



## The Role of Government Interventions in the Development of Small and Medium Enterprises (SMES) in Nigeria

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### **Abstract**

Small and medium scale enterprises (SMEs) are noted for their enormous contribution towards the economic expansion and development of nations globally, hence the inevitability of government interventions in ensuring the growth of this subsector of the economy. This paper is a qualitative research work which focused on a detailed discussion of the contributions of SMEs to the social and economic development of the Nigerian society. It also x-rays the challenges encountered by micro, small and medium-scale enterprises in the country which included inaccessibility to affordable credit and financing options, inadequate physical infrastructure, the burden of multiple taxes and levies among others. The study revealed that despite the efforts of government interventions in terms of policies and institutions such as the Central Bank of Nigeria MSME Development Fund, Bank of Industry (BOI), Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) and many others, only a handful of MSMEs in Nigeria have access to government financing as the beneficiaries of these government institutions are very minimal in virtually all the state of the federation. The paper concludes that governmental institutions and all the relevant stakeholders must deplore a coordinated effort of supporting MSMEs to grow and thrive in order to realize the much needed socio-economic transformation in Nigeria

**Keywords:** SMEs, GDP, economic growth, government interventions

## **Introduction**

Small and medium scale enterprises (SMEs) are noted for their immense contribution towards the economic growth and development of nations globally. They represent a significant share of the world economy as they provide productive employment opportunities, wealth creation and contribute to the overall well-being of societies. According to the World Bank (2015), SMEs account for about 90% of all firms and 50% of employment worldwide. They are also responsible for driving innovation and competition in many economic sectors. The profit generation of SMEs creates multiplier effects that can lead to increased

economic activity, higher standard of living and strengthen local economies. In both developed and developing economies, SMEs have emerged as one of the most important tools for addressing economic and social issues and achieving developmental goals. The Organization for Economic Cooperation and Development (OECD) (2017) statistics showed that SMEs make up more than 60% of the gross domestic product (GDP) of developing economies and more than 70% of the total employment. SMEs play a critical role in achieving the sustainable development goals (SDGs) by promoting inclusive economic growth and development, providing decent jobs, and reducing economic disparity among people (OECD, 2017).

In Nigeria, SMEs constitute a significant portion of the business landscape, accounting for a significant share of the country's Gross Domestic Product (GDP). According to Abimbola (2024), over 40 million SMEs exist in Nigeria and they employ over 80% of the country's population. They contribute about 50% of Nigeria's GDP and they are the vital drivers of economic growth and development in the country. SMEs in Nigeria are diverse and dynamic, operating in various sectors including agriculture, manufacturing, services and technology. They provide employment opportunities for millions of Nigerians and foster innovation and entrepreneurship. SMEs support the development of local supply chain which creates a multiplier effect as money spent by SMEs circulates within the local economy, supporting other businesses and stimulating growth.

However, despite their relevance, SMEs in Nigeria are faced with numerous huddles such as inaccessibility to affordable credit and financing options, complex bureaucratic procedures, high taxes and inconsistent government policies. Many SMEs struggle to secure funding due to high interest rates and stringent collateral requirements from banks. Couple with inadequate infrastructure like good road network and reliable power supply which limit the growth of SMEs and results in high operational cost and making it difficult for SMEs to compete favourably with larger firms.

For Nigeria to harness the full potentials of SMEs, government policies in terms of laws, regulations, trade

agreements and innovations has to be favourable to provide the enabling environment for the survival and growth of SMEs. With appropriate policies and concerted efforts of government, the potentials of SMEs to drive broad-based development can be unleashed. According to Desai (2010), government and its institutions are to ensure the development of enterprises, encourage viable business environment and formulate policies suitable for business enterprises to thrive. The objective of this paper is to explore some key policy issues considered as crucial in creating and sustaining an enabling environment for SMEs to thrive in Nigeria. To this end, the rest of the paper is divided into four sections. Section 2 is a conceptualization of the term 'small and medium enterprises', section 3 discusses the relevance of SMEs to the Nigerian economy and the challenges encountered by MSMEs in the country. Section 4 reviewed some government interventions in supporting MSMEs while Section 5 provides the concluding remarks and suggestions.

