

# MACROECONOMIC DETERMINANTS OF ENTREPRENEURIAL FINANCING IN NIGERIA: AN EMPIRICAL INVESTIGATION

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## ABSTRACT

The study examined the relationship between macroeconomic determinants and entrepreneurial financing in Nigeria during the period spanning from 1986 to 2024. The study's objectives were to examine how exchange, interest, inflation, and gross domestic product growth rates affect entrepreneurial financing in Nigeria. The Nigeria Bureau of Statistics, World Bank Development Indicators, and the Central Bank of Nigeria (CBN) statistical databases provided reliable data for the study. To explore the data collected at the 95% confidence interval, unit root test, and the autoregressive distributed lag framework were utilised. The unit root test demonstrated that the variables are stationary at both levels and first difference, requiring the ARDL F-Bound test, which verified the absence of long-run form among the variable. The ARDL error correction model result showed that exchange and GDP growth rates were negative and insignificant to entrepreneurial financing; whereas, interest and inflation rates were positive but insignificant to entrepreneurial financing. This study concluded that entrepreneurial financing in Nigeria is predominantly influenced by historical levels and interest rate fluctuations, whereas exchange rates, inflation, and GDP growth exert minimal short-term effects. The study recommended that the Federal government of Nigeria, in partnership with financial institutions, should implement revolving credit schemes and long-term credit lines aimed at small and medium enterprises (SMEs) and startups. These programs should not be isolated initiatives but integral components of a comprehensive national strategy that promotes recurring borrowing, reinvestment, and business expansion. This consistency can bolster confidence among entrepreneurs and financial service providers, progressively integrating EF into Nigeria's financial ecosystem.

**Keywords:** Factors, Funding, Policy, Transaction, Private sector financing

## 1.0 Introduction

The role of entrepreneurship in national development is widely acknowledged in both theoretical literature and policy frameworks. In Nigeria, entrepreneurs contribute immensely to employment generation, poverty alleviation, and value creation. However, one of the enduring constraints to entrepreneurial growth is inadequate access to financing (Olulu-Briggs, 2021; Olulu-Briggs & Sunday, 2021). While much emphasis has been placed on micro-level challenges such as creditworthiness and collateral requirements, it is increasingly evident that macroeconomic variables exert significant influence on the supply and demand of entrepreneurial finance. This paper seeks to fill a critical research gap by empirically examining the extent to which macroeconomic variables affect the

availability and accessibility of entrepreneurial financing in Nigeria.

Over the years, Nigeria has experienced macroeconomic fluctuations—ranging from high inflation, volatile exchange rates, interest rate spikes, and erratic GDP growth—that have influenced financial market dynamics and investor sentiment. These macroeconomic indicators may either support or stifle the financial ecosystem that nurtures entrepreneurship. Given that entrepreneurs often operate in fragile or informal economic settings, the volatility of this macro-level variables can have disproportionate effects on their financing options.

## 2.0 Literature Review

### 2.1 Conceptual Framework

#### 2.1.1 Entrepreneurial Financing

Entrepreneurial financing denotes the method by which entrepreneurs obtain the financial resources essential for launching, maintaining, and expanding their business enterprises. These resources may encompass personal savings, debt financing, equity financing, angel investments, and venture capital. The volatile characteristics of entrepreneurial endeavours frequently involve significant risk and uncertainty, rendering conventional financing less attainable. As a result, entrepreneurs often pursue alternative funding methods designed for the unique requirements of startups and small businesses. Financial access is essential in the entrepreneurial ecosystem, as it directly impacts innovation, operational capability, and market competitiveness (Cassar, 2004). Furthermore, empirical studies indicate that financial limitations substantially hinder business establishment and growth in developing economies (Beck & Demirguc-Kunt, 2006). The emergence of digital platforms and crowdfunding is transforming entrepreneurial financing, fostering more inclusive financial opportunities for startups globally.

### 2.1.2 Interest Rate

The interest rate represents the expense of borrowing funds or the yield on savings, generally articulated as a percentage. This is a vital macroeconomic indicator regulated by central banks to affect economic activities. Elevated interest rates augment borrowing costs, thereby deterring investment and consumption, whereas diminished interest rates produce the contrary effect. Interest rates directly influence business decisions, consumer expenditure, and capital allocation within an economy (Mishkin, 2019). Central banks modify interest rates as a monetary policy instrument to regulate inflation and either stimulate or temper economic growth. In Nigeria, elevated interest rates have consistently obstructed access to credit, particularly for small and medium-sized enterprises (SMEs), thereby constraining their ability to expand operations (Afolabi, 2015). Consequently, the interest rate functions as a pivotal factor in economic vitality and private sector advancement.

