



## Policy Implementation Gap and Entrepreneurial Ecosystem Performance in Nigeria

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### Abstract

### Original Research Article

The Nigerian entrepreneurial ecosystem exhibits a striking paradox. Despite a vibrant entrepreneurial culture, over 80% of Micro, Small and Medium Enterprises (MSMEs) fail within their first five years of operation. This paper examines the central thesis that this poor ecosystem performance is largely attributable to a persistent and pervasive policy implementation gap; the disconnect between well-intentioned government policies and their tangible outcomes on the ground. By reviewing recent academic literature, policy documents, and sector reports, the analysis identifies key manifestations of this gap, including fragmented policy adoption across states, credit design mismatches, and systemic underfunding. The paper argues that addressing this implementation deficit requires targeted institutional reforms, performance-based monitoring frameworks, and a strategic shift from policy formulation to effective execution.

**Keywords:** Policy Implementation Gap, Entrepreneurial Ecosystem, MSMEs, Nigeria, Startup Act, SME Finance.

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### 1. Introduction

Micro, Small and Medium Enterprises (MSMEs) form the backbone of the Nigerian economy, accounting for approximately 96.9% of all businesses, 87.9% of national employment, and nearly 48% of Gross Domestic Product (GDP). These enterprises are central to achieving sustainable economic development, job creation, and poverty reduction in Africa; s largest economy. Consequently, successive governments have launched numerous policies and programmes designed to foster entrepreneurship, improve access to finance, and create an enabling environment for business growth.

However, the performance of Nigeria's entrepreneurial ecosystem remains stubbornly weak. Over 80% of MSMEs shut down within five years of operation, a mortality rate significantly higher than the African average of 54%. This poor performance persists despite the existence of an array of public policies and interventions. The central problem appears not to be a complete absence of government support, but rather the limited effectiveness of many policy interventions in addressing the structural constraints that shape Nigeria's enterprise environment. This study therefore examines the nature and consequences of the policy implementation gap in Nigeria and its



detrimental impact on entrepreneurial ecosystem performance.

## 2. Literature Review: The Policy Implementation Gap

### 2.1 Defining the Implementation Gap in Entrepreneurship Policy

The policy implementation gap refers to the divergence between stated policy objectives and actual outcomes. In the context of entrepreneurship development, this gap emerges when government programmes fail to achieve their intended goals due to deficiencies in execution, coordination, or monitoring. Research on developing economies has established that even well-designed programmes frequently produce limited results when implementation gaps, bureaucratic inertia, or credit market failures undercut their intent.

The Nigerian context exemplifies this phenomenon. A recent study examining the effect of public policies on SME development in North Central Nigeria concluded that "despite the existence of various public policies aimed at fostering SME development, there is a significant disconnect between policy intent and actual outcomes, suggesting that the current policy mechanisms are ineffective in driving SME growth". This finding is reinforced by a policy review warning that "structural weaknesses in the business environment have continued to limit the long-term impact of government support programmes".

### 2.2 Conceptual Framework: Tripartite Entrepreneurial Ecosystem Model

To understand the implementation gap's effects, this paper adopts the tripartite framework proposed by recent scholarship on the Nigerian entrepreneurial ecosystem. This framework identifies three interdependent components:

1. Actors: Entrepreneurs, investors, policymakers, and support organisations
2. Factors: Institutional frameworks, infrastructure, and financing mechanisms
3. Support Systems: Incubators, networks, and

capacity-building programmes

Systemic barriers that hinder startup development and scalability result from limited interactions among these three components. The implementation gap primarily disrupts the "Factors" component; specifically the institutional frameworks and financing mechanisms; thereby undermining the entire ecosystem's functioning.

## 3. The Nigerian Policy Landscape for Entrepreneurship

### 3.1 Key Policy Instruments

Nigeria has developed a range of policy instruments targeting entrepreneurship development. The most significant among them is the Nigeria Startup Act 2022, a landmark legislation designed to accelerate innovation, improve access to funding, and position Nigeria as a leading digital economy in Africa. Additionally, the National MSME Policy (2021–2025) provided a framework for enterprise development, currently undergoing revision for the 2026–2030 cycle. The federal government has also established intervention funds, including a ₦200 billion MSME and manufacturing intervention fund, and attracted international financing such as the World Bank's \$500 million FINCLUDE project to expand access to credit.

### 3.2 The Scale of the Implementation Challenge

Despite these policy commitments, a significant and persistent implementation gap characterises Nigeria's entrepreneurship policy landscape. Data from the National Bureau of Statistics reveals that while the Information and Communications Technology (ICT) sector contributed between 17 and 20 percent to Nigeria's GDP in 2024, "this growth has not been matched by the institutional support required to sustain startups across regions". Industry observers describe Nigeria's startup landscape as "vibrant but constrained, with strong entrepreneurial energy limited by access to capital, weak structures, and inconsistent policy

implementation".

