
AN APPRAISAL OF THE MICRO, SMALL, AND MEDIUM ENTERPRISES DEVELOPMENT FUND (MSMEDF) AND ITS IMPACT ON ENTERPRISE GROWTH IN KADUNA STATE, NIGERIA

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Nigeria's economic development through employment generation and income creation. However, limited access to finance continues to hinder their growth, prompting the establishment of the Micro, Small, and Medium Enterprises Development Fund (MSMEDF) as an intervention measure. This study analyzed the activities of MSMEDF in Kaduna State, focusing on its contribution to enterprise growth, MSME awareness, operational efficiency, and repayment experiences. Using a descriptive survey design that combined quantitative and qualitative methods, data were collected from 286 respondents comprising MSME operators, commercial bank officials, and microfinance representatives. Supplementary data were obtained from CBN, SMEDAN, and related literature. Data analysis employed descriptive statistics, Chi-square, Pearson correlation, and multiple regression. Findings revealed that MSMEDF moderately supports business expansion, revenue growth, and job creation, but is constrained by low awareness, bureaucratic processes, stringent collateral demands, high interest rates, and short repayment terms. The study recommends increased funding, improved sensitization, simplified procedures, and flexible repayment structures supported by financial literacy training for sustainable MSME growth.

Keywords: *MSMEs, MSMEDF, Enterprise Growth, Access to Finance, Kaduna State.*

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as the backbone of economies worldwide, contributing to job creation, innovation, poverty reduction, and inclusive growth (World Bank, 2023). However, MSMEs continue to face a global financing gap running into trillions of dollars, driven by weak collateral systems, high transaction costs, and lenders' risk aversion toward small borrowers (OECD, 2022). Despite the adoption of credit registries, blended finance, and digital technologies, many small and informal firms, especially those owned by women and youth, still lack access to affordable and sustainable finance (World Bank, 2023).

In Sub-Saharan Africa, MSMEs dominate business activities and employment but face one of the world's largest financing deficits (AfDB, 2022). Although digital financial services and mobile money have improved transactional inclusion, they have not addressed the shortage of long-term credit and trade finance. Persistent barriers such as underdeveloped financial markets, high interest rate spreads, and weak intermediary capacity constrain access to finance (IMF, 2024). Regional interventions, credit guarantees, concessional finance, and value-chain models, remain small-scale and unsustainable (OECD, 2022).

Nigeria exemplifies these challenges. MSMEs represent over 90% of businesses and employ more than 80% of the workforce, yet their growth is hindered by liquidity constraints, inflation, and limited access to affordable credit (SMEDAN, 2021). To address this, the Central Bank of



Nigeria (CBN) established the ₦220 billion Micro, Small and Medium Enterprises Development Fund (MSMEDF) in 2013 to provide low-interest loans and promote enterprise development (CBN, 2021). Additional schemes like AGSMEIS and NYIF further underscore national efforts to strengthen MSME financing. Nonetheless, studies reveal mixed outcomes, improved coverage but persistent challenges in accessibility, loan management, and targeting micro enterprises (Akinyoade & Uche, 2022).

At the sub-national level, Kaduna State's ₦1 billion Kaduna-SMEDAN Matching Fund (2025) seeks to enhance credit access for nano and small businesses. Against this backdrop, this study assesses the MSMEDF's role in supporting MSMEs in Kaduna State, focusing on beneficiaries' awareness, scheme operations, repayment challenges, and policy implications for inclusive enterprise development.

Literature Review

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of Nigeria's economy, accounting for approximately 96% of businesses, 84% of employment, and 49% of national GDP (PwC, 2020; SMEDAN, 2021). They serve as engines of job creation, poverty alleviation, and innovation, fostering industrialization and local value addition (Endris & Kassegn, 2022; Ogbari et al., 2024). However, empirical evidence shows that despite their economic importance, MSMEs face severe structural and financial barriers such as inadequate infrastructure, limited managerial skills, and most critically, restricted access to affordable credit (Abdullahi et al., 2015).

The financing gap persists largely due to perceived high risks and information asymmetry between lenders and MSMEs. Commercial banks are reluctant to lend because most MSMEs lack collateral and maintain informal financial records, leading to large-scale credit rationing (Stiglitz & Weiss, 1981). To address these market failures, the Central Bank of Nigeria (CBN) launched the ₦220 billion Micro, Small and Medium Enterprises Development Fund (MSMEDF) in 2013 to promote financial inclusion, enterprise growth, and employment through concessional lending (CBN, 2021).