### 2.1.3 Inflation Rate

The inflation rate quantifies the average percentage variation in the price level of goods and services over a defined timeframe, usually one year. It signifies the purchasing power of a currency and influences consumers, businesses, and policymakers equally. Moderate inflation is typically regarded as an indicator of economic growth, whereas hyperinflation or deflation can disrupt economic activities. Central banks strive to maintain inflation within a permissible range through monetary policy instruments, including the modification of interest rates or the money supply (Blanchard & Johnson, 2013). Elevated inflation diminishes the real value of currency, constrains consumer purchasing power, and may induce uncertainty in investment choices. In Nigeria, inflation is influenced by structural factors such as food insecurity, exchange rate fluctuations, and fiscal deficits (CBN, 2023). Chronic inflation destabilises the macroeconomy and disproportionately impacts the most vulnerable demographics by increasing living expenses.

### 2.1.4 Exchange Rate

The exchange rate represents the value of one currency in relation to another, serving a pivotal function in international trade and investment. It affects export competitiveness, import costs, and the overall balance of payments. Exchange rates may be established by market dynamics (floating exchange rate) or regulated by governmental policy. Exchange rate fluctuations influence inflation, interest rates, and GDP growth (Krugman & Obstfeld, 2018). A depreciating currency can result in increased import prices, thereby exacerbating domestic inflation. In Nigeria, exchange rate fluctuations have led to economic instability, deterring foreign investment and complicating fiscal planning (IMF, 2023). Stable and predictable exchange rates are essential for maintaining investor confidence and promoting economic growth, particularly in economies that rely heavily on imports.

### 2.1.5 Gross Domestic Product Growth

Gross Domestic Product (GDP) growth refers to the rate at which a nation's economic output expands

over a designated timeframe. It functions as a thorough gauge of economic performance, indicating advancements in production, employment, and income levels. GDP growth is affected by consumption, investment, government expenditure, and net exports (Mankiw, 2020). An enduring rise in GDP signifies a robust and growing economy, while a decrease implies contraction and potential recession. Nigeria's GDP growth has exhibited volatility owing to fluctuations in oil prices, security issues, and macroeconomic instability. However, diversification into sectors like agriculture, technology, and services has demonstrated the potential to stimulate growth (World Bank, 2024). Strong GDP growth stimulates employment, alleviates poverty, and enhances living standards, rendering it a primary objective of national development strategies.

## 2.2 Theoretical Framework

A theoretical framework is essential for grounding empirical research, particularly in analysing the macroeconomic factors influencing entrepreneurial financing in Nigeria. This study is fundamentally supported by two significant theories: the Pecking Order Theory and the Macroeconomic Stability Theory. These theories offer profound insights into how macroeconomic variables affect entrepreneurs' access to finance, their attitudes towards capital structure, and their overall financial decisions in an unstable economic environment like Nigeria's.

The Pecking Order Theory, formulated by Myers and Majluf (1984), asserts that firms prioritise their financing sources according to the principle of minimal resistance, commencing with internal financing, then debt, and ultimately external equity. Entrepreneurs typically favour retained earnings or personal savings to finance business operations prior to seeking funding from financial institutions or investors. The theory emphasises the issue of information asymmetry between entrepreneurs and prospective financiers. In unstable macroeconomic conditions such as those in Nigeria—marked by variable interest rates, inflation, and currency depreciation—entrepreneurs exhibit increased caution regarding external financing due to the

unpredictability of repayment terms and the risks of financial distress (Frank & Goyal, 2003). The inclination towards internal sources rather than external ones is heightened when macroeconomic indicators suggest uncertainty. For instance, during periods of elevated inflation or volatile exchange rates, lenders frequently increase interest rates to mitigate risk, rendering external financing more expensive and less appealing for small business proprietors (Nguyen et al., 2018).

