Microfinance Credit Conditions and Startup Capital Acquisition of Micro, Small, and Medium Enterprises in Bayelsa State

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Abstract
This study examined the relationship between microfinance credit conditions and startup capital acquisition of micro, small, and medium enterprises (MSMEs) in Bayelsa State. Specifically, it investigated whether microfinance credit cost and collateral requirements are related to the ability of MSMEs to acquire startup capital. The study adopted a cross-sectional survey design. The population comprised owners and managers of micro, small, and medium enterprises within Yenagoa metropolis who have been operating their businesses for at least ten (10) years and are registered in the SMEDAN registry. A stratified sampling technique was employed to select eighty-eight (88) respondents from key commercial business zones within Yenagoa metropolis. Data were collected through structured questionnaires and analyzed using descriptive statistics and Pearson correlation with the aid of SPSS version 26. The findings revealed a negative but significant relationship between both microfinance credit cost and collateral requirements and startup capital acquisition, indicating that higher credit costs and stringent collateral requirements are associated with reduced startup capital acquisition by MSMEs. The study concluded that affordable microfinance credit and flexible collateral policies are essential for enhancing startup capital acquisition, supporting financial inclusion, and promoting the growth and sustainability of micro, small, and medium enterprises. Based on these findings, the study recommended that microfinance institutions should adopt lower interest rates, minimize administrative fees, and accept alternative forms of collateral such as group guarantees or personal guarantees to improve MSMEs' access to startup capital.

Keywords: *Microfinance credit conditions, microfinance credit cost, collateral requirements, startup capital acquisition, financial inclusion.*

1. Introduction

Micro, small, and medium enterprises (MSMEs) are fundamental to economic growth, serving as engines of employment and income generation across the globe. In many economies, particularly developing nations, MSMEs constitute the bulk of businesses and are essential in addressing unemployment and supporting livelihoods (Mahmoud et al., 2024). Their contributions go beyond numbers; they are central to sustainable economic progress. Through flexibility, adaptability, and innovation, MSMEs stimulate competition, inspire creativity, and often serve as incubators for future large enterprises (Babatunde, 2024). With significance

rooted in both urban and rural economies, MSMEs influence multiple sectors and segments of the population.

Entrepreneurs often begin operations with personal savings, which may be supplemented by contributions from family and friends (Raimi & Uzodinma, 2020). These informal sources, while helpful, are usually limited and may only cover basic startup needs. Community savings groups and cooperatives also provide alternative funding, pooling resources to support small business capital (Anifowose & Onileowo, 2020). Although beneficial, these mechanisms are often inadequate for substantial investment or expansion, prompting the search for more formal financial assistance as enterprises grow (Ovedje, 2024). Governments, international agencies, and private institutions also offer grants targeting specific sectors, which can stimulate growth in technology, agriculture, or manufacturing (Tochukwu & Onwuchekwa, 2023). However, grant availability is limited, access is competitive, and many enterprises may not meet the eligibility criteria.

Loans from banks and other formal institutions provide another funding source, but strict requirements such as collateral, documented credit histories, and business plans often restrict access (Echem et al., 2022). Entrepreneurs in informal sectors frequently lack these requirements, leading them to seek alternative financing (Ovedje, 2024). Microfinance institutions offer financial services tailored to enterprises that cannot meet traditional banking requirements, providing smaller loans with flexible repayment options (Tochukwu & Onwuchekwa, 2023). At the core of the services provided by microfinance institutions are microfinance credit conditions, which determine the terms under which funds are extended to enterprises. These conditions include the cost of credit, such as interest rates and administrative fees, and collateral requirements that borrowers must meet to access loans (Musa, 2022; Ibrahim, 2016; Yunus et al., 2018). Microfinance credit cost reflects the total financial commitment that an enterprise must repay over the duration of the loan, and it can influence how much capital is actually available for business operations (Olowe & Adebayo, 2023). Similarly, collateral requirements define the type and value of guarantees demanded by lenders, ranging from tangible assets to group or social guarantees, which can affect whether enterprises are able to secure funds at all (Adeyemi & Oladele, 2020; Bello & Abubakar, 2017). Variations in these credit conditions can determine not only access to startup capital but also the sustainability and effectiveness of its use in enterprise development as high credit costs and collateral requirements may affect the level of funding that enterprises can potentially obtain, influencing decisions around investment, expansion, and operational planning (Olowe & Adebayo, 2023; Adeyemi & Oladele, 2020).