#### 4. Manifestations of the Policy Implementation Gap

##### 4.1 Federal-State Fragmentation: The Startup Act

The most vivid illustration of the policy implementation gap is the uneven rollout of the Nigeria Startup Act. Four years after its passage, fewer than a quarter of states have fully adopted the law, creating a fragmented policy landscape. Startups outside Abuja and Lagos continue to face multiple taxation, weak infrastructure, and regulatory uncertainty. As one founder in southern Nigeria observed: "There's been a lot of policy conversation, but not much has filtered down to us at the state level. We still deal with the same regulatory bottlenecks and limited access to funding".

A recent empirical study using fuzzy DEMATEL methodology identified four key causal barriers driving this failure: insufficient funding, bureaucratic bottlenecks, policy incoherence and low awareness of the Act. These root causes were found to influence six dependent barriers including lack of inter-agency coordination, inadequate technical capacity, and limited monitoring and evaluation systems. Bureaucratic bottlenecks emerged as the most central and influential barrier within the policy implementation network.

##### 4.2 Credit Access Without Productive Investment

Another critical manifestation concerns financial interventions. Between 2021 and 2025, financial institutions and the Central Bank of Nigeria introduced several intervention funds designed to improve access to credit for MSMEs. However, the review of this policy cycle reveals that most financial facilities were structured primarily as short-term liquidity support rather than long-term investment capital. Consequently, many businesses used borrowed funds to manage operational pressures rather than to drive sustained business expansion through capital investment or technological

upgrades. Macroeconomic instability; inflation, exchange-rate volatility, and escalating energy costs; further discouraged long-term investment.

Nigeria thus faces not only an MSME finance gap but also a credit design problem. As one analysis observes: "The credit gap is real, but fit matters too. Many MSMEs do not just need more money. They need better structured money." The continued use of underwriting signals that do not capture how small businesses actually operate results in viable businesses being excluded while poorly structured loans fail both parties.

##### 4.3 Systemic Underfunding of the SME Sector

The financing gap is severe. Studies reveal that financial exclusion affects 80% of SMEs, and infrastructural deficits cost businesses an estimated \$29 billion annually\*\*. Fewer than one in twenty MSMEs have access to bank credit; loans are often short-term and costly; and collateral requirements exclude many viable firms. Women-led enterprises are disproportionately affected. The International Finance Corporation estimates that Nigerian SMEs face a significant financing gap of over \*\*\$32 trillion, a figure likely higher now. More recently, experts have described a N130 trillion credit gap affecting approximately 39 million MSMEs, calling it a "structural failure" in capital allocation.

#### 5. Effects on Entrepreneurial Ecosystem Performance

##### 5.1 High Business Mortality and Reduced Competitiveness

The cumulative effect of these implementation failures is reflected in ecosystem performance indicators. The SME mortality rate of over 80% within five years; far exceeding the African average of 54%; represents a staggering waste of entrepreneurial potential and economic resources. As one sector observer notes, "If even half of Nigeria's MSMEs lasted beyond five years, the economic impact would be transformational".

The economic cost extends beyond business

failures. Entrepreneurs expend considerable energy navigating bureaucratic bottlenecks, meeting multiple tax obligations, and coping with unreliable infrastructure. Policy inconsistencies and regulatory flux undermine investor confidence and discourage formalisation. Approximately 40 million MSMEs in Nigeria operate largely outside official systems, rendering them "invisible" to lenders, investors, and policymakers.

## 5.2 Exacerbation of Existing Structural Constraints

The policy implementation gap amplifies pre-existing systemic challenges in the entrepreneurial ecosystem. Institutional voids, inadequate infrastructure, a widening skills gap, regulatory bottlenecks, and restricted market access collectively impede entrepreneurial growth and economic transformation. Each policy failure reinforces these structural weaknesses, creating a vicious cycle where entrepreneurs and small businesses become increasingly reliant on informal coping mechanisms rather than formal institutional support.

## 6. Contributing Factors to the Implementation Gap

Drawing on the reviewed literature, several key factors contribute to the persistent policy implementation gap in Nigeria's entrepreneurial ecosystem.

Bureaucratic bottlenecks and inter-agency coordination failures. The fuzzy DEMATEL study identified bureaucratic bottlenecks as the most central and influential barrier. Overlapping mandates, poor communication between federal and state agencies, and fragmented institutional arrangements severely hamper policy execution.

Inadequate monitoring and evaluation frameworks. The disconnect between policy intent and outcomes is exacerbated by weak M&E systems that fail to track performance, provide feedback loops for policy adjustment, or hold implementing agencies accountable.