In Nigeria, the Pecking Order Theory elucidates why numerous micro, small, and medium enterprises (MSMEs) predominantly depend on informal financing or personal capital instead of seeking assistance from formal financial institutions. Empirical evidence from Sub-Saharan Africa corroborates this behavioural trend, primarily ascribed to elevated interest rates and restricted access to credit resources for nascent and small enterprises (Afolabi, 2015; World Bank, 2020). Consequently, macroeconomic variables—interest rates, inflation, and credit accessibility—directly influence the financing behaviour of entrepreneurs, consistent with the theoretical tenets of the Pecking Order Theory. This theory elucidates the persistence of informal financing mechanisms, such as cooperative societies and familial contributions in Nigeria, particularly during economic recessions.

The Macroeconomic Stability Theory underscores the essential importance of macroeconomic indicators, including inflation, interest rates, exchange rates, and GDP growth, in creating a favourable environment for entrepreneurship and financial intermediation. This theory posits that a stable macroeconomic environment mitigates uncertainty, lowers transaction costs, and enhances the confidence of lenders and borrowers (Barro, 1995). Entrepreneurs are more inclined to secure financing when the economic environment is stable and policies are uniform. A stable interest rate environment enables businesses to more effectively plan future cash flows and manage debt servicing. Similarly, low and stable inflation improves purchasing power and decreases input costs, thereby indirectly bolstering business performance and creditworthiness.

In Nigeria, macroeconomic instability has traditionally impeded the development of the entrepreneurial sector. Periods of elevated inflation and exchange rate instability have adversely impacted the profitability of startups and limited their access to formal financing (CBN, 2023). Commercial banks, cautious of systemic risk, frequently impose stricter lending standards during these times, thereby constraining the availability of credit to the private sector. The International Monetary Fund (2023) indicates that Nigeria's economic growth is hindered by erratic macroeconomic policies, currency devaluation, and fiscal imbalances, which intensify the difficulties encountered by entrepreneurs in securing financing. The Macroeconomic Stability Theory emphasises the importance of a strong and reliable macroeconomic policy framework as essential for enhancing access to entrepreneurial finance.

Moreover, GDP growth, a fundamental variable in macroeconomic analysis, is crucial for entrepreneurial financing. Robust GDP growth typically signifies a flourishing economy, frequently associated with heightened consumer demand, investment prospects, and enhanced investor confidence (Mankiw, 2020). In these environments, financial institutions exhibit a greater propensity to lend, and venture capitalists are more inclined to invest in startups. In contrast, economic downturns and recessions—characterized by low or negative GDP growth—frequently result in credit rationing and a risk-averse financial sector, inhibiting entrepreneurial endeavours. The cyclical interplay between macroeconomic conditions and entrepreneurial financing choices is aptly encapsulated by the Macroeconomic Stability Theory.

### 2.3 Empirical Review

Udoh et al. (2024) investigated the impact of macroeconomic factors on the performance and financing decisions of small and medium-sized enterprises (SMEs). The study utilised a quantitative approach, employing diagnostic checks, cointegration results, unit root tests, and ARDL to analyse the interrelationships among the variables.

The findings underscored the adverse and substantial effect of the exchange rate on SME performance. Small and medium-sized enterprises (SMEs) were perceived as especially susceptible to swift exchange rate variations, which subsequently impacted their operational expenses and competitive edge. In contrast, the interest rate exhibited no substantial positive effect on SMEs, indicating that monetary policy may not adequately support this business sector. Likewise, the inflation rate was determined to exert a negative and insignificant influence on SME performance.

Hanif et al. (2024) analysed the macroeconomic determinants of the financial performance of cement industry firms in Pakistan. This study utilises data from 2011 to 2020 pertaining to cement sector firms listed on the PSX. The financial performance of cement sector companies is assessed through ROA, ROI, and ROE. Panel unit root tests, correlation matrices, and pooled ordinary least squares methods are employed for data analysis. The results indicate that the interest rate is negatively and significantly correlated with the ROE. Likewise, the inflation rate exhibits a negative correlation with both ROA and ROE. Likewise, the exchange rate exhibits a negative and significant correlation with both ROA and ROI. Finally, the GDP growth rate exhibits a positive and significant correlation with ROA, ROE, and ROI.