Given these variations in microfinance credit conditions, many entrepreneurs encounter situations where borrowing requirements limit their access to sufficient resources, particularly when personal savings and informal networks are insufficient (Omolawal & Adeniyi, 2024). Understanding how these conditions relate to the acquisition of startup capital is therefore important for examining the financial mechanisms through which enterprises mobilize resources and plan for growth (Agbaje, 2021; Yusuf, 2024). Against this backdrop, this study examined the relationship between microfinance credit conditions and startup capital acquisition of micro, small, and medium enterprises in Bayelsa State, with the specific objectives of determining whether microfinance credit cost and collateral requirements have significant relationships with startup capital acquisition.

Research Hypotheses

The following null hypotheses were formulated for this study:

1. Microfinance credit cost has no significant relationship with startup capital acquisition of micro, small, and medium enterprises in Bayelsa State.

2. Collateral requirements have no significant relationship with startup capital acquisition of micro, small, and medium enterprises in Bayelsa State.

2. Literature Review

Conceptual Review

Microfinance credit conditions refer to the set of terms, procedures, and rules that regulate the provision and repayment of microfinance loans. These conditions include interest rates, payback schedules, eligibility criteria, loan amounts, and collateral or guarantee requirements (Muthama & Warui, 2021). These terms are created by microfinance organisations to guarantee that loans are manageable for borrowers while enabling the organization to recoup money and pay operating expenses. Collateral requirements may be conventional, such as tangible assets, or alternative, including group guarantees, personal promises, or moveable assets. The mix of interest rates, fees, repayment responsibilities, and collateral comprises the entire circumstances under which microfinance credit is offered (Ssekiziyivu et al., 2018).

In the context of micro, small, and medium-sized enterprises (MSMEs), microfinance credit conditions offer a standardised framework for acquiring the financing essential to start or grow company activities (Ramachandran & Chandramohan, 2023). Microfinance loans with well-defined terms provide consistent access to cash, and MSMEs often depend on a combination of conventional and informal financing sources. Loan amounts are generally minimal and suited to operational requirements, while repayment periods are arranged to fit with normal cash flow patterns of MSMEs. Collateral standards are modified to the reality of small firms, frequently enabling social guarantees or collective commitments to substitute physical assets (Chanda, 2024). In order to provide MSMEs clarity on their financial obligations while getting microfinance loans, credit conditions also contain the overall cost of borrowing, which includes interest rates, fees, and administrative expenses (Utama, 2025).

Microfinance Credit Cost

Microfinance credit cost refers to the overall financial responsibility imposed by a borrower in obtaining microfinance loans, including interest rates, administrative fees, service costs, and other connected expenditures. These expenses are designed to make up for the risks and operational challenges of lending money to borrowers who often do not have official credit records or collateral. Variations in interest rates, loan sizes, and local economic circumstances may affect the total cost and repayment ability of borrowers, even if microfinance loans are designed to be inexpensive for low-income earners and micro-entrepreneurs (Musa, 2022). From the lenders' point of view, microfinance credit costs also include costs associated with loan processing, monitoring, and default management, which are especially important in microlending settings where credit risk is greater (Olowe & Adebayo, 2023).

Several researchers have conceptualised microfinance loan cost from both borrower and institutional viewpoints. Musa (2022) defines it as the complete financial commitment of the borrower, covering interest and all related charges under the loan arrangement, while Uche and Ekpenyong (2023) characterise it as the sum of costs imposed on micro-loans during the payback term. Olowe and Adebayo (2023) further emphasise that these costs represent lenders' administrative and risk management efforts, while Agbaje (2021) considers microfinance credit cost as the mix of direct and indirect service charges imposed by microfinance firms. Yusuf (2024) emphasises the significance of cost structures that strike a balance between financial inclusion goals and institutional sustainability by conceptualising it as the total cost incurred by both borrowers and lenders in the distribution and repayment of small loans.

