
Impact of Structured Soft Loans on the Development and Sustainability of Small and Medium Enterprises (SMEs) in Nigeria

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Abstract

Access to affordable finance remains an important constraint on the development and sustainability of small and medium enterprises in Nigeria. However, the existing literature frequently treats credit access as a binary condition and gives insufficient attention to the structure of the loan received. This article presents an integrative review of the influence of structured soft loans on SME development and sustainability in Nigeria. Structured soft loans are conceptualised as concessionary credit facilities whose interest rate, loan size, repayment period, moratorium, repayment frequency, collateral requirements, disbursement timing and business-support components are deliberately aligned with the operational and cash-flow characteristics of the beneficiary enterprise. Drawing on recent literature on SME finance, financial inclusion, credit constraints, enterprise capability and development finance, the review argues that affordable interest rates alone do not guarantee productive outcomes. The evidence indicates that well-structured credit can improve business formation, working-capital stability, productive investment, employment, innovation, market expansion and resilience. These outcomes are nevertheless conditioned by financial-management capability, loan adequacy, timely disbursement, infrastructure, inflation, market demand and the quality of post-disbursement support. The article develops the Structured Soft Loan Sustainability Framework, which explains SME outcomes through a sequence involving financial access, loan–enterprise fit, productive deployment, enterprise capability, cash-flow generation, repayment and reinvestment. The framework introduces the concepts of loan-structure–enterprise fit, affordability illusion, repayment-cycle mismatch, support complementarity and finance graduation. The review concludes that public lending programmes should be evaluated not only by the volume of funds disbursed or the number of beneficiaries but also by enterprise survival, productivity, employment, repayment quality and the capacity of firms to graduate to sustainable commercial finance.

Keywords: Structured soft loans; SME development; business sustainability; development finance; financial inclusion; loan–enterprise fit; Nigeria

1. Introduction

Small and medium enterprises are widely recognised as important contributors to employment creation, entrepreneurship, local production, innovation and inclusive economic development. In Nigeria, SMEs operate across agriculture, manufacturing, retail, transportation, construction, hospitality, technology, professional services and the creative economy. Their relatively small scale enables them to respond to local needs and provide economic opportunities in communities that may not attract large firms.

Despite their economic importance, many Nigerian SMEs experience persistent financing constraints. Commercial lending may be inaccessible because of high borrowing costs, collateral requirements, limited credit histories, weak financial records and lenders' perceptions of elevated business risk. Where formal finance is unavailable, business owners frequently depend on personal savings, family resources, informal credit, cooperative finance or retained earnings. These sources may support business formation but are often insufficient for expansion, technology acquisition and long-term investment.

The financing problem is not limited to whether credit is available. The conditions attached to credit may determine whether borrowing strengthens or weakens an enterprise. A loan may have a relatively low interest rate but still create financial pressure if its repayment period is too short, its instalment frequency does not correspond with the firm's revenue cycle or repayment begins before the financed investment generates income. Similarly, a loan may be affordable in nominal terms but inadequate for the intended project, causing the borrower to divert working capital or seek additional high-cost credit.

Development-finance institutions have increasingly responded to these challenges through concessionary lending, credit guarantees, longer repayment periods and technical assistance. The Development Bank of Nigeria operates through participating financial institutions and combines wholesale finance with partial credit guarantees and capacity-building support. Its lending framework allows flexible tenors and moratorium arrangements intended to support longer-term MSME finance. The Bank of Industry also provides short-, medium- and long-term financing and integrates financial support with business advisory services.

The scale of development-finance intervention has expanded. The Development Bank of Nigeria reported cumulative disbursements of approximately ₦1.4 trillion as of December 2025. The Bank of Industry reported ₦644.9 billion in financing during 2025 and stated that its interventions supported employment across several value chains. These developments demonstrate the policy importance attached to enterprise finance. They do not, however, resolve the question of which loan characteristics produce sustainable enterprise outcomes.

Much of the empirical literature examines the relationship between access to finance and SME performance. The general conclusion is that finance can facilitate investment, job creation and enterprise growth. Brixiová et al. (2020), for example, found that access to finance was important for employment creation among African SMEs. Kara et al. (2021) similarly concluded that financial inclusion can contribute to broader development objectives by supporting economic participation and productive activity.