Onyele et al. (2024) identified push and pull factors as fundamental determinants of international capital flows. The research examined this correlation in Nigeria utilising data from 1980 to 2020 through the Autoregressive Distributed Lag (ARDL) model. The results indicated that both push and pull factors collectively affected the different forms of capital flows.

Gazi et al. (2024) analysed panel data from eight Shariah-compliant Islamic banks over a thirteen-year period from 2010 to 2022, utilising various linear regression models, including pooled ordinary least squares (OLS), fixed effects, and random effects. Subsequently, the generalised method of moments (GMM) technique is employed to evaluate the robustness of the results. The findings indicated that the profitability of Bangladeshi Shariah-compliant

Islamic banks is positively correlated with asset management quality, liquidity, and credit risk. Conversely, capital adequacy, operational efficiency, and bank size exhibit a negative correlation with the profitability of the bank.

Makoye et al. (2023) examined the influence of macroeconomic factors on the performance of the construction industry in Tanzania, aiming to create a model that could assist policymakers in advancing the sector. The study employed a longitudinal research design and an archival research method. Archival dataset sources were chosen through judgemental sampling, and a multiple regression model was utilised for data analysis. The inflation rate, interest rate, labour, and technology were identified as statistically significant predictors of construction growth. Empirical findings indicate that a unit increase in inflation and interest rates results in a decrease in construction growth by 0.106 and 0.354, respectively. An increase in labour and technology contributes to construction growth by 0.208 and 0.272, respectively.

Adeosun et al. (2023) investigated the factors influencing financing alternatives for micro-entrepreneurs in informal environments. The study aims to determine the impact of credit history, income, assets, gender, awareness, and network capability on formal and informal financing options for micro-entrepreneurs in informal environments. The study employed a survey research design and administered a structured questionnaire to 300 purposively selected micro-entrepreneurs at the University of Lagos, Nigeria. A total of 291 completed questionnaires have been retrieved. This article employs multiple regression analysis to estimate the empirical model and evaluate the research hypotheses accordingly. The study determined that credit history and asset-based financing are critical factors influencing formal financing options for young micro-entrepreneurs in informal contexts, while gender and networking capabilities significantly affect informal financing options for the same demographic. Additionally, awareness plays a crucial role in both formal and informal financing options for young micro-entrepreneurs in informal settings.

Ishioro (2022) investigated the long-term macroeconomic factors influencing bank performance and empirically modelled the relationship between banks and these determinants. Time series data on the performance of banks and macroeconomic indicators for Nigeria from 1990 to 2020 were utilised to validate our models. The research employed the unit root and Johansen cointegration tests in a novel and rigorous fashion. The research revealed that macroeconomic factors are significantly correlated with bank performance over the long term.

Růčková and Škuláňová (2022) analysed the impact of profitability, asset composition, GDP growth rate, and reference interest rate on the total, long-term, and short-term debt levels of corporations. The research timeframe spans from 2009 to 2018. The primary conclusion of the research is that the debt levels of selected construction companies are predominantly influenced by external environmental factors, specifically economic development and the benchmark interest rate.

Okunbanjo et al. (2022) investigated macroeconomic environmental factors and the accessibility of credit for small businesses in Nigeria. The study employed a longitudinal research design and utilised secondary data collection methods. The study utilised robust least squares as the statistical analytical method. The results indicated that the exchange rate does not significantly impact credit availability for small enterprises. The lending rate and liquidity ratio significantly impact credit availability for small businesses. The study determined that lending rates and liquidity ratios are predictors and determinants of credit for small businesses in Nigeria.

Onyeiwu et al. (2021) analysed the impact of SME financing on economic growth in Nigeria using time-series data from 1999 to 2018. Following a literature review, additional factors that could affect the dependent variable ASGDP were incorporated into the research model. Utilising Ordinary Least Squares estimation via E-views 10.0, the results indicate that the lending rate diminishes ASGDP by 7%, while gross capital formation decreases ASGDP by 5%. Conversely, unexpectedly, credit to SMEs

did not maintain the significant impact on growth observed in prior studies.