### **Conceptualizing Small and Medium scale Enterprises (SMEs)**

Small and Medium scale Enterprises (SMEs) are businesses that have a certain number of employees, revenue or assets below a certain threshold. There is hardly any unique and universally accepted definition of SMEs because the classification of enterprises into small, medium or large is subjective and quantitative (Awe, 2002). SMEs are variously defined on the basis of the size or amount of investment in assets; the total annual turnover; the number of employee among others. According to Okafor, Onifade & Ogbechi (2018), the

classification of enterprises as 'small' and 'medium' varies in different countries, regions, industry, and from one period to another in the same economy. There are however some parameters that identify an enterprise as small and medium scale, they include the asset base, the turnover and financial strength, the number of employees among others. In developed economies such as the United Kingdom, the United States of America and Canada, the definition criterion adopted is a mixture of employment level and annual turnover (Oduntan, 2014).

The European Union (EU) defines SME as businesses with up to 250 employees. It also identifies three subcategories of businesses which include; micro enterprises with up to 10 employees; with a turnover of less than €2 million and a balance sheet total of less than €2 million. There are also small businesses that employ up to 50 people, have a turnover of less than €10 million and a balance sheet total of less than €10 million. The medium-sized businesses are enterprises that employ up to 250 people, have a turnover of less than €50 million and a balance sheet total of less than €43 million. In Canada, SMEs are defined as businesses with less than 500 employees and they cannot have more than \$50 million in gross revenues. SMEs are also categorized into small product-based businesses (with less than 100 employees), small service-based businesses (with less than 49 employees), and micro-businesses (with less than five employees).

In Australia, SMEs are businesses with an aggregated turnover of less than \$10 million. In addition, the Australian Bureau of Statistics (ABS) breaks SMEs into several smaller categories based on

the number of employees. Medium businesses have between 20 to 199 employees, small businesses have between 5 to 19 employees and micro businesses have between 0 to 4 employees. In Malaysia, SMEs are firms with sales turnover not exceeding RM20 million or number of full-time employees not exceeding 75. In the United States of America, small businesses are regarded as any enterprise with less than 250 workers depending on the industry and whose annual turnover is less than \$10 million dollars depending on the industry (United States international trade commission, 2010). In the United Kingdom (UK) a company is described as an SME if it meets two out of three criteria which are; having a turnover of less than 25 million pounds, it has fewer than 250 employees, has gross assets of less than 12.5 million pounds. Very small companies are referred to as micro-entities, which have simpler financial reporting requirements. Such micro-enterprises must meet any two of these criteria which include balance sheet of 316,000 pounds or less; turnover of 632,000 pounds or 10 employees or less.

In Nigeria, the Central Bank of Nigeria (CBN) defines SMEs according to the asset base and the number of staff employed. CBN classified SMEs to have asset base of N5 million (\$15,400) and N500 million (\$1,538,000), and staff strength between eleven (11) and one hundred (100) employees. The SMEs are categorized into micro, small and medium enterprises. Micro enterprises have between one (1) and nine (9) employees with annual revenue of less than \$10 million dollars. Small enterprises have between ten (10) and forty-nine (49) employees and annual revenue of \$10

million to \$100 million dollars, while medium enterprises have between fifty (50) and two hundred and forty-nine (249) employees and annual revenue of \$100 million dollars to \$1 billion dollars. According to the Ministry of Industry, Trade and Investment, Nigeria has over 41.47 million micro, small and medium-scale enterprises and they account for more than 84% of total jobs in the country. They also account for about 48.5% of the country's Gross Domestic Product (GDP), as well as about 7.27% of goods and services exported out of the country (National Bureau of Statistics, 2019). Nigeria's MSMEs account for 96% of the total number of businesses in the country and contribute about 50% to the national GDP. In terms of ownership structure, 73% of MSMEs are sole proprietorships while 14% are private limited liability companies. The balance of 13% are partnerships (6%), Faith based organizations (5%), cooperatives (1%) and others (1%) (PwC MSME survey, 2020).

