



Raising Capital for Small Businesses in Lagos State, Nigeria: Financing Barriers, Funding Pathways and Policy Responses

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DOI: <https://doi.org/10.68050/JAMS.2026.805>

Received: 16 October 2026; Accepted: 22 October 2026; Published: 28 October 2026

ABSTRACT

This article examines small-business capital mobilization in Lagos State through a critically appraised documentary synthesis of published Nigerian enterprise statistics, a national MSME survey, household financial-inclusion evidence and financing policy announcements. It specifies an eligible-document corpus, evidence extraction categories and rules for assessing geography, population, design and comparability. The NBS/SMEDAN 2021 enterprise enumeration recorded 91,097 formal establishments in Lagos (7.3% of the reported national formal total). In PwC's 2024 multi-state survey, the published distribution of loan barriers attributed 27% to high interest rates, 26% to procedural complexity and 16% to collateral, while 40% of reported borrowing purposes concerned working capital; these are national sample responses, not Lagos prevalence estimates. A financing-fit matrix evaluates internal funds, relationships, trade credit, banks, microfinance, digital lenders, guarantees, grants and equity against cost, tenure, security, eligibility and ownership consequences. Pecking-order and information-asymmetry theories help interpret why financing choices and application burdens differ, while recent Lagos and national empirical studies reveal variation in constraints across samples. The \$500 million World Bank FINCLUDE approval is analyzed as a program commitment, not proof of disbursement or impact. The article identifies the lack of standardized, Lagos-specific, informal-inclusive evidence and recommends transparent cost comparisons, cash-flow assessment, borrower protection and outcome-based monitoring.

Keywords: Lagos State; SMEs; capital raising; borrowing barriers; trade credit; collateral; digital lending; documentary research; Nigeria.

1. INTRODUCTION

Obtaining capital is a sequence of decisions about need, amount, cost, timing, risk and control. A trader financing inventory for one sales cycle requires different terms from a manufacturer replacing machinery. Lagos provides dense markets and large numbers of formal businesses, yet access to nominal products cannot establish that affordable or suitable finance is available to a representative Lagos enterprise. This article asks: Which constraints are documented by credible secondary sources? How do instruments differ in terms relevant to borrowers? What can Lagos institutions infer without improperly generalizing national surveys?

The paper contributes an instrument-by-instrument evaluation grounded in theory and documentary source appraisal. It is not a borrower survey, an econometric estimate of Lagos financing determinants, or an evaluation of realized credit-program outcomes. Empirical studies published by others are discussed as contextual comparisons, not merged with the national survey into a synthetic prevalence rate.

2. LITERATURE, THEORY AND RESEARCH GAP

2.1 Information asymmetry, pecking order and credit rationing

Myers and Majluf (1984) describe a financing hierarchy that can emerge when borrowers know more about



their prospects than external funders. For small firms with incomplete records, external assessment costs, collateral requirements and high-priced debt may encourage internal savings, family finance or supplier credit. The hierarchy is a mechanism, not a universal ranking: emergency cash needs, family resources, firm growth and institutional eligibility alter feasible choices. In the credit-rationing account of Stiglitz and Weiss (1981), raising interest rates does not necessarily clear the market when lender information is incomplete; collateral and application screening can exclude viable borrowers. Agency theory (Jensen & Meckling, 1976) additionally clarifies the trade-off between equity finance and founder control.

2.2 Comparison with empirical studies

Ojeh et al. (2026) report a structured survey of 300 SME owners in Lagos: 36% rated access to funding low and 22% very low; the study identified borrowing obstacles and perceived survival effects. The survey's question wording, respondent frame and denominator differ from the PwC survey, so these percentages should not be merged or presented as a state-representative estimate. Aregbesola et al. (2026) studied 150 Lagos entrepreneurs and report negative associations between financial constraints, innovation and sustainability, although associations do not demonstrate an intervention's effects. By contrast, the national PwC survey highlights price, procedures, collateral and loan purpose among an online multi-state respondent group. These studies converge qualitatively on barriers but cannot be pooled to quantify Lagos borrower rejection or lending costs.

Abdulganiyu (2026) examines Nigerian financing constraints and alternative credit, emphasizing that financing pathways extend beyond conventional banking. Ojogbo, Olayemi and Oko-Osi (2024) analyze credit-guarantee-related indicators and financial inclusion using time-series methods; national program indicators cannot by themselves reveal whether small Lagos firms actually secure additional affordable credit. Together these works support examining alternatives, while leaving gaps in product-level cost comparability, informal-enterprise eligibility, loan tenor and realized program results.