### 3.0 Methodology

This empirical research investigates how macroeconomic factors determines entrepreneurial financing in Nigeria. Since macroeconomic factors are expected to support the inflows of financing for entrepreneur in Nigeria via granting them access to more funds for investments purpose, this study adopts the causal design approach. A design is causal considering a world where the present variation in macroeconomic variables can be used to predict the future. This is suitable because time-series data provides opportunities and challenges for addressing causality. This current study relies on quantitative study design approach due to numerical nature of analytical data. These are obtained historically from reliable sources as *ex-post* factor from past economic events. This study employed the secondary time-series data. The data was obtained to ensure the dependability and ability to reproduce the underlying study. The data was obtained from the diverse reports of reliable institutions. The sources include the Central Bank of Nigeria Statistical Bulletin, National Bureau of Statistics, and the World Bank Development Indicators. This study employed the unit root and ARDL framework techniques at the 5% significance level. The study presents its models in the following classical linear regression form as;

$$EF_t = f(EXR_t, INF_t, INT_t, GDP_t) \tag{3.1}$$

$$EF_t = \alpha_0 + \alpha_1 EXR_t + \alpha_2 INF_t + \alpha_3 INT_t + \alpha_4 GDP_t + \mu_t$$

#### 3.2

On apriori,  $\alpha_1 > 0$ ,  $\alpha_2 < 0$ ,  $\alpha_3 < 0$ , and  $\alpha_4 > 0$   
 Where: EF = Entrepreneurial financing, EXR = Exchange rate, INF = Inflation rate, INT = Interest rate, GDP = Gross domestic product growth rate,  $\alpha_0$  = Constant variable/Intercept,  $\alpha_1$ -  $\alpha_4$  = Slope/Coefficient,  $\mu_t$  = Error Terms/Stochastic variables,  $t$  = time series

## 4.0 Results and Discussions

### 4.1 Results

**Table 4.1: Descriptive Statistics Result**

	EF	EXR	GDP	INF	INT
Mean	4.502578	157.7743	6.618973	16.12169	3.979240
Median	0.852582	128.6516	7.002053	16.54839	3.949547
Maximum	27.03552	650.5443	7.913126	24.85000	11.69000
Minimum	0.095438	2.020575	4.173309	11.48313	1.259689
Std. Dev.	6.585291	163.2946	0.991956	2.981167	1.840574
Skewness	1.630830	1.520166	-0.808487	0.558976	1.659665
Kurtosis	5.015410	5.047360	2.618199	3.235942	8.984727
Jarque-Bera Probability	23.88800	21.83236	4.485616	2.121410	76.10672
Sum	175.6006	6153.196	258.1400	628.7458	155.1904
Sum Sq. Dev.	1647.910	1013275.	37.39114	337.7196	128.7331
Observations	39	39	39	39	39

**Source:** E-view Output

Entrepreneurial Financing (EF) has a mean value of 4.50, while the median is considerably lower at 0.85, indicating a right-skewed distribution, which is further corroborated by a high skewness of 1.63. The highest recorded value for EF is 27.03, the lowest is 0.09, and the standard deviation is notably large at 6.58. These statistics demonstrate considerable dispersion and the existence of notable outliers or exceptionally elevated values in certain periods. The kurtosis of 5.02 surpasses the normative value of 3, indicating a leptokurtic distribution characterised by a more pronounced peak and heavier tails compared to a normal distribution. The Jarque-Bera statistic (23.89,  $p < 0.01$ ) demonstrates that the distribution of EF significantly diverges from normality. The Exchange Rate (EXR) has a mean of 157.77 and a median of 128.65, indicating a positively skewed distribution with a skewness of 1.52. The exchange rate fluctuates between a minimum of 2.02 and a maximum of 650.54, demonstrating considerable volatility during the observed timeframe. The standard deviation is elevated at 163.29, affirming this variability. The kurtosis value of 5.05 and a highly significant Jarque-Bera statistic (21.83,  $p < 0.01$ ) indicate non-normality characterised by fat tails and potential structural breaks or regime changes in Nigeria's exchange rate policy.