Collateral Requirements

Collateral requirements in microfinance credit refer to the assets, guarantees, or assurance arrangements that borrowers are required to furnish in order to secure loans and decrease the risk incurred by lenders. In traditional lending systems, collateral requirements are frequently based on tangible assets such as land, buildings, or automobiles. However, microfinance organisations that target low income people and informal sector operators have reduced these standards to facilitate access to loans. Microfinance loan providers often accept other types of security, such as group guarantees, individual commitments, or social duties, in addition to physical assets. For example, in group based lending systems, borrowers band together to guarantee each other's loans. This eliminates the need for physical collateral and opens the door to credit for people who do not have any official assets (Yunus et al., 2018; Ibrahim, 2016).

Scholarly literature conceptualises collateral requirements as both physical and intangible processes employed by lenders to defend their financial interests in microfinance transactions. Ibrahim (2016) defines collateral needs as any kind of security—physical or social—provided by borrowers in non-traditional lending situations, whereas Yunus et al. (2018) define them as the mix of assets and assurances necessary to protect lenders against failure. Bello and Abubakar (2017) highlight the use of social networks and collective accountability as effective alternatives to collateral in microfinance credit delivery, while Adeyemi and Oladele (2020) define collateral requirements as the obligation placed on borrowers to present guarantees or pledges that assure loan repayment. Similarly, Kalu (2015) conceptualises collateral needs as the means adopted by lenders to control credit risk via personal assets, group guarantees, or other assurance measures. These viewpoints emphasise collateral requirements as a crucial factor influencing the creation of equitable lending systems and the availability of microfinance loans.

Startup Capital Acquisition

The process by which entrepreneurs and micro, small, and medium-sized businesses get the first funding needed to launch and run their firms is known as startup capital acquisition. It covers acquiring cash to meet basic beginning expenditures such as equipment, inventory, workspace, and other operational necessities throughout the early stages of company (Adeola & Musa, 2019). Adeola and Musa (2019), Ajayi and Bello (2018), and Okeke et al. (2020) all agree that entrepreneurs cannot react to market opportunities, create products or services, or establish a customer base when their cash flows are usually low because startup capital acquisition is the bedrock of the business survival and growth. The acquisition of starting capital is crucial for MSMEs because it establishes a sustainable business model and defines not only the size of first operations but also the ability to overcome early financial restrictions. The process generally entails careful planning and strategic judgements on how to mix internal and external sources of funding to ensure that early company operations are appropriately supported while risks are handled efficiently (Onuoha & Ibrahim, 2021; Ogunleye, 2023).

According to the literature, entrepreneurs get financial help via a mix of official and informal channels when acquiring beginning financing. Informal sources include personal savings, donations from family and friends, and community orientated savings plans, which typically serve as the initial line of financing for many companies in emerging countries (Ajayi & Bello, 2018; Okeke et al., 2020). Formal channels can include government assistance programs, loans from microfinance institutions, or other institutional financing arrangements; however, these can occasionally be constrained by strict requirements like high interest rates, collateral requirements, or loan size limitations (Adeola & Musa, 2019; Onuoha & Ibrahim, 2021). According to Onuoha & Ibrahim (2021) and Ogunleye (2023), scholars also observe that startup capital acquisition includes both monetary and non-monetary resources, reflecting the many tactics entrepreneurs use to raise the money required for starting and maintaining new

businesses. The capacity to efficiently obtain startup money, manage these resources, and integrate them into early company operations is consequently a crucial driver of firm survival, growth potential, and long-term sustainability.