### **Relevance of Micro, Small and Medium Enterprises (MSME) to the Nigerian Economy**

Micro, Small and Medium Enterprises (MSMEs) are the bedrock of Nigeria's industrialization and inclusive economic development as they play a significant role in the economic transformation of the country. They possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship, increased local content of industrial output by fostering forward and backward industrial linkages to enhance the general level of economic activity (Olisah, 2023). MSMEs are

particularly relevant in supporting economic growth in Nigeria because of its tendency to utilize local raw materials and labour in the production process than large enterprises, boosting employment and leading to more equitable income distribution, providing livelihood opportunities through simple, value-adding processing activities in agriculture based economies (Okafor, Onifade & Ogebechi, 2018).

SMEs help to support the building up of system production capacities and the creation of resilient small economic systems. They support improved income redistribution as a result of the low capital requirement; increases job creation and skill development; increases adoption of local technology and innovation; enhances industrial diversification and stimulates local economy by meeting demand down the value chain. MSMEs in Nigeria play very significant role in contributing to the country's Gross Domestic Product (GDP). They aid technology/industrial development, promote economic growth, increase standard of living, industrial spread and dispersal, servicing of large-scale industries, export promotion, structural transformation of rural areas among others (Adekoya, 2018 and Abubakar, Imran & Abba, 2020). SMEs also contribute to the reduction of rural-urban migration because the start-up does not require much capital and managerial skill. The SMEDAN/NBS MSME survey carried out in 2019, indicates that SMEs in Nigeria contributes nearly 50% of the country's GDP and account for over 80% of employment in the country. There is no doubt that the micro, small and medium scale enterprise sector is pivotal

to the economic growth and poverty reduction in Nigeria.

### **Challenges encountered by Micro, Small and Medium Enterprises (MSME) in Nigeria**

Despite the significant contributions of SMEs to the business landscape and the economy of Nigeria, challenges still persist and this tends to compromise their capacity to effectively contribute to the economic growth and development of the country. The challenges encountered by this sector include poor access to finance, poor infrastructure, inconsistency in government policies, multiple taxation, lack of access to modern technology, high cost of doing business among others (CBN, 2011, Olisah, 2023, Adekoya, 2018, Abubakar, Imran & Abba, 2023). According to the National Bureau of Statistics (NBS) (2019), micro businesses faces challenges relating to their day-to-day running cost, insufficient cash flow, high fuel price, multiple taxation levied by levels of government among others. For the small and medium enterprises, high electricity tariff, high taxes and high interest rate are the main challenge that they are faced with.

Access to finance is a major constraint to MSMEs progress in Nigeria and this is attributed to difficulty in accessing credit facilities from commercial banks. According to Adekoya (2018), only 11% of companies in Nigeria had access to commercial bank loans in 2014 as a result of the unreasonable interest rate and inability to meet up with terms and conditions of obtaining the credit facilities. The issue of accessing bank loan is of serious concern to both existing

as well as prospective MSMEs. Difficulty in accessing funds has resulted in the overwhelming short life span of many businesses in Nigeria (Abubakar, et.al. 2020). Most MSMEs in Nigeria are heavily reliant on personal savings or loans from friends as well as family support in some cases especially at the start-up stage. The inability of SMEs to raise funds from external sources such as equity market and bank loans according to NBS (2019) can largely be attributed to lenders and investors perception of SMEs as high risk due to lean asset and capital base, susceptibility to market dynamics and high rate of mortality. Also, some SMEs lack proper accounting records, inadequate financial statements and business plans which makes appraisal of SMEs credit worthiness a herculean task. Financial institutions in Nigeria perceive SMEs as high risk, thus they are unwilling to extend long-term loans. In cases where SMEs are able to secure debt financing through banks and other financial institutions, it is usually on short-term basis and at exploitative interest rate (Effiom & Edet, 2018).

Inadequate physical infrastructure is also a major cause of low level of performance of micro, small and medium enterprises in Nigeria. In general, infrastructure is the foundation on which economic activities thrive, as poor infrastructure impacts on the ease of doing business. The dearth of key infrastructure in several sectors of the economy has continued to limit Nigeria's growth potentials in its competitive ability globally. This infrastructure challenge is evident in the poor state of roads and railway networks, epileptic power supply, inadequate digital connectivity, high cost of fuel to power generators among others.