The GDP growth rate data exhibits a more normal distribution than that of EF and EXR. The mean is 6.62, and the median is 7.00, indicating a relatively symmetric distribution. A skewness of -0.81 signifies a modest left skew, indicating the presence of several intervals of comparatively lower growth. The standard deviation is 0.99, signifying low dispersion in GDP growth values. The kurtosis value is 2.62, near the normal threshold, and the Jarque-Bera test statistic is 4.49 with a p-value of 0.106, indicating that the data does not significantly diverge from normality. This relative stability indicates the steady, though modest, economic performance in Nigeria throughout the observed years. The Inflation Rate (INF) has a mean of 16.12 and a median of 16.55, suggesting a relatively symmetric distribution. The standard deviation of 2.98 indicates moderate variability. A skewness of 0.56 indicates a moderate right skew, implying intermittent surges in inflation. The kurtosis of 3.23 is close to the normal range, and the Jarque-Bera test statistic (2.12,  $p = 0.35$ ) suggests that the inflation rate data follows a normal distribution. Inflation has exhibited moderate volatility without erratic fluctuations throughout the sample period. Finally, the Interest Rate (INT) exhibits a mean of 3.98 and a median of 3.95, indicating a balanced central tendency. The minimum and maximum interest rates are 1.26 and 11.69, respectively, with a standard deviation of 1.84, indicating variability that is lower than that of EF or EXR. The skewness (1.66) and kurtosis (8.98) values are elevated, signifying a pronounced right-skewed and leptokurtic distribution. The Jarque-Bera statistic of 76.11 ( $p < 0.01$ ) further substantiates a significant deviation from normality. The interest rate data probably includes several anomalously high values that distort the mean and skew the distribution.

The dataset exhibits diverse distribution characteristics among the variables. Entrepreneurial financing and exchange rates demonstrate significant skewness and kurtosis, reflecting non-normal, volatile characteristics, whereas GDP growth and inflation exhibit greater stability and a normal distribution. The interest rate, while moderate on average, exhibits significant skewness and

leptokurtosis. The distributional properties are essential for model specification, hypothesis testing, and making robust inferences in any empirical analysis involving these variables.

**Table 4.2: ADF Stationarity Test Variables**

Variables	Level Data			First differenced			Conclusion
	ADF Test Statistics	T-Critical 5%	P-value	ADF Test Statistics	T-Critical 5%	P-value	
EF	-5.515566	-2.941145	0.000	-	-	-	I(0)
EXR	2.665672	-2.941145	0.1982	-5.412301	-2.943427	0.001	I(1)
INF	-2.676565	-2.941145	0.0874	-8.248164	-2.943427	0.000	I(1)
INT	-5.551507	-2.941145	0.000	-	-	-	I(0)
GDP	-3.345205	-2.941145	0.0196	-	-	-	I(0)

**Source: E-views 10 Output**

Table 4.2 shows that, of the five variables included in the study, three were stationary at level I(0) while the remaining two were stationary at first difference I(1). This is so as their p-values at every level are less than the 5% significance criterion set for this study. The study thus uses the ARDL F-Bound test to confirm the existence of long-run form in it.

**Table 4.3: ARDL Bound Test of Co-integration**

ARDL Long Run Form and Bounds Test				
Null Hypothesis: No levels relationship				
F-Bounds Test	Value	Signif.	I(0)	I(1)
F-statistic	2.691278	10%	2.45	3.52
k	4	5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06

t-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
t-statistic	-1.232642	10%	-2.57	-3.66
		5%	-2.86	-3.99
		2.5%	-3.13	-4.26
		1%	-3.43	-4.6

**Source: E-views 10 Output (2025)**

The F-statistics value, at the 5% level of significance, is 2.691278, lower than the bound values of 2.86 and 4.01, respectively. Similarly, the t-statistics value of -1.232642 at the 5% level of significance lower than the I(0) and I(1) bound values of -2.86 and -3.99, respectively. Consequently, the alternative hypothesis is disproved and the null hypothesis—which holds that the explained and explanatory variables have no co-integrating relationship—is approved. Thus, the study tested the hypotheses earlier developed in this work as well as drew results and made required suggestions using the short-run autoregressive distributed lag technique.

