreneurial outcomes of financially literate youth. This study reviews the essential roles of financial literacy and financial inclusion in promoting entrepreneurial success in Nigeria. It finds a significant positive relationship between financial literacy and business performance, emphasizing the need for entrepreneurs to have strong financial knowledge. Additionally, improving financial inclusion for underserved groups, particularly women and marginalized populations, is crucial for overcoming access barriers. The study advocates for targeted educational programs and comprehensive financial education initiatives to support emerging entrepreneurs. These efforts aim to create a more inclusive and dynamic entrepreneurial ecosystem, ultimately driving sustainable economic development in Nigeria.

Methodology

This study adopted a descriptive survey design. The purpose of this design is to collect detailed and factual information that describes an existing phenomenon. Data were collected based on the concepts defined in the research, and hypotheses were tested from the responses on a Likert-type questionnaire that was distributed amongst the selected sample of the study. The study population from which the sample was drawn consists of employees of selected entrepreneurial firms in Bauchi State. Out of these SME's, ten (10) were randomly selected, and questionnaires were administered to the employees, ranging from top management, middle management, and lower management. Staff of microfinance banks were interviewed to gain their opinion. The sampled entrepreneurs are as follows;

Table 1: Staff Strength of the Firms Understudy

SN	Name of Entrepreneurial Firms	Number of Staff
1	A and A Computers	032
2	Soft-T Computer Global	034
3	Salama Computer Training	023
4	Albarka Restaurant	025
5	Charles Super Store	022
6	Iphiecakes&Events Bauchi	024
7	Azib Medicine and General Enterprises	036
8	RightClick Technologies	065
9	Yankari Savings and Loans Limited	040
10	Supercore Industries Limited	072
	Total	373

Source: Field Survey, 2026

Going by the information on the number of employees in these firms as shown in Table 3.1 above, the sample size was determined at 5% level of significance for sample error, using Taro Yamane's formula. The formula is presented as;

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = the sample size

N = the finite population

e = level of significance (limit to tolerable error)

$$n = \frac{373}{1 + 373(0.05)^2} = n = \frac{373}{1 + 373(0.0025)} = n = \frac{373}{1 + 0.9325} = n = \frac{373}{1.9325} = n = 193.04$$

Therefore, the sample size is 193 staff drawn from all the entrepreneurial firms under study.

Table 2: Staff Strength of the Firms Understudy.

SN	Name of Entrepreneurial Firms	Number of Staff
1	A and A Computers	016
2	Soft-T Computer Global	018
3	Salama Computer Training	012
4	Albarka Restaurant	013
5	Charles Super Store	011
6	Iphiecakes&Events Bauchi	013
7	Azib Medicine and General Enterprises	019
8	RightClick Technologies	034
9	Yankari Savings and Loans Limited	021
10	Supercore Industries Limited	036
	Total	193

Source: Stratified Sampling, 2026

In order to reliably generate data that would help the researcher with this research work, the primary data was adopted. The primary data was sourced by the researcher through questionnaire administration. A five (5) Likert-scale type questionnaire was developed for the respondents sampled for this study. A Likert scale measures the extent to which a person agrees or disagrees with the question. Data collected was analyzed by making use of descriptive statistics, which enabled the researcher to synthesize and summarize the quantitative data. The descriptive statistics describe the sample in terms of the responses to the questions using frequencies and percentages.

Data Presentation and Discussions

This focused on the presentation, analysis, and discussion of results generated from employees of ten entrepreneurial firms in the Bauchi metropolis. The primary instrument for this research exercise is a questionnaire.

Response Rate

Table 3: Questionnaire Response Rate

Description	Frequency	Percentage (%)
Questionnaire Distributed	193	100
Returned Questionnaire	192	99.5
Unreturned Questionnaire	1	0.5
Total	193	100

Source: Field Survey (2025)

Out of the 193 questionnaires distributed to respondents across selected entrepreneurial firms in Bauchi State, a total of 192 questionnaires were duly completed and returned, representing a response rate of 99.5%. Conversely, 01 questionnaires, accounting for 0.5%, were not returned.