The Nigerian power sector is overwhelmed by myriad of challenges ranging from operational inefficiencies to infrastructural deficiencies. These challenges have culminated in inadequate electricity supply that has adverse impact on the business environment in Nigeria; consequently, contributing to significant economic costs to MSMEs economic growth. The International Monetary Fund (IMF) states that lack of access to reliable electricity supply costs the Nigerian economy an estimate of USD29 billion yearly and that an approximately one out of every seven firms exits the Nigerian economy because of the huge shortfall in electricity supply in Nigeria (PwC MSME Survey, 2020).

Micro, small and medium enterprises are also faced with the burden of multiple taxes and levies, lack of coordination between the federal and state tax agencies, absence of technology platform(s) for ease of payment of all taxes and levies, as well as lack of fully functional tax refunds schemes at the state and federal levels (PwC MSME Survey, 2020). There is also the absence of comprehensive tax payment schedule notification or calendar, and unfriendly business demands from government officials and local tax collectors. Although tax remittance is a significant source of revenue generation that helps the government to meet its statutory obligations, however, its multiplicity and duplication by government agencies has made it a clog in the wheel of progress for micro, small and medium-scale enterprises (Olufemi, 2023). One of the major outcries of businesses in Nigeria has always been the multiplicity of taxes and levies paid to agencies in federal, state and local governments. Though there are

clear legislations that outline list of taxes and levies to be collected by the three tiers of government agencies and ministries, multiple taxes still thrive, causing disincentive in the business environment as the MSME struggle to survive amid worsening economic conditions and unfriendly operating environment. According to Olufemi (2023), tax duplication has been highlighted as a significant contributor to the poor ranking of Nigeria on the world ease of doing business index. The mortality rate of MSMEs is high owing to challenges relating to multiple taxation at both the national and sub-national levels.

### **Government Support to Micro, Small and Medium Enterprises (MSME) in Nigeria**

To overcome some of the issues of MSMEs finance, a number of institutions have been established to compliment the effort of small business for their role in ensuring a steady economic growth. They include:

(a) **Development Bank of Nigeria (DBN):** The Development Bank of Nigeria (DBN) was established by the Nigerian government in collaboration with some global development partners to support micro, small and medium scale enterprises in matters related to finance and credit guarantees with the sole aim of alleviating the monetary hitches confronting MSMEs in the country (Mfon, 2019). The DBN loans are not given directly to MSMEs but they are given through commercial banks, micro finance banks and other financial institutions known as Participating Financial Institutions (PFIs). The PFIs then offer the loans

to borrowers who are their account holders. The interest rates; collateral requirements as well as payback period is said to be moderate after risk assessment (Abubakar, et.al. 2020).

**(b) *The Central Bank of Nigeria (CBN)***

**(CBN):** Although the Central Bank of Nigeria (CBN) does not lend money directly to Small and Medium Enterprises SMEs, it however have several programmes through which monies are disbursed to government-run development financing institutions. These institutions are charged with the responsibility of lending the funds to commercial banks through which SMEs could borrow at cheap interest rates. The CBN's 220 billion Naira intervention fund for example, allocated monies to each of Nigeria's 36 states and the Federal Capital Territory (FCT) to guarantee that state governors have the resources they need to assist SMEs in their states (Obika, 2021). The CBN, through several development finance operations, provides a variety of loans to businesses across the country, such as Anchor Borrower's programme (ABP), Commercial Agriculture Credit Scheme (CACS), Creative Industry Financing Initiative, Micro, Small Medium Enterprises Development Fund (MSMEDF), Paddy Aggregation Scheme (PAS) among others.