**Table 4.4: ARDL Long-Run Result**

Dependent Variable: EF  
 Method: ARDL  
 Dynamic regressors (1 lag, automatic): EXR GDP INF INT  
 Fixed regressors: C  
 Number of models evaluated: 16  
 Selected Model: ARDL(1, 0, 0, 0, 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
EF(-1)	0.802989	0.159828	5.024068	0.0000
EXR	-0.000472	0.003119	-0.151210	0.8808
GDP	-0.031354	1.258548	-0.024913	0.9803
INF	0.110842	0.128955	0.859543	0.3966
INT	0.600345	0.301195	1.993209	0.0551
INT(-1)	-0.446469	0.260989	-1.710683	0.0971
C	-1.771272	9.765380	-0.181383	0.8572

R-squared	0.949483	Mean dependent var	3.909606
Adjusted R-squared	0.939705	S.D. dependent var	5.518557
S.E. of regression	1.355084	Akaike info criterion	3.610426
Sum squared resid	56.92383	Schwarz criterion	3.912087
Log likelihood	-61.59810	Hannan-Quinn criter.	3.717755
F-statistic	97.10823	Durbin-Watson stat	1.684972
Prob(F-statistic)	0.000000		

**Source: E-views 10 Output (2025)**

The lag of EF (EF(-1)) is statistically significant (p = 0.0000) with a positive coefficient of 0.803, indicating substantial persistence in entrepreneurial financing. Past values of EF significantly forecast current values, indicating a considerable degree of inertia in the process. This also signifies that disturbances to EF tend to endure over time, a prevalent characteristic in economic time series data. The exchange rate coefficient (EXR) is negative (-0.000472) and statistically insignificant (p = 0.8808). This indicates that, in the short term, variations in the exchange rate do not significantly impact entrepreneurial financing in Nigeria. The effect indicates that currency depreciation may marginally deter EF, but the impact is minimal and inconsistent. Likewise, GDP growth exhibits an inconsequential negative correlation with entrepreneurial financing (p = 0.9803), suggesting that fluctuations in Nigeria's economic growth have not substantially impacted entrepreneurial financing in the short term. This may indicate a disconnect between macroeconomic growth and micro-level funding for entrepreneurs, potentially stemming from structural problems like inadequate financial intermediation or restricted credit access for small enterprises.

Inflation (INF) exhibits a positive yet statistically insignificant coefficient (0.110842, p = 0.3966). This indicates that escalating inflation may correlate with heightened EF, potentially due to a necessity for hedging or financial innovation during inflationary phases; however, the relationship is empirically weak within this model. The contemporaneous interest rate (INT) exerts a positive and marginally significant influence on EF (p = 0.0551), whereas its lagged value (INT(-1)) demonstrates a negative and weakly significant coefficient (p = 0.0971). This dual behaviour suggests that a rise in interest rates

may initially promote entrepreneurial financing—potentially by incentivising savings or drawing additional capital into financial instruments that support entrepreneurship—yet subsequently, the elevated borrowing costs may hinder entrepreneurial financing. The marginal significance of both variables indicates that the interest rate is a relatively influential factor in the dynamics of entrepreneurial financing in Nigeria.

The constant term (C) is negative and statistically insignificant, indicating that the baseline level of EF, when all independent variables are zero, is not significantly different from zero. The model diagnostics reveal an R-squared value of 0.9495 and an adjusted R-squared of 0.9397, signifying an exceptional fit, as the model accounts for over 94% of the variation in EF. The F-statistic (97.108,  $p = 0.000$ ) verifies the joint significance of the model. The Durbin-Watson statistic (1.685) is marginally below the optimal value of 2, indicating mild positive autocorrelation in the residuals, albeit not at a concerning level.

#### 4.2 Discussion of Findings

The primary finding is the statistically significant and positive coefficient of the lagged dependent variable, EF(-1) (coefficient = 0.803,  $p < 0.01$ ), indicating that previous levels of entrepreneurial financing substantially affect current levels. This illustrates the persistence and path dependency characteristic of financial development processes, particularly in emerging markets such as Nigeria. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) assert that entrepreneurial financing is typically cumulative, frequently shaped by prior financial circumstances, credit accessibility, and institutional consistency. This persistence may stem from established lending relationships and the learning curve related to utilising formal financial channels. Interest rate variables seem to exert the most substantial and intricate impact on entrepreneurial financing. The present interest rate (INT) exhibits a positive and marginally significant impact ( $p = 0.0551$ ), whereas the lagged interest rate (INT(-1)) displays a negative coefficient ( $p = 0.0971$ ). This indicates a dual effect: in the short term, increasing interest rates may denote stricter monetary

conditions, prompting entrepreneurs to obtain financing before expected cost increases. Conversely, it may signify enhanced returns on financial assets, thereby stimulating increased formal funding activity. Subsequently, elevated borrowing costs begin to restrict financing, corroborating the findings of Beck and Demirgüç-Kunt (2006), who noted that high interest rates inhibit SME access to credit in developing economies.