Table 1. Comparison of evidence and limits of inference

Evidence	Population/method and contribution	Constraint for this Lagos analysis
NBS/SMEDAN (2021)	National formal-enterprise enumeration with state counts	Informal establishments omitted; counts $\neq$ financing conditions
PwC Nigeria (2024)	Online respondents: 557 MSMEs, 29 states; loan barriers and use	National selected sample; cannot recover Lagos subgroup
Ojeh et al. (2026)	300 surveyed Lagos SME owners; reported perceived access and survival	Different items and sampling; estimates not poolable
Aregbesola et al. (2026)	150 Lagos entrepreneurs; finance constraints and innovation	Survey associations; limited external validity
EFInA (2023/2024)	Nationwide survey of adults and financial access	Households/adults, not firm credit outcomes
World Bank (2025; 2026)	FINCLUDE design and projected targets	Project intentions, not realized disbursement

The research gap is the absence, within the included material, of a harmonized Lagos-specific comparison of capital channels by total cost, tenure, collateral and ownership effects, encompassing informal firms and verified application and repayment outcomes. This paper narrows that conceptual and practical gap through an explicit comparative framework; it cannot eliminate the underlying empirical-data gap.

3. RESEARCH METHOD AND SOURCE APPRAISAL

3.1 Design and source-selection criteria

This is a structured narrative/documentary analysis, not a claimed systematic review. The core documentary corpus was retained from the original research and augmented with recent empirical studies solely for



analytical comparison. Eligible institutional materials were public reports or official project notices published by October 23, 2026 that provided a defined source, year, location or population and information on enterprise numbers, borrowing obstacles, financial-service access, financing instruments or policy designs. Eligible research articles had to concern Nigerian SME financing or explicitly relevant Lagos enterprise experience and provide at least a method description in the accessible abstract or journal page. Excluded from quantitative extraction were undated promotional claims, unattributed percentages, non-Nigerian studies offered as local prevalence, duplicated figures reproduced without a traceable original, and targets presented as achieved outcomes. Because search comprehensiveness cannot be documented retrospectively, no PRISMA-like coverage claim or exhaustive count of screened publications is made.

The main data sources are NBS/SMEDAN 2021 (2020 formal-enterprise reference), PwC Nigeria 2024 (national online MSME survey conducted in 2022), EFINA A2F 2023 (national adults), and World Bank FINCLUDE announcements of December 2025 and October 2026. Studies by Ojeh et al. (2026), Aregbesola et al. (2026), Abdulganiyu (2026) and Ojogbo et al. (2024) are interpretive comparators. Source lists, quoted figures and the analytic use of each are disclosed so a reader can audit each claim.

3.2 Extraction, appraisal and comparability rules

Data were organized by report/title, publisher, reference year, publication year, location, population, sample/frame, indicator wording, numerical figure, instrument type and stated limitation. Priority was given to original institutional charts over second-hand restatements. Percentages from unlike questions were not summed, and the distinction between respondent shares, establishment counts, adult inclusion indicators and program targets was maintained. Any unavailable Lagos disaggregation was recorded as absent—not estimated by applying a national percentage to Lagos. Studies were compared narratively because measures and frames were heterogeneous. The evidence appraisal below makes these decisions explicit without claiming independent duplicate coding or unperformed statistical meta-analysis.

Table 2. Documentary corpus, appraisal and permitted inference

Source	Reliability strength	Limitation / permitted inference
NBS/SMEDAN (2021)	National institutional enumeration; state-specific formal counts	Counts are 2020 formal businesses; not total SMEs or loan need
PwC Nigeria (2024)	Published questions and response distributions	557 online respondents; national selected sample, unknown Lagos precision
EFInA (2024)	Large national adult financial access survey	Financial inclusion of adults, not firm credit uptake
World Bank (2025; 2026)	Official approval, terms and program design	Targets and expected mobilization, not actual disbursements
Published SME studies	Useful empirical comparison of sample-specific experiences	Methods and outcomes vary; no pooled Lagos prevalence

4. FINDINGS FROM SECONDARY EVIDENCE

4.1 Formal business landscape in Lagos

Table 3. Selected state formal-enterprise counts (2020 reference)

Geography	Count	Share of national formal total
Lagos State	91,097	7.30%
Rivers State	84,613	6.80%
Kano State	79,328	6.40%
Nigeria, all states + FCT	1,240,965	100.00%

Source: NBS/SMEDAN (2021), also reproduced in the Lagos Economic Development Update (2024). These are counts of formal enterprises by state, not a census of informal businesses. The original source reports Lagos first among these states; the evidence does not establish that Lagos lenders offer better terms or that most Lagos businesses can qualify for formal loans.

