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HOW PRODUCTIVE CREDIT IMPACTS ENTERPRISE GROWTH, FINANCIAL RESILIENCE AND HOUSEHOLD WELFARE AMONG MICROENTREPRENEURS IN NIGERIA

THE PRODUCTIVITY TRANSMISSION PATHWAY

1 CREDIT ACCESS → 2 PRODUCTIVE USE → 3 ENTERPRISE GAIN → 4 FINANCIAL RESILIENCE → 5 HOUSEHOLD WELFARE

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Why this study matters

Credit can help microenterprises restock, acquire equipment and fulfil orders. Yet operating costs, repayment pressure and household demands can absorb those gains. This study examines when business finance translates into stronger enterprise activity, financial resilience and household welfare.

Research objectives

Assess demand and access to productive credit. Examine loan terms, productive use and enterprise growth. Analyse shock coping, household welfare and women's economic empowerment. Identify where the pathway weakens and what the financial inclusion ecosystem can do.

1 Study design and methods

The cross-sectional mixed-method study covered 1,595 microenterprises in 12 commercially active LGAs across Lagos, Kano, Anambra and Borno. Fieldwork ran from March to May 2026 using Kobo Collect, local research assistants and central quality monitoring.

The survey included 323 business-credit users and 429 women. Seven empirical in-depth interviews in Anambra and Lagos, five covering finance modules, complemented field reports and secondary evidence.

Analysis combined descriptive statistics, probit models of uptake and willingness, turnover comparisons, OLS and logistic regressions, state fixed effects and propensity-score adjustment. The qualitative analysis used thematic coding and case comparisons to explain how product terms, business practices and household demands shape outcomes.

2 Demand and access

20.3% used business credit and 10.2% used regulated formal credit. Non-use reflected different situations: 30.6% of the sample were discouraged potential borrowers, 35.2% voluntary non-borrowers and 13.9% uncertain.

State	n	Any credit	Formal credit	Productive demand
Anambra	359	15.9%	5.6%	24.5%
Borno	414	14.7%	8.0%	60.9%
Kano	447	21.7%	6.5%	55.7%
Lagos	375	28.8%	21.6%	29.2%

Credit uptake uses all respondents in each state. Productive demand uses non-borrowers who were willing to borrow and identified a productive intended use.

Overall, 44.2% of non-borrowers expressed productive demand (562/1,272). The highest shares were in Borno and Kano. Preferred sources included government programmes, commercial banks and Islamic finance. State differences point to a need for products that match local preferences and business conditions.

3 Product terms and enterprise growth

The median loan was ₦500,000. Median tenor was six months for regulated formal credit, two months for informal credit and 2.5 months for cooperative credit. **About one quarter of borrowers with detailed terms did not know the interest structure.**

90.1% of borrowers reported productive use, mainly inventory and working capital. Among 154 borrowers with valid recall, median monthly turnover moved from ₦300,000 to ₦450,000. The median individual increase was 37.5%.

Reported growth among 208 complete cases (%). Intensive growth means higher revenue or restocking without hiring. Extensive growth includes hiring.

"I have more capital and I am more confident that I can provide what customers request."
IDI interview, enterprise activity

4 Operating conditions and trust

Electricity, fuel, transport, security and household shocks can absorb finance before it raises productive capacity. Interviews also showed the value of inventory depth, supplier relationships and equipment ownership. Clear pricing and reliable complaint resolution protect both productive gains and confidence in borrowing.

CONCLUSION

Productive credit depends on suitable terms, effective business use and the capacity to retain gains. The strongest observed signal is enterprise activity. Durable resilience and household welfare require complementary business capability, savings and a supportive operating environment.