Micro, Small and Medium Enterprises (MSMEs)

Micro enterprises lack a globally agreed-upon definition, since their categorisation differs according to the legal frameworks of various nations, with the word "micro" being related to the economic setting (Organization for Economic Cooperation and Development [OECD], 2017). Common criteria for designating a business as micro, small, or medium include the number of workers, total assets, yearly sales, and loan amounts. In Nigeria, micro firms are characterised by an employment size of 3 to 9 workers and an annual revenue ranging from N3 million to less than N25 million. As of 2020, micro enterprises form the bulk of the businesses in Nigeria, accounting for 38,413,420, or 96.90%, of the total 39,654,385 MSMEs in the nation. Small businesses, on the other hand, are classified as those with 10 to 49 workers and an annual revenue exceeding N25 million but less than N100 million. According to the National Bureau of Statistics [NBS], 2021, medium-sized businesses are those that employ between 50 and 199 people and have a revenue of more than N100 million but less than N1 billion. The existence of these firms is crucial for strengthening local economies, since they generate employment, promote innovation, and encourage economic activity across multiple sectors. MSMEs also strengthen the resilience of the economy by diversifying the economic environment, supplying products and services, and contributing to national and regional growth.

Conceptual Model

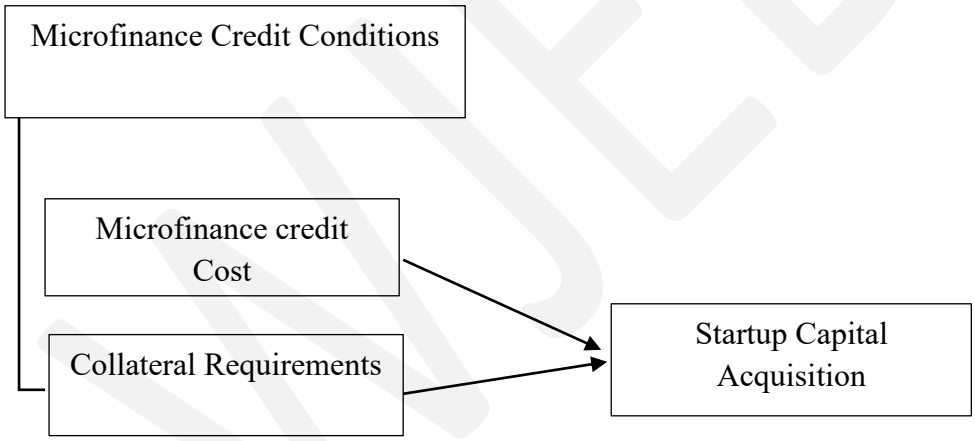


Fig. 1: Conceptual model of microfinance credit the acquisition of startup capital by MSMEs
Source: Adapted from Subeyr and Muturi (2017) and conceptualized by researchers (2026).

Theoretical Foundation

Credit Rationing Theory

Credit Rationing Theory was initially established by Joseph Stiglitz and Andrew Weiss in 1981 to explain inefficiencies in credit markets, especially where knowledge asymmetry exists between borrowers and lenders. The theory claims that financial institutions typically fail to discern between high-risk and low-risk borrowers because they do not have complete information. As a consequence, lenders may restrict credit, limiting or rejecting loans to suitable customers rather than boosting interest rates, which might attract riskier clients. This method prioritises risk management above maximising interest revenue, leading to instances where borrowers willing to pay the prevailing interest rate may yet be unable to access funds (Stiglitz & Weiss, 1981). The ideas of moral hazard and adverse selection serve as the

foundation for the theory. Adverse selection occurs when high-risk borrowers are more ready to take loans at higher rates than low-risk borrowers, making it harder for lenders to price loans appropriately. Moral hazard emerges when borrowers may engage in riskier behaviour after getting a loan since they do not incur the full financial repercussions. To reduce these risks, lenders may set credit restrictions or refuse loans, resulting in rationing even among seemingly creditworthy customers (Mankiw, 2015).