4.2 Borrowing barriers and finance purposes

Table 4. Reported hindrances to accessing loans (PwC nationwide sample)

PwC response category	Published percentage
High interest rate	27%
Too many procedures	26%
Insufficient collateral	16%
No challenge encountered	14%
Inadequate documentation	8%
Not applicable	6%
Other	3%

Source: PwC Nigeria (2024, chart on borrowing barriers). These are the chart's response shares among its respondents; they should not be described as the prevalence of any barrier among Lagos SMEs, nor as the empirical probability of bank rejection. The survey covered 557 respondents drawn online across 29 states and 13 sectors. Without the Lagos-specific respondent count and survey weights, a Lagos proportion or confidence interval cannot be inferred.

Table 5. Selected borrowing-purpose and loan-size results (PwC national sample)

Indicator	Published share	Interpretation boundary
Borrowing for working capital	40%	Share for purpose-of-loan question
Borrowing for plant/equipment/land	23%	Different use and typical repayment horizon
Last loans < ₦500,000	33%	Loan-size chart with its own question base
Last loans ₦500,000–₦2 million	23%	Not directly comparable to loan purposes
Last loans > ₦2 million	21%	Other categories omitted; avoid forcing 100%

Borrowing costs and cumbersome procedures can make small loans unattractive even when debt products exist. Requirements for formal statements, collateral and identification can be especially difficult for firms with irregular sales or thin documentary histories. Pecking-order reasoning predicts greater reliance on cheaper internal or relationship capital under information constraints; credit-rationing theory suggests that lowering application friction and improving underwriting information may matter alongside changes in headline interest rates. These are interpretations of published aggregate responses rather than causal effects measured in Lagos.

4.3 Financing instruments compared by cost, terms and eligibility

The following is an analytical suitability matrix, not a survey-derived ranking. Costs and eligibility vary materially across providers and should be confirmed from an actual dated offer. “Low”, “variable” and “high” describe relative qualitative risks, not measured current interest-rate quotations.



Table 6. Capital channels: financial implications and practical accessibility

Channel	Indicative cost and repayment	Security/ownership and eligibility	Practical business fit / downside
Retained profits and savings	No contractual interest; opportunity cost, slow buildup	Owner bears full risk; requires accumulated surplus	Pilot stock and small recurring needs; may starve household reserves
Family, friends and savings groups	Negotiated; informal payment timing	Trust or social membership; relationship stakes	Early trading; limited amounts and potential disputes
Supplier trade credit	Implicit price/discount cost; tied to invoice due date	Supplier history; no cash up front	Inventory cycles; interruptions if payments slip
Commercial bank debt	Interest, fees and fixed schedule; tenor varies	Records, ID, security or guarantees often required	Growth/equipment if debt service follows cash flow
Microfinance	Charges and frequent repayment possible; verify effective total cost	Proximity and group guarantees may help; limits apply	Smaller businesses; frequent installments may stress cash
Digital short-term loans	Rapid access; total annualized cost can be high	Digital identity/data, eligibility scoring; privacy concerns	Short bridges only; rollover and collections risk
Grants/public competitions	Generally no repayment; compliance and application costs	Sectoral, size, identity and milestone restrictions	Eligible projects; low predictability and competition
Angel/equity investment	No scheduled debt installments; return via ownership value	Scalability and investor appetite; equity dilution	Growth firms; unsuitable for many small retailers

A practical comparative checklist should request the total amount advanced net of fees, annualized effective cost where calculable, frequency and start of repayment, security or personal guarantees, early repayment penalties, default collection methods, data-access permissions, eligibility conditions and whether the financed asset will create cash before repayment begins. Borrowers should also compare the financing offer against a stressed sales scenario, not only a base-case forecast.

4.4 Policy response: FINCLUDE commitment versus performance

The World Bank approved the \$500 million Fostering Inclusive Finance for MSMEs in Nigeria (FINCLUDE) package on December 19, 2025: \$400 million IBRD financing and \$100 million IDA credit, to be implemented through the Development Bank of Nigeria with guarantees through Impact Credit Guarantee Limited. The announcement forecast approximately \$1.89 billion in mobilized private capital, credit expansion to 250,000 MSMEs and up to \$800 million in guarantees; these are intended targets. An October 11, 2026 feature continued to describe mobilization expectations, not independent proof of loans delivered to Lagos firms or measured impacts on firm survival.