Response to Research Questions

The effect of unfavourable loan terms on the development of entrepreneurial activities in Nigeria

Table 4: Responses on the effect of Unfavourable loan terms on the Development of Entrepreneurial activities in Nigeria

SN	Statement	SA	A	U	D	SD	Remark
1	High interest rates discourage entrepreneurs from applying for microcredit.	59 (30.7%)	74 (38.5%)	5 (2.6%)	30 (15.6%)	24 (12.5%)	Agreement
2	Rigid repayment schedules associated with microcredit negatively affect the cash flow and sustainability of entrepreneurial activities.	57 (29.7%)	50 (26.0%)	8 (4.2%)	44 (22.9%)	33 (17.2%)	Agreement
3	The lack of flexibility in loan terms hinders entrepreneurs' ability to reinvest profits into their businesses.	50 (26.0%)	45 (23.4%)	5 (2.6%)	49 (25.5%)	43 (22.4%)	Agreement
4	Entrepreneurs who face unfavorable loan terms are less likely to expand or diversify their business offerings.	72 (37.5%)	60 (31.2%)	-	30 (15.6%)	30 (15.6%)	

Source: Field Survey, 2026

The above table shows that the respondents believed that unfavourable loan terms affect entrepreneurs' ability to start new businesses in the Bauchi metropolis. Their response reflected as 30.7% and 38.5%, respectively. On the other hand, they were also of the view that

the terms and conditions of microcredit (interest rates, repayment schedules) hinder entrepreneurs' sustainable development in the Bauchi metropolis. This is made possible through the provision of some incentives, such as short-term loans and other resources to entrepreneurial outlets in the state. This is evidenced in the value of response in Table 4 (29.7%, 26.0%, 26.0%, and 23.4%, respectively. Again, the Table shows that entrepreneurs who face unfavorable loan terms are less likely to expand or diversify their business offerings. This is represented in the percentage rates of 37.5% and 31.2%.

Influence of High interest rates on the Growth of Entrepreneurship in Nigeria

Research Question 2: What is the influence of high interest rates on the growth of entrepreneurship in Nigeria?

Table 5: Responses on the Influence of High interest rates on the Growth of Entrepreneurship in Nigeria

SN	Statement	SA	A	U	D	SD	Remark
1	High interest rates discourage aspiring entrepreneurs from starting new businesses due to increased borrowing costs	78 (40.6%)	41 (21.4%)	7 (3.6%)	24 (12.5%)	42 (21.9%)	Agreement
2	High interest rates negatively impact the profitability of small and medium enterprises (SMEs), limiting their potential for growth.	125 (65.1%)	67 (34.9%)	-	-	-	Agreement
3	Existing entrepreneurs face significant challenges in expanding their businesses because of the burden of high interest rates on loans.	67 (34.9%)	64 (33.3%)	-	40 (20.8%)	21 (10.9%)	Agreement
4	Access to affordable financing, with lower interest rates, would significantly enhance the growth prospects of entrepreneurial ventures in Nigeria.	44 (22.9%)	87 (46.4%)	-	22 (11.5%)	37 (19.2%)	Agreement

Source: Field Survey, 2026

Table 5 shows that more (40.6% and 21.4%) of the employees think that high interest rates discourage aspiring entrepreneurs from starting new businesses due to increased borrowing costs, 65.1% and 34.9% shows the level of agreement. Again, 34.9% and 33.3% of the respondents are of the opinion that high interest rates negatively impact the profitability of small and medium enterprises (SMEs), limiting their potential for growth. Furthermore, 22.9% and 46.4% of the respondents are of the opinion that access to affordable financing,

with lower interest rates, would significantly enhance the growth prospects of entrepreneurial ventures in Nigeria.

Ways limited product diversity affects the effective funding of entrepreneurship development in Nigeria

Question 3: In what way does limit product diversity affect the effective funding of entrepreneurship development in Nigeria?

Table 6: Responses on the way limited product Diversity affects the Effective Funding of Entrepreneurship Development in Nigeria

SN	Statement	SA	A	U	D	SD	Remark
1	Limited product diversity reduces market competitiveness, making it harder for entrepreneurs to attract funding from investors.	67 (34.9%)	50 (26.0%)	21 (10.9)	34 (17.7%)	20 (10.4%)	Agreement
2	Entrepreneurs with a narrow range of products face challenges in generating consistent revenue, which affects their ability to secure loans and funding	110 (57.3%)	61 (31.8%)	9 (4.9%)	4 (2.1%)	8 (4.2%)	Agreement
3	The absence of diverse product offerings limits entrepreneurs' opportunities for expansion, reducing their appeal to potential investors and funding sources.	50 (26.0%)	45 (23.4%)	5 (2.6%)	49 (25.5%)	43 (22.4%)	Agreement
4	Entrepreneurs who diversify their product lines are more likely to receive funding support, whereas those with limited options struggle to convince lenders of their viability.	144 (75.0%)	43 (22.4%)	5 (2.6%)	-	-	Agreement