Nevertheless, the effect of finance is not automatic. Credit can produce positive outcomes when it is adequate, appropriately timed and productively employed. Poorly structured debt can increase liquidity pressure and financial distress. Short-term repayment obligations may reduce investment where firms must preserve cash for debt servicing. Nicolas (2021) demonstrated that short-term financial constraints can affect SME investment through the

working-capital channel. This suggests that the structure of finance may be as important as its availability.

The present review therefore moves beyond the conventional question of whether soft loans improve SME performance. It examines how loan structure influences enterprise development and sustainability. The article addresses five questions:

1. What characteristics distinguish structured soft loans from ordinary commercial credit?
2. Through what mechanisms do structured soft loans influence SME development?
3. How do loan conditions affect business sustainability and repayment capacity?
4. What organisational and environmental factors strengthen or weaken loan outcomes?
5. What conceptual framework can guide the design and evaluation of SME lending programmes in Nigeria?

The article contributes to the literature by developing the Structured Soft Loan Sustainability Framework. The framework argues that concessionary finance produces sustainable enterprise outcomes when the structure of the facility aligns with the firm's cash-flow cycle, investment requirements and managerial capacity.

2. Review Approach

2.1 Review Design

The study adopted a structured integrative-review approach. An integrative design was appropriate because research on SME finance includes quantitative studies, qualitative investigations, policy reports, systematic reviews and theoretical contributions.

The review concentrated primarily on studies published between 2020 and July 2026. Earlier literature was retained where it provided foundational explanations of credit rationing, capital structure, agency relationships and enterprise capability.

Relevant literature was identified through searches of multidisciplinary and business-oriented academic databases. Search terms included combinations of:

“soft loan” OR “concessionary loan” OR “development finance” OR “SME credit” OR “microcredit” OR “loan structure” OR “loan terms”

AND

“small and medium enterprise” OR SME OR MSME OR “small business”

AND

performance OR development OR growth OR productivity OR employment OR survival OR sustainability

AND

Nigeria OR Africa OR “developing economy” OR “emerging economy”.

Studies were considered relevant where they examined financial access, loan characteristics, SME investment, enterprise performance, credit constraints, business sustainability or development-finance interventions.

2.2 Analytical Approach

Evidence was synthesised around the following themes:

- conceptual characteristics of structured soft loans;
- access to finance;
- business formation and expansion;
- working-capital management;

- productivity and innovation;
- employment creation;
- enterprise resilience;
- repayment and default;
- business capability;
- institutional and environmental conditions.

The synthesis was theory-building rather than meta-analytical because the studies employed different measures of credit access, loan structure, business performance and sustainability.

3. Conceptualising Structured Soft Loans

3.1 Meaning of a Soft Loan

A soft loan is a credit facility provided on terms that are more favourable than prevailing commercial lending conditions. Concessionary characteristics may include:

- reduced interest rates;
- longer repayment periods;
- repayment moratoriums;
- reduced collateral requirements;
- flexible instalment schedules;
- government or institutional guarantees;
- subsidised transaction costs.

A soft loan remains repayable and should therefore be distinguished from a grant. A grant transfers resources without creating a repayment obligation. Soft lending attempts to balance enterprise support with financial discipline.

3.2 Meaning of a Structured Soft Loan

This article defines a structured soft loan as:

A concessionary credit facility whose amount, cost, tenor, moratorium, repayment frequency, security requirements, disbursement process, monitoring arrangements and non-financial support are deliberately designed to correspond with the business model, investment purpose and cash-generation capacity of the beneficiary enterprise.

The distinction between a soft loan and a structured soft loan is important. A low interest rate addresses the cost of finance but does not necessarily address timing, adequacy, risk or enterprise capability.

3.3 Components of Structured Soft Loans

Loan component	Meaning	Expected enterprise effect
Concessionary interest rate	Interest below ordinary commercial conditions	Reduces financing cost and improves retained earnings
Adequate loan amount	Funding corresponds with the cost of the intended business activity	Reduces project underfunding and diversion of working capital
Appropriate tenor	Repayment period corresponds with the economic life of the financed activity	Reduces excessive short-term repayment pressure
Moratorium	Repayment begins after an agreed development period	Allows investment to begin generating income
Cash-flow-based repayment	Instalment timing corresponds with revenue patterns	Improves repayment capacity
Flexible collateral	Alternative security or credit guarantees reduce collateral barriers	Expands access among viable but asset-poor firms
Timely disbursement	Funds are available when required	Prevents cost escalation and missed opportunities
Capacity building	Training and advisory support accompany finance	Strengthens financial and managerial capability
Monitoring	Progress and loan use are reviewed	Reduces misuse and supports corrective intervention
Graduation arrangement	Successful firms transition to larger or commercial facilities	Promotes long-term financial independence

4. Theoretical Foundations

4.1 Credit Rationing Theory

Credit Rationing Theory explains why potentially viable firms may be unable to obtain finance even where they are willing to pay prevailing interest rates. Stiglitz and Weiss (1981) argued that information asymmetry may cause lenders to restrict credit rather than continuously increase interest rates.