Credit rationing theory has important consequences for MSMEs, particularly in emerging countries such as Nigeria. The inability to provide collateral or establish a formal credit history is a common barrier to financing for smaller businesses when dealing with conventional banks (Jaffee & Russell, 1976). This theory helps explain why micro, small, and medium firms in Bayelsa State may have difficulty in securing beginning funding while having good business concepts. It also offers a platform for studying alternative financing mechanisms, such as microfinance organisations, which establish loan conditions like interest rates, repayment schedules, and collateral requirements to increase access for underprivileged borrowers. By employing credit rationing theory, the research may analyse how microfinance credit conditions and startup capital acquisition procedures assist MSMEs to overcome constraints in traditional financing, guaranteeing that smaller entrepreneurs have the means to develop and expand their operations.

Prior Studies

The impact of microfinance loans on the financial performance of small and medium-sized firms in Nairobi County was examined by Morobe (2015). This study used a descriptive research technique. Companies in Nairobi County that fall within the category of small and medium-sized were the subjects of the research. Embakasi South, Embakasi North, Embakasi Central, Embakasi East, Embakasi West, Westlands, Starehe, and Mathare were the seventeen constituencies in Nairobi County that were used to classify the target population. The other eleven constituencies in the county were Kasarani, Ruaraka, Langata, Kibra, Roysambu, and Embakasi South and South. The Public Procurement Oversight Authority reported that there were around 5,596 SMEs operating in Nairobi County. People with disabilities owned 526 of them, women 939, general small and medium-sized enterprises (SMEs) 18 and the vast majority of all, 4,538, were young people. In order to pick SMEs for the study's sample, researchers utilised stratified random sampling first, and then basic random selection. Survey responses were analysed using the Statistical Package for the Social Sciences (SPSS) 21.0 and Microsoft Excel with the advanced features. Microfinance loans were very beneficial to small and medium-sized businesses (SMEs), according to studies conducted in Nairobi County. Microfinance loans, the age of the SMEs, and available credit were additional critical elements that greatly impacted the financial performance of SMEs, according to another noteworthy conclusion. Microfinance loans have a significant impact on the financial performance of small and medium-sized firms (SMEs) in Nairobi County, according to the report.

The purpose of Padipadi's (2016) research was to identify the challenges that small and medium-sized enterprises (SMMEs) in Botswana have when trying to get start-up funding and to determine the effect that this funding has on their performance. The study in Gaborone focused on small and medium-sized businesses. The survey was filled out by fifty individuals from SMMEs. For this study, researchers used a purposive sampling strategy. A systematic questionnaire was used to collect data. Although there are a lot of government regulations and initiatives that attempt to make it easier for small and medium-sized businesses (SMMEs) to get startup finance, the study shows that they still encounter significant obstacles. Many SMMEs still lack the right management, formal business plans, or collateral to get their start-up capital off the ground, even if development banks make it simpler to secure loans.

A study carried out in Nyeri Central Sub County by Kiai et al. (2019) examined the impact of collateral requirements on the financial performance of small and micro companies involved in the agriculture industry. The research aimed to evaluate 950 small and medium-sized agribusinesses that had valid licenses. In the first round of sampling, 274 SMEs in Nyeri Central Sub County were selected according to the criteria put forward by Krejcie and Morgan. This semi-structured survey was deemed credible due to its Cronbach alpha score of 0.7. When it came to the financial performance of agricultural SMEs in the study region, inferential statistical methods showed a correlation with collateral needs. Our tests for normality, independence, and linearity in the regression model were conducted at a significance level of 5%. The unfavourable but statistically negligible impact of collateral requirements on the financial performance of agriculture SMEs was found by the bivariate regression analysis. Commercial banks' collateral requirements have an effect on the financial performance of small and medium-sized enterprises (SMEs), according to the researcher.