Empirical findings on MSMEDF's impact remain mixed. Studies reveal that while access to finance has improved, bureaucratic delays, poor awareness, and weak institutional capacity still limit participation (Adebayo & Sunday, 2022). Similar international evidence aligns with these challenges, Abdullah (1999) found administrative bottlenecks hindered SME support uptake in Malaysia, while Okafor et al. (2023) emphasized that digitalization could enhance transparency and accessibility in Nigeria. Comparative African evidence shows that targeted interventions improved SME survival during shocks like COVID-19 (World Bank, 2023), though issues of repayment sustainability and low reach to informal enterprises persist.

This study is grounded in Finance-Led Growth Theory (Schumpeter, 1934; McKinnon, 1973), Credit Rationing Theory (Stiglitz, 2011), and Resource-Based Theory (Barney, 1991), which collectively justify state-led financial interventions to correct market inefficiencies and enhance firm competitiveness. Despite over a decade since its establishment, empirical evidence on MSMEDF's performance at sub-national levels, particularly in Kaduna State, remains limited. This research fills that gap by examining MSMEDF's effectiveness, awareness, accessibility, repayment capacity, and impact on MSME performance in Kaduna State.

Methodology

The study adopted a descriptive and cross-sectional survey design integrating both quantitative and qualitative approaches to evaluate the role of the Micro, Small and Medium Enterprises



Development Fund (MSMEDF) in supporting MSMEs in Kaduna Metropolis. This design enabled systematic analysis of accessibility, utilization, and the impact of the MSMEDF while incorporating the perspectives of both beneficiaries and financial institutions. The analytical framework examined the relationship between access to finance and enterprise growth, focusing on awareness levels, accessibility barriers, and repayment performance. The population comprised MSME operators, commercial and microfinance bank representatives, and government agency officials across Kaduna North, Kaduna South, Chikun, and Igabi LGAs. Kaduna Metropolis was selected due to its high concentration of MSMEs and financial intermediaries. Using Taro Yamane's (1967) formula, a sample size of 286 respondents was determined from a population of 1,000 MSMEs and financial institutions with a 5% margin of error ($n = N / [1 + N(e)^2]$). A stratified random sampling technique ensured proportional representation across key subgroups: MSME operators (70%), commercial bank officials (15%), and microfinance bank officials (15%), with respondents randomly selected within each stratum to ensure fairness and reduce bias. Primary data were collected through structured questionnaires and key informant interviews with bank officials and government representatives. The questionnaire comprised sections on demographics, awareness of MSMEDF, access to funding, affordability, business growth indicators, and the institutional environment. Responses were measured using a five-point Likert scale, and instrument reliability was established through expert validation and pilot testing on 25 respondents, yielding a Cronbach's Alpha of 0.82. Secondary data were obtained from CBN and SMEDAN reports, NBS MSME surveys, and relevant academic literature. Data analysis was conducted using SPSS (version 26) and Microsoft Excel. Descriptive statistics (frequencies, percentages, means) summarized respondent profiles and access levels, while inferential techniques such as Chi-square and Pearson correlation tested relationships between access and enterprise performance. Multiple regression analysis measured the effect of MSMEDF access on business growth indicators, revenue, employment, and expansion—thereby providing empirical evidence of the scheme's contribution to MSME development in Kaduna State.

Results and Discussion

Performance of MSMEDF Beneficiaries

The result highlights respondents' perceptions of MSMEDF performance across key indicators. Nearly 44% acknowledged improved access to credit, though about 27% disagreed and 30% were neutral, suggesting moderately positive but mixed views. Concerning banks' cooperation, 44% agreed, indicating fair institutional support despite noted gaps. On collateral requirements, 45% considered them too stringent, underscoring a major barrier to loan access. Regarding interest rates, 45% viewed them as favorable, while about 26% disagreed and 29% remained neutral, reflecting cautious acceptance with lingering concerns over affordability.



Table 1: Performance Indicators of MSMEDF

Indicators	Strongly Disagree	Disagree	Neutral	Agree (%)	Strongly Agree (%)
MSMEDF improved access to credit	21 (7.3%)	65 (19.2%)	86 (30.0%)	93 (32.4%)	32 (11.1%)
Banks are cooperative in providing MSMEDF loans	31 (10.8%)	47 (16.4%)	83 (28.9%)	87 (30.3%)	39 (13.6%)
Collateral requirement are too stringent	34 (11.8%)	39 (13.6%)	85 (29.6%)	86 (30.0%)	43 (15%)
Interest rate are favorable for my business	30 (10.5%)	44 (15.3%)	83 (28.9%)	88 (30.7%)	42 (14.6%)

Awareness Levels Among MSMEs

Less than half 45.6% of the respondents in this study indicated that they were aware of MSMEDF in Kaduna State. More than half of the respondents (54.4%) had not heard of the fund, suggesting that information dissemination and outreach efforts by relevant stakeholders may be insufficient. The data underscores the need for increased public sensitization and more effective communication channels to improve MSMEDF visibility and accessibility.