Eligibility and accessibility cannot be assumed from project approval. Actual outreach depends on accredited intermediaries, lender participation, credit scoring, required borrower records, loan prices, sector quotas and local distribution. Program monitoring should publish Lagos-level applications, approval/rejection rates, median effective price, loan tenor, secured/unsecured share, first-time-borrower share, sex of ownership where consented, informal-enterprise access, arrears and net additional lending compared with similar nonparticipants. Until these outcomes are reported, FINCLUDE cannot be credited with observed local improvements.



5. CRITICAL DISCUSSION

5.1 Applying the theoretical framework to each finding

Table 7. Interpretation of documentary findings through finance theory

Finding	Mechanism	Alternative explanation / caution
High reported interest burden	Adverse-selection and risk pricing increase external finance costs	Inflation and general macro rates also matter
Procedures and records barriers	Information asymmetry raises screening cost	Documentation may serve lawful risk/compliance needs
Working-capital borrowing common	Internal cash may not cover inventory–receivables gap	Purpose data do not identify actual loan terms
Supplier / family finance relevant	Pecking order favors accessible, lower-information capital	Informal finance carries concentration/social risk
Digital scoring and guarantees proposed	Alternative information or risk sharing may relax rationing	Lender pass-through, privacy and additionality unobserved
Equity can bypass fixed repayment	Risk sharing exchanges financing for ownership stakes	Investor selectivity excludes many traditional SMEs

5.2 Digital lenders, microfinance, guarantees and equity: limits

Digital lenders can reduce paperwork and speed small working-capital decisions, but customers need transparent comparison of all charges and repayment periods; short tenors may magnify default and refinancing risks. Digital transaction information can be incomplete for cash-intensive firms, while screening algorithms may incorrectly penalize thin-file applicants. Borrower consent and data protection are therefore implementation issues. Microfinance can improve proximity to clients but may depend on group structures, mandatory savings or frequent installments that do not match a business's sales cycle. Credit guarantees can redistribute losses but do not guarantee additional credit or lower final borrower costs; public evaluation must measure additional lending against a counterfactual and report defaults and fees. Grants are conditional, limited and uncertain; equity investors commonly target scalability and governance conditions that traditional microenterprises cannot meet.

No instrument dominates for all firms. The evidence supports a matching rule: owner funds and trade credit may work for a small inventory cycle; carefully priced working-capital facilities for confirmed receivables; amortizing finance for durable equipment; and equity or milestones-based grants for ventures with irregular early revenues. These recommendations are reasoned pathways, not estimated treatment effects.

6. IMPLICATIONS FOR PRACTICE AND POLICY

Lagos enterprise development offices and financial institutions should teach entrepreneurs to construct a 13-week receipts-and-payments forecast, show a use-of-funds statement and compare total offer costs. Applications should provide clear eligibility requirements and expected processing times. Where consistent with prudent regulation, lenders can assess verified sales and receivables as complements to property collateral. Programs that promise inclusion should address cash-only firms and women-led enterprises with realistic documentation assistance, not simply mobile-app enrollment.

At state level, establish a public capital-options guide listing provider type, typical eligibility, security, fee disclosures, repayment structure and complaint channels, refreshed from lender disclosures. Policy agencies and independent researchers should seek representative Lagos data including informal businesses and track actual disbursement, loan tenor, rejected applications, effective cost and arrears. Program impact should be tested with appropriate comparison groups rather than inferred from approval announcements.



7. LIMITATIONS AND FUTURE RESEARCH

This structured documentary analysis is intentionally selective; it is not an exhaustive systematic literature review. The NBS/SMEDAN state counts are formal establishments in a 2020 reference period; they exclude informal activity. PwC figures describe responses from a national, predominantly online sample; no usable Lagos cross-tabulation is provided. EFInA financial inclusion data concern adults rather than firms. Other surveys of Lagos owners have different questionnaire items and frames and are not statistically comparable. The 2025–2026 FINCLUDE sources concern announced plans, not independently verified outcome data. Therefore no claim of Lagos barrier prevalence, credit-access trends or causal efficacy is warranted. Future research should draw a sampled registered-and-informal Lagos enterprise frame, combine borrower surveys with lender-level administrative records, and assess financing cost, availability, graduation to productive credit and eventual firm outcomes.

8. CONCLUSION

Small-business financing in Lagos is constrained by more than a single shortage of loans. Published national evidence points to perceived price, process and security burdens, while formal-enterprise enumeration confirms the scale of the Lagos context without measuring lending. The revised study distinguishes national from local evidence, appraises the sources and compares financing mechanisms on concrete borrower terms. The most defensible policy approach is better information, better fit between cash cycles and repayment, explicit consumer protections and independently measured access outcomes. Current documentary evidence is insufficient to claim that new guarantees or digital channels have already delivered affordable credit to Lagos businesses.

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