Micro, small, and medium-sized enterprises in Kenya's Baringo Central Constituency, Baringo County, were the focus of Toromo's (2020) investigation of the impact of microcredit on their bottom lines. In particular, we wanted to know how different microcredit terms, costs, collateral requirements, and financial management abilities affected the bottom lines of micro, small, and medium-sized enterprises (MSMEs) in Baringo Central Constituency. Stratified random sampling was used in the study, which followed a descriptive research design. Questionnaires were designed to be both open-ended and closed-ended in order to gather data. After collecting the replies, they were coded and analysed with the help of SPSS. A variety of descriptive statistics were used, including percentages, standard deviations, and averages, to portray the results. The findings revealed that the financial performance of micro, small, and medium-sized enterprises (MSMEs) in Baringo Central Constituency, Baringo County is greatly affected by factors such as microcredit terms, microcredit cost, collateral requirements, and financial management abilities. Research has shown that microcredit terms may improve the bottom lines of micro, small, and medium-sized enterprises (MSMEs). The association between financial performance and microcredit cost was negative and statistically significant. Researchers also discovered that collateral requirements significantly and negatively impacted the financial performance of MSMEs. Financial performance of micro, small, and medium-sized enterprises (MSMEs) in Baringo Central Constituency, Baringo County, was negatively and significantly impacted by training in financial management skills.

Factors limiting female entrepreneurs' access to start-up funding in Lagos State, Nigeria were investigated by Omolawal and Adeniyi (2024). This investigation used a mixed-methods strategy, combining quantitative and qualitative approaches to gather information. The study's primary population consisted of women company owners in Lagos State who had launched micro, small, or medium companies (MSME) within the previous five years. For the questionnaires, a total of 422 female entrepreneurs were chosen using multistage sampling techniques based on Cochran's 1977 sample size determination formula. Six executives of entrepreneurial associations were selected for key informant interviews. Content analysis and descriptive methods were used to evaluate qualitative data, while the Statistical Package for the Social Sciences version 21.0 was used to analyse quantitative data. The results showed that people's own savings, social networks, and cooperative organisations were the most often cited sources of initial funding. The survey went on to say that the main factors preventing female entrepreneurs from getting start-up funding were not knowing where to go, not being a part of any groups or organisations, and not having collateral to back their loans.

3. Methodology

This study utilized a cross-sectional survey design to explore the relationship between microfinance credit conditions, specifically microfinance credit cost and collateral

requirements, and the acquisition of startup capital by micro, small, and medium enterprises in Bayelsa State. The population of the study comprised owners and managers of micro, small, and medium enterprises within Yenagoa metropolis who have been operating their businesses for the past ten (10) years registered in SMEDAN registry, which are considered experienced enough to give answer to the raised questions items. A stratified sampling technique was adopted to identify eighty-eight (88) study participants from key commercial business zone within Yenagoa metropolis. Data were collected through a structured questionnaire designed to capture information on the microfinance credit conditions (microfinance credit cost and collateral requirements) and their relationship with the acquisition of startup capital. The questionnaire items were measured using a five-point Likert scale. The validity of the instrument was ensured through content validity, and the reliability of the instrument was tested using Cronbach's alpha, with the result showing a value above 0.70, indicating strong internal consistency and reliability. Data analysis was carried out using descriptive statistics to summarize respondents' profiles, and Pearson correlation was used to determine the strength and direction of the relationship between microfinance credit conditions (microfinance credit cost and collateral requirements) and startup capital acquisition with the aid of SPSS version 26.

4. Results and Discussion

Results

From the administered questionnaire, sixty-nine 69 were successfully retrieved and valid for used, representing 78% retrieval rate which above the average distribution.

Table 1: Descriptive Statistics on Microfinance Credit Cost

	N	Min	Max	Mean	Std. Dev.
I find the costs of accessing loans from microfinance institutions or other financial institutions to be higher than expected.	69	1.00	5.00	3.8994	1.2615
The costs of loans from microfinance institutions or other financial institutions burden my business.	69	1.00	5.00	3.3598	0.5860
There are hidden charges in the loans I take from microfinance institutions or other financial institutions.	69	1.00	5.00	2.9019	1.6147
I find loans from microfinance institutions to be more expensive than traditional financing options.	69	1.00	5.00	2.8969	1.0249
Grand Mean				3.2645	
Valid N (listwise)	69				

Source: Survey Data (2026)

Table 1 shows that respondents generally agree that the costs of accessing loans from microfinance institutions are higher than expected and burden their businesses, with mean values above the benchmark threshold of 3.00 (Mean = 3.8994, 3.3598, respectively). However, there is less consensus regarding hidden charges and the comparison of microfinance loan costs to traditional financing (Means = 2.9019, 2.8969). The grand mean of 3.2645 indicates an overall agreement on the high cost of microfinance loans.