Limited technical capacity. Many states lack the

institutional capacity or clear strategy to engage with the innovation ecosystem. This capacity deficit prevents effective domestication of federal policies at subnational levels.

Insufficient stakeholder engagement. Policy design often occurs without adequate consultation with entrepreneurs and ecosystem actors, leading to programmes that do not address real-world needs. The recent launch of the Renewed Hope Enterprise Bridge Initiative acknowledges this gap, aiming to "bridge the long-standing gap between government decision-makers and entrepreneurs by ensuring that policies are shaped by real business experiences".

Macroeconomic instability. Inflation, exchange-rate volatility, and high energy costs create an unpredictable business environment that undermines even well-implemented policies. As the MSME policy review found, "while access to credit improved, the broader economic conditions required to stimulate productive enterprise investment remained fragile".

## 7. Case Study: Addressing the MSME Finance Gap

The World Bank's FINCLUDE project, approved in December 2025, represents an ambitious attempt to address the implementation gap in SME finance. The \$500 million package aims to mobilise approximately \$1.89 billion in private capital, expand debt financing to 250,000 MSMEs, and issue up to \$800 million in guarantees. Critically, it targets structural weaknesses by extending the average maturity of MSME loans to about three years, helping firms invest in equipment, factories, and productivity improvements.

However, the project's success will depend on its implementation. A recent analysis warns: "The World Bank's FINCLUDE programme will mobilise \$1.89 billion and extend credit to 250,000 MSMEs. But external programmes, while helpful, are insufficient to close a financing gap of Nigeria's scale." The same source notes that Nigeria's SME finance gap "will not be closed by announcements alone. Capital matters, guarantees matter, and

infrastructure matters. But if product structure remains weak, more money can still produce the same poor outcomes".

The FINCLUDE project thus illustrates both the potential and the challenge: well-designed policy instruments can address systemic gaps, but their effectiveness ultimately depends on the quality of implementation and the alignment of incentives across the financial ecosystem.

## 8. Recommendations for Bridging the Implementation Gap

Based on the analysis above, the following recommendations are proposed for bridging the policy implementation gap and improving entrepreneurial ecosystem performance in Nigeria.

1. Establish centralised policy coordination mechanisms. Policy harmonisation through a central coordinating body can reduce fragmentation and ensure coherent implementation across federal and state levels. This body should have clear mandates, adequate resources, and authority to resolve inter-agency conflicts.
2. Strengthen state-level institutional capacity. Targeted technical assistance and capacity-building programmes for state governments are essential to enable domestication of federal policies, particularly the Startup Act. States should be provided with implementation toolkits, training, and performance incentives.
3. Redesign policy monitoring and evaluation frameworks. There is an urgent need for "a fundamental redesign of policy implementation and monitoring frameworks to ensure they are targeted, performance-based, and address the specific, on-the-ground challenges faced by SMEs". M&E systems should include real-time data collection, independent evaluations, and public performance reporting.
4. Reorient financial interventions toward long-term investment. Credit facilities should be restructured to provide longer

tenors, more flexible collateral requirements, and underwriting approaches that capture actual business performance rather than formal documentation alone. The FINCLUDE project's focus on three-year loan maturities is a positive step.

5. Enhance formalisation through digital identification systems. The single biggest structural gap holding SMEs back is formalisation. With approximately 40 million MSMEs not captured in any system, digital identification and simplified registration processes are critical to making businesses visible to lenders and policymakers.
6. Foster public-private-ecosystem collaboration. Deliberate and sustained engagement between policymakers and entrepreneurs<sup>1</sup> through platforms like the Renewed Hope Enterprise Bridge Initiative<sup>2</sup> can ensure that policies are informed by real business experiences and adjusted based on feedback.

## 9. Conclusion

The Nigerian entrepreneurial ecosystem possesses immense potential to drive economic growth, innovation, and job creation. Yet this potential remains largely unrealised due to a persistent and pervasive policy implementation gap. The disconnect between policy intent and actual outcomes manifests across multiple dimensions: fragmented adoption of the Startup Act, credit design mismatches that fail to support productive investment, and systemic underfunding of the SME sector. The consequences are stark: over 80% of MSMEs fail within five years, and countless viable enterprises operate invisibly outside formal systems.

Bridging this gap requires more than additional policies or funding announcements. It demands a fundamental shift in governance approach<sup>3</sup> from policy formulation to effective execution, from fragmented interventions to coordinated strategies, and from short-term liquidity support to long-term ecosystem building. The evidence is clear: Nigeria's entrepreneurs have the ideas

and courage, but they lack the structures to match their energy. Closing the implementation gap is not merely a technical exercise; it is a strategic imperative for economic transformation in Africa's largest economy.

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