Lenders may not possess complete information about a borrower's competence, business prospects or willingness to repay. Higher interest rates may attract riskier borrowers or encourage borrowers to undertake riskier activities. Financial institutions may therefore use collateral requirements, credit limits and strict screening.

The theory is relevant to Nigerian SMEs because many operate with limited financial records and informal management systems. Structured soft loans may reduce credit rationing through partial guarantees, alternative credit assessment and capacity-building interventions.

4.2 Agency Theory

Agency Theory examines conflicts arising where one party provides resources to another but cannot fully observe how the resources are used. In a lending relationship, the lender expects the borrower to use the loan for productive activities and repay according to agreed conditions.

Borrowers may use funds for purposes different from those approved. They may also undertake high-risk activities because part of the financial risk is borne by the lender.

Monitoring, staged disbursement, business reporting and technical assistance may reduce agency problems. Excessive monitoring may increase costs and discourage participation. Effective loan structure therefore requires a balance between accountability and flexibility.

4.3 Pecking Order Theory

Pecking Order Theory proposes that firms prefer internal funds before external debt because external finance may involve information costs and loss of control.

Small enterprises commonly depend on retained earnings and personal savings because they possess limited access to equity markets. Where internal finance is inadequate, affordable debt may provide an important expansion mechanism.

Structured soft loans may therefore fill a financing gap between internal resources and commercial credit.

4.4 Resource-Based View

The Resource-Based View explains performance through the resources and capabilities available to the firm. Finance provides access to resources, but it does not automatically create competitive advantage.

Loan resources may enable the acquisition of:

- machinery;
- technology;
- inventory;
- skilled employees;
- business premises;
- distribution systems.

The value created depends on the firm's ability to combine these resources effectively. Managerial knowledge, market relationships and operational capability influence whether finance produces sustainable growth.

4.5 Dynamic Capabilities Theory

Dynamic capabilities refer to the ability of enterprises to identify opportunities and adapt resources to changing conditions.

Structured finance may strengthen dynamic capability when it enables firms to invest in digital technology, new products, market expansion and operational resilience.

However, access to finance without learning capability may generate temporary growth rather than sustainable adaptation.

5. Structured Soft Loans and SME Development

5.1 Business Formation

Start-up businesses frequently experience difficulty obtaining commercial finance because they possess limited operating history and collateral.

Structured soft loans may support business formation by reducing initial financing barriers.

Start-up facilities can finance:

- equipment;
- initial inventory;
- registration;
- production facilities;
- technology;

- market development.

The effectiveness of start-up finance depends on the quality of business planning and entrepreneurship support.

5.2 Working-Capital Stability

Working capital supports the daily operation of a business. It finances inventory, employee wages, transportation and short-term obligations.

Inadequate working capital may cause viable firms to reduce production or lose customers.

Nicolas (2021) found that short-term financial constraints influence SME investment decisions through the working-capital channel. The finding suggests that financing conditions affecting short-term liquidity may influence longer-term development.

Structured working-capital loans should correspond with:

- inventory turnover;
- customer-payment periods;
- production cycles;
- seasonal demand.

5.3 Productive Investment

Longer-term credit may support investment in productive assets.

Potential investments include:

- processing equipment;
- production machinery;
- renewable-energy systems;
- technology platforms;
- warehouses;
- delivery vehicles.

A short-term loan may be unsuitable for assets that generate returns gradually.

DBN's longer-term financing model reflects the importance of addressing maturity mismatch. The institution provides long-term funding through participating financial institutions to support extended lending to MSMEs.

5.4 Employment Creation

SMEs may create employment when finance enables expansion.

Brixiová et al. (2020) found that financial access was associated with employment creation among African SMEs.

Employment effects may arise through:

- business expansion;
- increased production;
- new branches;
- additional distribution activities;
- increased demand for skilled services.

5.5 Innovation and Digital Transformation

Financial constraints may prevent small firms from adopting technology.