Table 2: Descriptive Statistics on Collateral Requirements

	N	Min	Max	Mean	Std. Dev.
Collateral requirements from microfinance institutions make it difficult to access loans.	69	2.00	5.00	2.693	1.9298
I have been denied loans due to insufficient collateral.	69	2.00	5.00	3.9260	1.5806
I find the collateral requirements for loans by microfinance institutions fair.	69	1.00	5.00	3.3475	1.7876
The value of collateral requested by microfinance institutions is reasonable compared to the loan size.	69	1.00	5.00	3.7194	1.6384
Grand Mean				3.3330	
Valid N (listwise)	69				

Source: Survey Data (2026)

Table 2 shows that respondents generally disagree that collateral requirements make it difficult to access loans (Mean = 2.693), with this value falling below the benchmark threshold of 3.00. However, respondents agree that some have been denied loans due to insufficient collateral (Mean = 3.9260), and they also find the collateral requirements fair (Mean = 3.3475) and the value of collateral reasonable compared to the loan size (Mean = 3.7194). The grand mean of 3.3330 indicates overall agreement on the fairness and reasonableness of collateral requirements.

Table 3: Descriptive Statistics on Startup Capital Acquisition

	N	Min	Max	Mean	Std. Dev.
My business benefited from microfinance loans during the startup phase.	69	1.00	5.00	3.7912	1.1179
I relied on personal savings as a primary source of funding to start my business.	69	1.00	5.00	3.3367	0.6881
Private investors or venture capitalists were key contributors to my startup funding.	69	1.00	5.00	2.8243	1.3216
I found it easy to access loans from microfinance institutions or other financial institutions to start my business.	69	1.00	5.00	3.7830	1.2081
My business utilized cooperative society contributions as a source of startup capital.	69	1.00	5.00	3.9831	1.1606
Grand Mean				3.4338	
Valid N (listwise)	69				

Source: Survey Data (2026)

Table 3 shows that respondents generally agree that microfinance loans were beneficial during the startup phase (Mean = 3.7912), that it was easy to access loans from microfinance institutions or other financial institutions (Mean = 3.7830), and that cooperative society contributions were a valuable source of startup capital (Mean = 3.9831), with all values above the benchmark threshold of 3.00. Respondents also agree on relying on personal savings as a primary funding source (Mean = 3.3367). However, there is disagreement regarding private investors or venture capitalists being key contributors to startup funding (Mean = 2.8243). The

grand mean of 3.4338 indicates overall agreement on the importance of microfinance loans, personal savings, and cooperative contributions in acquiring startup capital.

Bivariate Analyses

Hypothesis One: Microfinance credit cost has no significant relationship with the startup capital acquisition of micro, small, and medium enterprises in Bayelsa State.

Table 4: Correlation Result Between Microfinance Credit Cost and Startup Capital Acquisition of MSMEs in Bayelsa State

		Microfinance Credit Cost	Startup Capital Acquisition
Microfinance Credit Cost	Pearson Correlation	1	-.848**
	Sig. (2-tailed)		.000
	N	69	69
Startup Capital Acquisition	Pearson Correlation	-.848**	1
	Sig. (2-tailed)	.000	
	N	69	69

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data (2026)

Table 4 shows a negative and significant relationship between microfinance credit cost and startup capital acquisition for MSMEs in Bayelsa State, with a Pearson correlation coefficient of -0.848. This correlation is statistically significant at the 0.01 level ($p = 0.000$), indicating that as microfinance credit cost increases, the level of startup capital acquisition by MSMEs decreases.