Source: Field Survey, 2026

From the above table, the respondents are of the opinion that the limited product diversity reduces market competitiveness, making it harder for entrepreneurs to attract funding from investors. In another reaction, 57.3% and 31.8% of the respondents (employees) are of the view that Entrepreneurs with a narrow range of products face challenges in generating consistent revenue, which affects their ability to secure loans and funding. The respondents agree that the absence of diverse product offerings limits entrepreneurs' opportunities for

expansion, reducing their appeal to potential investors and funding sources. The employees also believed that Entrepreneurs who diversify their product lines are more likely to receive funding support, whereas those with limited options struggle to convince lenders of their viability. This is seen in the percentage rates of 75.0% and 22.4%

Test of Hypotheses

The hypotheses were tested using Pearson Correlation statistics (Appendix II). Below is the interpretation of the three formulated hypotheses.

H₀₁: There is no significant relationship between unfavourable loan terms and entrepreneurship development in Nigeria.

Table 7: Evaluation of the Relationship between Unfavourable loan terms and Entrepreneurship Development in Nigeria

Correlations			
		Microfinance	Entrepreneurship Development
Unfavourable loan terms	Pearson	1	,589*
	Correlation		
	Sig. (2-tailed)		,007
	N	192	192
Entrepreneurship Development	Pearson	,589**	1
	Correlation		
	Sig. (2-tailed)	,007	
	N	192	192

Source: Correlation is significant at the 0.01 level (2-tailed).

From the study conducted, the absolute value of the Pearson correlation indicates the strength of the relationship, with the absolute value showing the weakness or stronger relationship or strength of the variables. However, the absolute value of the correlation is .589 with a significant value of .007 indicates that the two variables are significantly related. Therefore, there is a significant relationship between unfavourable loan terms and entrepreneurship development in Nigeria.

H₀₂: High interest rates on microcredit have no significant effect on entrepreneurial development in Nigeria.

Table 8: High interest rates on Microcredit has no Significant effect on Entrepreneurial Development in Nigeria.

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	22.784	3	7.595	250.331	.000
Within Groups	4.278	141	.030		
Total	27.062	144			

Source: SPSS, Version 27

The small significance value ($F_{sig} < .05$) indicates that there is a group difference. Since the F-value of 250.331, which has a significance value of .000, is less than .05 (i.e., $.000 < .05$), High interest rates on microcredit have significantly affected the development of entrepreneurship in Nigeria.

H₀: There is no significant relationship between limited product diversity and effective funding of entrepreneurship development in Nigeria.

Table 9: Limited Product diversity and Effective funding of Entrepreneurship Development in Nigeria.

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.747	2	.873	1.029	.372
Within Groups	21.217	25	.849		
Total	22.964	27			

Source: SPSS, Version 27

The test conducted revealed that the large significance value ($F_{sig} > .372$) indicates no group differences. Since the F-value of 1.029 with a significance of .372 is greater than .05 (i.e., $.372 > .05$), there exists no group difference. Therefore, limited product diversity is one of the numerous problems militating against the effective financing of entrepreneurs by the microfinance banks in the attainment of their objective.

Discussion of Findings

The study found that there is a significant relationship between microcredit and entrepreneurship development in Nigeria; unfavourable loan terms have significantly affected

the development of entrepreneurship in Nigeria. Some problems militate against the effective financing of entrepreneurs. This research has succeeded in indicating that microcredit is an imperative strategy in the development of entrepreneurship activities. Its importance in entrepreneurship development cannot be overemphasized, as indicated in the presentation of data, its analysis relating the contribution of microcredit to the growth and development of entrepreneurial skills. However, the contribution or impact is not substantial. Therefore, there is still a lot to be done to substantially increase the contribution and impact of microcredit on the growth of the index of business activities of own operations (entrepreneurship) in Nigeria. The findings also demonstrate that microcredit has a positive but conditional impact on entrepreneurship development in Nigeria. While access to start-up funds, financial education, and institutional support contributes significantly to enterprise growth, structural constraints such as limited accessibility, high lending costs, rigid repayment structures, and inadequate support services reduce its transformative potential. The results suggest that strengthening the effectiveness of microcredit requires policy adjustments aimed at improving accessibility, simplifying procedures, moderating interest rates, and integrating robust non-financial support systems. Only through a balanced approach that combines financial inclusion with capacity development can microcredit achieve sustained impact on entrepreneurial development and economic growth.