The exchange rate (EXR) exhibited a negative yet statistically insignificant impact on entrepreneurial financing ( $p = 0.8808$ ). This concurs with Osei-Assibey's (2013) assertion that, unless businesses are significantly involved in trade or foreign currency transactions, the impact of exchange rate volatility on small-scale entrepreneurial financing may be negligible. The significant fluctuation in Nigeria's exchange rate, as indicated by the descriptive statistics, may have fostered uncertainty, thereby discouraging stable financial inflows to entrepreneurs.

Likewise, GDP growth exhibited no statistically significant correlation with entrepreneurial financing ( $p = 0.9803$ ). This discovery may seem paradoxical, as one might anticipate that a burgeoning economy would foster increased entrepreneurship. This outcome may indicate inherent vulnerabilities in Nigeria's economic growth model, which has traditionally relied on the oil sector and lacks comprehensive entrepreneurial development (World Bank, 2020). The disparity between macroeconomic growth and microeconomic conditions is a persistent issue in Nigeria, where credit access continues to be challenging despite GDP increases (Ogunleye, 2018).

The inflation rate (INF) demonstrated a positive yet statistically insignificant impact on entrepreneurial financing ( $p = 0.3966$ ). While not definitive, the nature of the relationship may indicate that moderate inflation could motivate entrepreneurs to pursue financing as a safeguard against escalating costs or to capitalise on nominal asset appreciation. Nevertheless, persistent high inflation generally diminishes real purchasing power and increases uncertainty, leading lenders to adopt a more risk-

averse stance and constraining the availability of affordable credit (Mbutor & Uba, 2013).

## 5.0 Conclusion and Recommendations

### 5.1 Conclusion

The study examined the relationship between macroeconomic determinants and entrepreneurial financing in Nigeria during the period spanning from 1986 to 2024. This study concluded that entrepreneurial financing in Nigeria is predominantly influenced by historical levels and interest rate fluctuations, whereas exchange rates, inflation, and GDP growth exert minimal short-term effects. These findings necessitate sophisticated policy reforms that prioritise stable and accessible financial systems, regulated interest rate frameworks, and focused support initiatives for entrepreneurs. Governments and financial institutions must prioritise frameworks that mitigate uncertainty, decrease transaction costs, and promote enduring lending relationships for SMEs and startups.

### 5.2 Recommendations

The following recommendations were put forth;

1. Considering that historical entrepreneurial financing profoundly impacts present financing, policy measures should focus on generating momentum via consistent and enduring financial support systems. The Federal government of Nigeria, in partnership with financial institutions, should implement revolving credit schemes and long-term credit lines aimed at small and medium enterprises (SMEs) and startups. These programs should not be isolated initiatives but integral components of a comprehensive national strategy that promotes recurring borrowing, reinvestment, and business expansion. This consistency can bolster confidence among entrepreneurs and financial service providers, progressively integrating EF into Nigeria's financial ecosystem.
2. The dual effect of interest rates—beneficial in the short term and detrimental thereafter—indicates that excessive fluctuations in

monetary policy may hinder sustainable financing for entrepreneurs. The Central Bank of Nigeria (CBN) should sustain a balanced interest rate environment that renders borrowing costs feasible for small enterprises while remaining appealing to savers and financial institutions. Interest rate caps or subsidised lending rates via intervention funds like the NIRSAL Microfinance Bank or the Bank of Industry could be further utilised to improve access to credit. These funds should be augmented and more rigorously overseen to avert misallocation and guarantee that the intended beneficiaries—early-stage and growth-stage entrepreneurs—are prioritised.

3. The observation that GDP growth, inflation, and exchange rates have no statistically significant short-term impact on entrepreneurial financing indicates a structural disconnect between Nigeria's macroeconomic indicators and real sector financing results. Consequently, the Federal government of Nigeria should to create sector-specific financing mechanisms that operate independently of general macroeconomic variations. Agro-based enterprises, technology startups, and green economy entrepreneurs require specialised financing platforms with adaptable terms that protect them from national economic fluctuations. These initiatives may receive backing from development finance institutions and be enhanced through public-private partnerships to augment their reach and efficacy.

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