Decision: There is a negative but significant relationship between microfinance credit cost and startup capital acquisition of MSMEs in Bayelsa State. Thus, the null hypothesis is rejected.

Hypothesis Two: Collateral requirements have no significant relationship with the startup capital acquisition of micro, small, and medium enterprises in Bayelsa State.

Table 5: Correlation Result Between Microfinance Credit Cost and Startup Capital Acquisition of MSMEs in Bayelsa State

		Collateral Requirements	Startup Capital Acquisition
Collateral Requirements	Pearson Correlation	1	-.572**
	Sig. (2-tailed)		.000
	N	69	69
Startup Capital Acquisition	Pearson Correlation	-.572**	1
	Sig. (2-tailed)	.000	
	N	69	69

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data (2026)

Table 5 shows a negative and statistically significant relationship between collateral requirements and startup capital acquisition for MSMEs in Bayelsa State, with a Pearson

correlation coefficient of -0.572. This correlation is significant at the 0.01 level (p = 0.000), meaning that stricter or higher collateral demands are likely to reduce MSMEs' ability to access startup capital.

Decision: There is a negative but significant relationship between collateral requirements and startup capital acquisition of MSMEs in Bayelsa State. Thus, the null hypothesis is rejected.

Discussion

The findings of this study reveal a negative but significant relationship between microfinance credit cost and startup capital acquisition of micro, small, and medium enterprises in Bayelsa State, indicating that higher credit costs reduce MSMEs' ability to access funds for business startup. Similarly, collateral requirements were found to have a significant negative relationship with startup capital acquisition of micro, small, and medium enterprises, suggesting that stricter or higher collateral demands limit MSMEs' access to necessary capital. These findings present a novel contribution to the literature as there are no direct studies specifically addressing the relationship between microfinance credit cost, collateral requirements, and startup capital acquisition of MSMEs in Bayelsa State. Related studies, such as Toromo (2020), reported that microcredit costs and collateral requirements negatively influenced the financial performance of MSMEs in Baringo Central Constituency, Kenya, while Morobe (2015) observed that higher microfinance loan costs affected the financial performance of SMEs in Nairobi County. Kiai et al. (2019) found that collateral requirements had a negative but statistically insignificant effect on agribusiness SMEs in Nyeri Central Sub County, and Omolawal and Adeniyi (2024) identified limited access to collateral as a key barrier for female entrepreneurs in Lagos State. These prior studies support the general understanding that microfinance credit conditions, including costs and collateral requirements, can constrain MSME growth, while this study specifically highlights their critical role in startup capital acquisition in Bayelsa State, emphasizing the need for more flexible and accessible microfinance policies to enhance enterprise development and financial inclusion.

5. Conclusion and Recommendations

Conclusion

This study examined the relationship between microfinance credit conditions and startup capital acquisition of micro, small, and medium enterprises in Bayelsa State. The findings revealed that microfinance credit cost has a negative but significant relationship with startup capital acquisition, indicating that higher credit costs reduce the ability of MSMEs to access funds for business startup. Similarly, collateral requirements were found to have a negative but significant relationship with startup capital acquisition, showing that stricter or higher collateral demands limit MSMEs' access to necessary capital. Based on these findings, the study concludes that affordable microfinance credit and flexible collateral policies are critical for enhancing startup capital acquisition of MSMEs in Bayelsa State, supporting financial inclusion and promoting the growth and sustainability of small and medium-sized enterprises.

Recommendations

Based on the findings, the following recommendations are made:

1. Microfinance institutions should reduce credit costs and adopt flexible repayment terms to enhance the ability of micro, small, and medium enterprises in Bayelsa State to access startup capital. Lower interest rates and minimal additional fees would encourage more MSMEs to utilize microfinance loans, promoting business startup and growth.

2. Collateral requirements should be made more adaptable and inclusive by accepting alternative forms of security such as group guarantees, future income, or personal guarantees. This would enable MSMEs, particularly those in rural areas or without substantial assets, to access the necessary funds for startup capital acquisition and improve financial inclusion.

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