Table 2: Awareness Levels and Channels

Awareness Item	Yes (%)
Heard of MSMEDF	131 (45.6%)

The findings suggest that while beneficiaries benefited from structured awareness channels, a majority of non-beneficiaries lacked access to adequate information. This supports Olowu (2020), who emphasized that poor dissemination of government interventions limits inclusivity and outreach.

Mode of Operations of the Scheme

The MSMEDF operates primarily through participating financial institutions (PFIs), with interest rates capped at 9% per annum in line with Central Bank guidelines. Collateral requirements, however, were noted as a challenge, with 44% of respondents citing them as stringent. Processing delays were also reported, with some applications exceeding the stipulated 6–8 weeks.

Constraints Hindering the Scheme

Table 3 shows that respondents generally perceive significant challenges in repaying MSMEDF loans. A high mean score of 3.66 with 70.4% agreement suggests that many MSMEs find the repayment process stressful. Similarly, 68.3% agree that poor sales increase the risk of loan default, reflected by a mean of 3.55. The most notable concern is the weak loan monitoring system, with a mean score of 3.82 and 74.1% agreement, indicating that inadequate follow-up from fund administrators may hinder effective loan recovery.

These findings highlight systemic repayment challenges that could undermine the sustainability of the MSMEDF scheme if not addressed, especially through improved support, sales stimulation strategies, and stronger repayment monitoring frameworks.

Table 3: Repayment Challenges

Repayment Factor	Mean	Std. Dev	Agree (%)	Disagree (%)
Repayment is stressful	3.66	0.83	70.4	20.2
High default risk due to poor sales	3.55	0.91	68.3	21.7
Weak monitoring affects recovery	3.82	0.76	74.1	16.0

Source: Field Survey, 2025

Discussion

This study has assessed the performance, awareness, operations and repayment experience of the Micro, Small and Medium Enterprise Development Fund, (MSMEDF) in Kaduna State. Results indicate a positive but moderate effect as beneficiaries report an increase in access to credit, revenue growth, and a slight increase in job creation. These findings are similar to those by Ajuwon and Akotey (2017) and Yusuf (2022), who found that financial interventions can be structured to increase the productivity and sustainability of MSMEs. Nevertheless, impact was limited by delays in disbursement and small amounts of loans, which echoed Nwosu (2017), who pointed to bureaucratic bottlenecks in the management of MSMEDF.

MSME awareness of MSMEDF was identified to be poor to average. Although 45.6% of those, who responded, were knowledgeable, a number of them did not know the process sufficiently. This is contrary to what Araba (2021) reported (31 percent of awareness), among the MSMEs in Lagos, implying that it is more sensitized in Kaduna, but gaps exist.

Operation-wise, the scheme was seen as bureaucratic and strict especially in terms of collateral requirement as it was supported by Nwachukwu (2023) who observed irregularity across banks. The problems with repayment, which include the short duration of the loans, economic shocks, and lack of financial literacy, are reminiscent of Osinubi et al. (2021), authors who highlighted the inconsistency between the business cycles and repayment.

The results confirm the Credit Rationing Theory through the risk-aversion banking behavior, whereas the resource-based theory emphasizes the importance of capacity building as an addition to financial capital.

Conclusion

The study concludes that the Micro, Small and Medium Enterprises Development Fund (MSMEDF) has been moderately effective in promoting business growth, increasing revenue, and generating employment among MSMEs in Kaduna State. However, its overall impact remains constrained by inadequate funding, bureaucratic bottlenecks, rigid lending conditions, low awareness, and repayment challenges arising from high interest rates, short repayment terms, and limited financial literacy. To enhance its effectiveness, funding allocations should be increased with more flexible and timely disbursement mechanisms. Awareness campaigns must be strengthened through collaboration with trade associations and media platforms, while application and documentation processes should be simplified and digitized to improve accessibility. Repayment conditions should be eased by lowering interest rates, extending repayment periods, and integrating financial literacy training. This study contributes to knowledge by providing state-specific empirical evidence that bridges the gap between MSMEDF policy intentions and real outcomes, offering practical insights for improving MSME financing and financial inclusion in Nigeria.



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