Conclusion

Microcredit remains a vital instrument for promoting entrepreneurship in Nigeria, but its full developmental potential has not yet been realized. Greater effort is required to enhance its accessibility, affordability, and overall effectiveness to significantly improve entrepreneurial outcomes and contribute to broader economic growth.

Recommendations

In line with the findings of the study, the following recommendations are made:

- i. Financial institutions and policymakers in Bauchi should expand access to microcredit facilities, particularly for start-up entrepreneurs and small-scale business operators who lack collateral.
- ii. Microcredit institutions should review lending conditions by moderating interest rates and adopting flexible repayment schedules that reflect the cash flow patterns of small businesses.
- iii. Microcredit programs should incorporate structured training, mentorship, advisory services, and business development support.
- iv. Government agencies should establish clear regulatory frameworks and monitoring systems to ensure that microcredit institutions operate in a manner that promotes sustainable entrepreneurship development.

Reference

- Adebayo, O., Ojo, R., & Hassan, M. (2025). The impact of microcredit on household welfare in Nigeria, *International Journal of Financial Studies*, 13, 103–120.
- Adebayo, O., Ojo, R., & Hassan, M. (2025). The impact of interest rates on microfinance clients in Nigeria, *Journal of Financial Services Research*, 58, 175-190.
- Adebayo, O., Ojo, R., & Hassan, M. (2024). The impact of microcredit on household welfare in Nigeria, *Journal of Development Studies*, 59, 412–430.
- Bamidele, T., Okafor, J., & Nwankwo, P. (2023). Microcredit and enterprise outcomes: Evidence from small traders in Lagos, *African Journal of Economic and Management Studies*, 14, 98–117.
- Central Bank of Nigeria. (2025). *Annual report on microfinance and financial inclusion*, Bauchi State Bauchi State: CBN Publications.
- Chen, L., & Akande, S. (2025). Complementary services and microloan effectiveness: A field experiment, *World Development*, 73, 120–135.
- Hassan, A., & Emel, O. (2025). Digitalization and microfinance: Opportunities and risks, *International Journal of Financial Studies*, 13, 77–95.
- Hassan, A., & Emel, O. (2025). Microfinance institutions and economic growth: Lessons from emerging economies, *International Journal of Financial Studies*, 13, 140-158.
- Ifamuyiwa, F., & Bello, I. (2023). Financial literacy and borrower outcomes in Nigerian microfinance. *Nigerian Journal of Economic and Social Studies*, 45, 267–285.
- Ledgerwood, J., & White, V. (2024). *The changing landscape of microfinance: Product innovation and impact*, *Microfinance Insights*, 8, 21–44.
- Musa, K., & Akintoye, O. (2026). Over-indebtedness and regulation in Nigerian microfinance, *Journal of African Finance*, 2, 45–63.
- Musa, K., & Akintoye, O. (2026). Regulatory challenges in Nigeria's microfinance sector: A path forward, *International Journal of Banking, Accounting, and Finance*, 21, 84-99.
- Muogbo, U. S., & Tomola, O. (2018). The impact of microfinance bank on entrepreneurship development in Nigeria, *Journal of Business and Economic Development*. 3, 51-61.
- Nkosi, L., & Ojo, R. (2026). Commercialization of microfinance and implications for outreach, *Development Policy Review*, 44, 89–107.

- Olaitan, M. A. (2016). Finance for small and medium enterprises: Nigerian agricultural credit guarantee scheme fund, *Journal of International Farm Management*, 3, 1–9.
- Ojo, R., & Ibrahim, T. (2026). Microcredit and over-Indebtedness: A review of challenges and prospects in Nigeria, *Journal of African Business*, 27, 78-92.
- Ramirez, M., & Okoye, P. (2025). Market linkages and microenterprise growth: Evidence from Nigeria, *Journal of Small Business Management*, 63, 540–558.
- UNCTAD. (2025). Digital finance and inclusion: Policy implications for developing countries. Geneva: *United Nations Conference on Trade and Development*.
- World Bank. (2024). *Innovations in microfinance: Evidence and policy options*, Washington, DC: World Bank Publications.
- Yunus, M. (2023). *Creating a world without poverty: Social business and the future of capitalism* (Rev. ed.), New York, NY: Public Affairs.