Soft loans may support investment in:

- e-commerce;
- digital payment systems;
- business software;
- automation;
- product development.

The impact of technology finance depends on organisational capability.

5.6 Market Expansion

Structured credit may support:

- marketing;
- logistics;
- product certification;
- export preparation;
- distribution.

Market expansion can improve revenue diversity and reduce dependence on a limited customer base.

6. Structured Soft Loans and SME Sustainability

6.1 Financial Sustainability

Financial sustainability refers to the ability of an enterprise to generate sufficient revenue and cash flow to meet obligations and continue operating.

Soft loans can strengthen financial sustainability by reducing interest costs and preserving operating cash.

However, sustainability requires more than reduced interest.

The enterprise must generate:

sufficient operating cash flow → meet loan obligations → retain earnings → reinvest → continue operations.

6.2 Business Survival

Financial constraints increase vulnerability to economic shocks.

Access to structured finance may improve survival by enabling businesses to maintain working capital during temporary disruption.

Emergency finance should be carefully designed because debt may postpone business failure where the enterprise lacks long-term viability.

6.3 Operational Resilience

Resilience refers to the capacity to absorb disruption and continue functioning.

Soft loans may improve resilience by financing:

- inventory buffers;
- alternative energy;

- digital systems;
- supplier diversification.

6.4 Environmental Sustainability

Structured finance may encourage investment in resource-efficient technology.

Green soft loans may support:

- solar energy;
- energy-efficient machinery;
- recycling;
- sustainable agriculture.

The OECD (2022) emphasised the importance of suitable financing instruments in helping SMEs undertake sustainability-related investment.

7. Why Affordable Interest Alone Is Insufficient

7.1 The Affordability Illusion

This article introduces the concept of affordability illusion.

Affordability illusion occurs where a loan is considered suitable solely because its interest rate is low.

A loan may be low-cost but harmful where:

- the repayment period is too short;
- the loan amount is inadequate;
- disbursement is delayed;
- repayment begins prematurely.

7.2 Repayment-Cycle Mismatch

Repayment-cycle mismatch occurs when the timing of repayment obligations does not correspond with the revenue pattern of the financed business.

An agricultural enterprise may require seasonal repayment, while a retailer may generate revenue daily.

Uniform repayment schedules may therefore create unequal burdens.

7.3 Loan Inadequacy

An insufficient loan may prevent completion of the intended investment.

The borrower may:

- reduce project quality;
- divert working capital;
- seek expensive supplementary finance.

7.4 Delayed Disbursement

Delayed finance may increase project cost.

Inflation and exchange-rate changes can reduce the purchasing power of an approved loan before disbursement.

7.5 Excessive Debt

An excessively large loan may create overinvestment or increase debt burden.

Loan adequacy should therefore reflect assessed business need.

8. The Role of Non-Financial Support

8.1 Support Complementarity

This article introduces support complementarity.

Support complementarity refers to the process through which business training, mentoring and market assistance increase the productive value of finance.

DBN combines finance with technical assistance, while BOI integrates lending with business-advisory support.

8.2 Financial Management Capability

Financial literacy influences:

- budgeting;
- record keeping;
- cash-flow planning;
- debt management.

Graña-Álvarez et al. (2024) identified financial literacy as an important area of SME research.

8.3 Business Advisory Support

Advisory support may improve:

- business planning;
- marketing;
- governance;
- operational efficiency.

8.4 Monitoring and Early Intervention

Monitoring can identify:

- repayment difficulty;
- business underperformance;
- diversion of funds.

Monitoring should support improvement rather than operate only as enforcement.

9. Challenges Affecting Soft Loan Programmes

9.1 Adverse Selection

Concessionary facilities may attract businesses that are unable to obtain finance elsewhere. Weak screening may increase default.

9.2 Moral Hazard

Borrowers may treat public loans as grants.

Clear repayment expectations and transparent enforcement are important.

9.3 Political Allocation

Political influence may weaken fairness.

Loan selection should be based on transparent criteria.

9.4 Collateral Barriers

Traditional collateral requirements may exclude viable entrepreneurs.
Credit guarantees can reduce barriers.

9.5 Administrative Complexity

Lengthy application procedures may exclude informal enterprises.

9.6 Macroeconomic Instability

Inflation, exchange-rate volatility and infrastructure costs can reduce loan effectiveness.

9.7 Weak Business Records

Poor records affect credit assessment.
Digital bookkeeping may improve transparency.