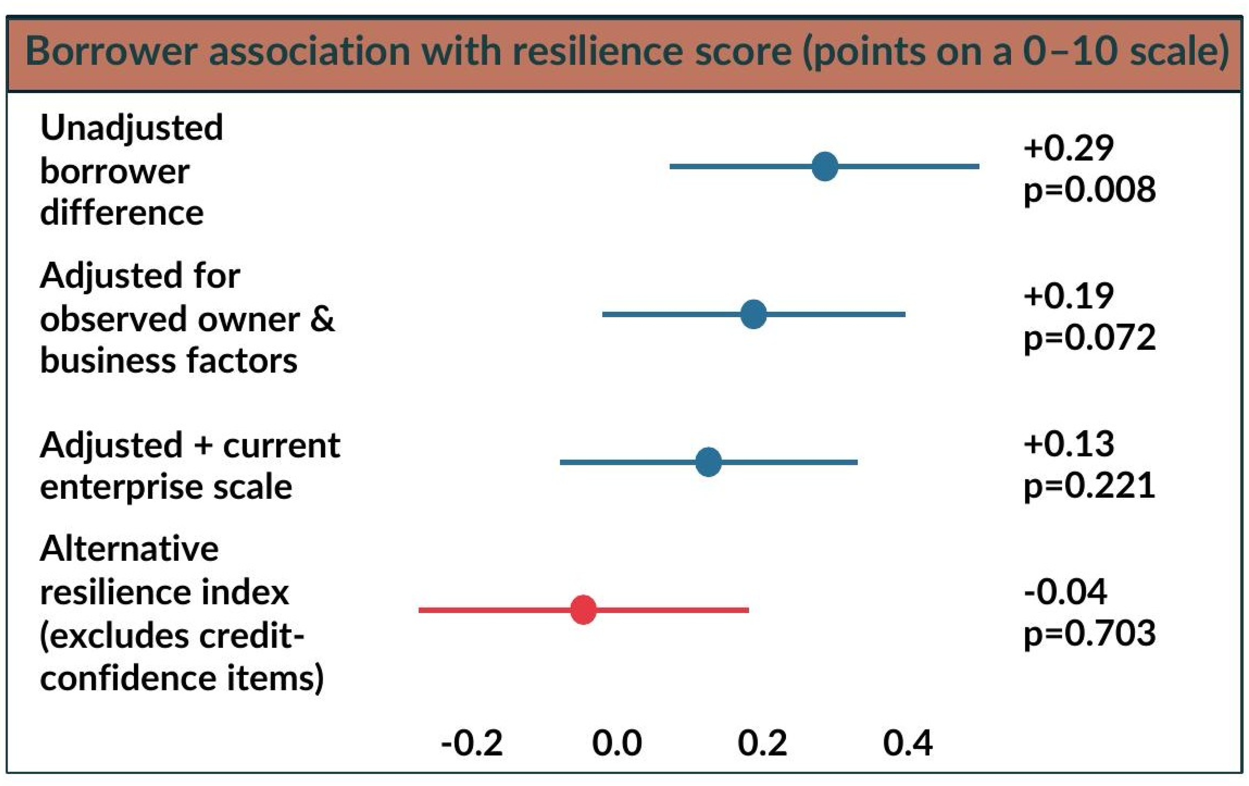
5 Resilience and shock coping

Resilience depends on how it is measured; shock behaviour is more revealing than borrowing confidence alone

Borrowers scored 0.29 points higher on the original 0–10 resilience index. The difference was 0.24 after propensity adjustment. It fell to 0.08 and was not statistically significant when credit-confidence items were removed from the index.

Among 661 shock-exposed businesses, distress coping was reported by 10.8% of informal-only borrowers, 24.9% of non-borrowers and 22.2% of formal borrowers. Savings, emergency funds, record keeping and retained business gains emerged as important components of shock capacity.

Borrower association with resilience score (points on a 0–10 scale)



6 Household welfare and gender

Credit status showed no consistent independent association with the welfare score, social dividend or meal deprivation. Resilience had a modest positive relationship with welfare (r≈ 0.19). Business gains need to become usable household buffers before wider welfare benefits can follow.

Women had a 5.0 percentage-point lower adjusted probability of formal uptake and a 15.7-point lower probability of willingness among non-borrowers. Average women's empowerment scores were around 7.3 across credit groups. The clearest gender gaps appeared in willingness and access.

"Once I separate the capital from the gain, I have more confidence that I can spend part of the gain on family needs without weakening the business."
IDI interview, household welfare

7 The productive-credit pathway

Sequential stage	n	Share
Accessed credit	323	100.0%
Reported productive use	291	90.1%
Observed enterprise gain	160	49.5%
High resilience after gain	76	23.5%
Strong household dividend	50	15.5%

The strict pathway uses all 323 borrowers. Fifty borrowers reached every stage. A broader definition, using moderate resilience, identified full transmission in 52.8% of 197 complete cases. Another 22.3% reported no growth, while 19.8% combined growth and resilience with a weak household dividend.

8 Implications for the ecosystem

- **Provider and programme reporting should distinguish working-capital finance from transformation capital and identify whether the loan is intended for stock, equipment, hiring, premises or shock liquidity.**
- **Latent productive demand should be tracked separately from generic willingness because it identifies firms that both want finance and name an income-generating use.**
- **Financial capability interventions should not be treated as substitutes for product reform. Better bookkeeping cannot make an unaffordable or badly timed loan suitable.**
- **Digital finance can lower application friction and speed disbursement, but convenience is not equivalent to product quality. The field evidence shows concern about recovery conduct and reputation, while the qualitative case of unresolved deductions demonstrates how provider conduct can remove working capital after a productive use. Digital-lending performance should therefore be evaluated using cost transparency, privacy, recovery practice, redress time and repeat use without distress.**
- **Providers should use product segmentation rather than generic microcredit. Government and DFI programmes should differentiate liquidity finance from asset or expansion finance, and should avoid setting disbursement volume as the primary success measure. Because government programmes are highly preferred among latent-demand firms, public programmes have an especially strong responsibility to communicate whether support is a grant or a loan, price risk correctly, align repayment with enterprise cash flow and publish outcome metrics beyond repayment.**