**(c) *Central Bank of Nigeria (CBN) MSME Development Fund:***

The Central Bank of Nigeria (CBN) in 2013 launched the Micro, Small and Medium Scale Enterprises (MSMEs) Development Fund with a share capital of N220 billion Naira. The Fund was established in recognition

of the significant contribution of the MSME subsector to the Nigerian economy and the existing huge financial gap experienced in the sector. The broad objective of the Fund was to channel low interest funds to the MSME subsector through Participating Financial Institutions (PFIs). Ten (10) percent of the Fund was devoted to developmental objectives such as grants, capacity building and administrative costs while ninety (90) percent commercial component was released to Participating Financial Institutions (PFIs) at 2% for on-lending to MSMEs at a maximum interest rate of 9% per annum. The eligible activities to be financed by the Fund included the agriculture value chain, services, cottage industries, artisans, trade and commerce and any income generating business as may be prescribed by the Central Bank of Nigeria from time to time. The accessible fund ranges from five to fifty million naira with repayment duration between one to three years (Fidelity bank, 2019 and Abubakar, et.al. 2020).

**(d) *The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN):***

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003 to facilitate the promotion and development of the micro, small and medium enterprises (MSME) sector in an efficient and sustainable manner. SMEDAN has several mandate aimed at promoting and developing small and medium enterprises in Nigeria. These include; policy formulation and advocacy, capacity building, ensure

access to finance, research and development, entrepreneurship promotion, monitoring and evaluation, coordination and collaboration among others.

## Concluding Remarks

While these policies aimed at providing easier access to finance and addressing the challenges of MSMEs are good and commendable, the business climate in Nigeria still remain hostile as a result of ineffective implementation of these policies and institutional framework. Regardless of the efforts of government in terms of policies and agencies such as the Central Bank of Nigeria MSME Development Fund, Bank of Industry (BOI), Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) and others, only a handful of MSMEs in Nigeria have access to government financing.

Most micro and small businesses are not aware of the existence of SMEDAN and other government agencies put in place to offer services to businesses. According to Abubakar et. al. (2020), the introduction of easily accessible loans for micro, small and medium scale enterprises start-up schemes with incentives such as low interest rates within the shortest period of time by the Central Bank of Nigeria (CBN) and other relevant stakeholders would go a long way in enhancing the growth and development of businesses in the country. The government and financial institutions should collaborate to create targeted financial products and incentives that cater to the specific needs of MSMEs such low-interest loans, grants and export financing. With appropriate

policies and concerted efforts, the potentials of the micro, small and medium enterprises to drive broad-based development can be achieved and realized. MSMEs require the maximum support of the government to achieve both the short and long term economic growth and development.

Furthermore, ensuring that the MSME sector is free of the burden of multiple taxes is very critical to the survival and growth of small businesses in Nigeria. Deploying a single centralized technology platform for tax administration in the country would help to improve tax collection, enhance ease of payment, reduce cost of tax collection as well as eliminate the leakages in the system. The time saved in payment of taxes could be deployed into more productive ventures by businesses and the nation as a whole (PwC MSME Survey, 2020). Government at all levels should unify taxes paid by business owners to foster ease of doing business and for effective tax collection. The practice in several other countries is to unify taxes and reduce the number of taxes to a manageable size that government agencies can efficiently deal with. The federal and state government should streamline tax payments and provide effective channel of operations for the tax authority in order to achieve efficient tax collection. Tax rebates and tax holidays would also go a long way in ensuring the survival and growth of MSMEs in the country.

In order to ensure that more power is delivered adequately through the electricity value-chain to the final consumer or end-users, key attention is needed to provide solutions to infrastructural deficit in the power sector.

This include: the expansion of the on-grid generation capacity by improving gas supply to eliminate non-operational capacity; replacement of the obsolete equipments to power plants to restore unavailable capacity; investment in the development of new power plants, as well as the expansion of existing plants among others. In order for the micro, small and medium enterprise (MSME) sector to continue to be very relevant to the overall GDP growth and employment generation which would serve as a catalyst for the much needed socio-economic transformation in Nigeria, governmental institutions and all the relevant stakeholders must deplore a coordinated effort of supporting MSMEs to grow and thrive. According to Onyinyechukwu (2020), an enabling environment for SMEs encompasses policies, administrative procedures, enacted regulations and the state of public infrastructure.

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