10. The Structured Soft Loan Sustainability Framework

The proposed framework consists of six stages.

Stage 1: Enterprise Eligibility and Diagnostic Assessment

Assessment includes:

- business viability;
- financing need;
- cash-flow pattern;
- managerial capability;
- market demand.

Stage 2: Loan–Structure–Enterprise Fit

The loan is designed around:

- amount;
- interest rate;
- tenor;
- moratorium;
- repayment schedule;
- collateral.

Stage 3: Productive Financial Deployment

Funds are applied to approved activities.

Stage 4: Enterprise Conversion Capability

The enterprise combines finance with:

- managerial competence;
- technology;
- market access;
- financial management.

Stage 5: Performance Outcomes

Expected outcomes include:

- increased sales;
- productivity;
- employment;

- innovation;
- profitability.

Stage 6: Sustainability and Finance Graduation

The enterprise achieves:

- business survival;
- repayment;
- reinvestment;
- access to commercial finance.

The complete relationship is represented as:

Structured soft loan → loan–enterprise fit → productive investment → enterprise capability
→ cash-flow generation → repayment → reinvestment → sustainability.

11. Core Concepts Introduced

11.1 Loan–Structure–Enterprise Fit

Loan–structure–enterprise fit refers to the degree to which loan conditions correspond with the borrower’s investment purpose and cash-flow cycle.

11.2 Affordability Illusion

Affordability illusion describes the assumption that low interest automatically makes a loan suitable.

11.3 Repayment-Cycle Mismatch

Repayment-cycle mismatch occurs where instalment timing conflicts with business revenue.

11.4 Support Complementarity

Support complementarity explains how advisory assistance increases the developmental effect of finance.

11.5 Finance Graduation

Finance graduation refers to the transition of successful beneficiaries from subsidised finance to sustainable commercial funding.

12. Research Propositions

Proposition 1: Structured soft loans positively influence SME development when loan conditions correspond with enterprise cash flows.

Proposition 2: Loan–structure–enterprise fit mediates the relationship between soft-loan access and SME performance.

Proposition 3: Moratorium adequacy positively influences productive investment.

Proposition 4: Repayment-cycle mismatch increases financial distress.

Proposition 5: Loan adequacy has a positive but potentially non-linear relationship with enterprise performance.

Proposition 6: Financial-management capability strengthens the relationship between soft loans and sustainability.

Proposition 7: Capacity building positively moderates the relationship between loan access and performance.

Proposition 8: Timely disbursement strengthens the effect of structured finance on enterprise development.

Proposition 9: Macroeconomic instability weakens the relationship between concessionary finance and sustainability.

Proposition 10: Finance graduation improves the long-term sustainability of development-finance programmes.

13. Novelty and Contribution

The article contributes to the literature in five ways.

First, it shifts attention from credit access to loan architecture.

Second, it introduces loan–structure–enterprise fit.

Third, it explains affordability illusion.

Fourth, it integrates finance with enterprise capability.

Fifth, it introduces finance graduation as a long-term policy objective.

14. Implications for SME Owners

SME owners should evaluate loans using:

- effective financing cost;
- repayment period;
- cash-flow alignment;
- adequacy;
- collateral;
- advisory support.

Businesses should maintain financial records and separate personal spending from business expenditure.

15. Implications for Financial Institutions

Lenders should adopt cash-flow-based lending.

Repayment schedules should reflect sector differences.

Digital monitoring can reduce transaction costs.

16. Policy Implications

Public institutions should evaluate:

- survival;
- productivity;
- employment;
- repayment;
- finance graduation.

Current development-finance reporting increasingly emphasises outcomes rather than disbursement alone. BOI's recent impact reporting highlights employment and enterprise outcomes alongside financing volume.

17. Future Research

Future studies should compare beneficiaries with non-beneficiaries.

Longitudinal research is needed.

Researchers should measure:

- interest;
- tenor;
- moratorium;
- repayment frequency;
- loan adequacy;
- disbursement timing.

The proposed framework should be tested using structural equation modelling and mixed methods.

18. Conclusion

Structured soft loans can support SME development and sustainability in Nigeria.

Their effectiveness depends on more than low interest.

The central issue is whether loan architecture fits the enterprise.

The Structured Soft Loan Sustainability Framework explains how finance produces outcomes through productive deployment, capability and cash-flow generation.

Policy should therefore move:

from disbursement volume to development impact;

from cheap credit to suitable credit;

from one-time intervention to finance graduation.

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