

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/359255906>

Contributions of SMEs to Employment, Gross Domestic Product, Economic Growth and Development

Article · April 2022

CITATIONS

2

READS

2,425

2 authors:



Buba Pulka

University of Maiduguri

24 PUBLICATIONS 207 CITATIONS

[SEE PROFILE](#)



Muhammad Sani Gawuna

9 PUBLICATIONS 14 CITATIONS

[SEE PROFILE](#)

Contributions of SMEs to Employment, Gross Domestic Product, Economic Growth and Development

¹Buba Musa Pulka and ²Muhammad Sani Gawuna

¹Department of Business Administration, Faculty of Management Sciences, University of Maiduguri, Nigeria

²Department of Economics and Management Sciences, Nigeria Police Academy, Wudil, Kano

Email: bubapulka@unimaid.edu.ng & sanimuhdgawuna@yahoo.com

Abstract

Small and Medium Enterprises (SMEs) play an essential role in the provision of employment, contribute to the growth of GDP, economic growth and development of many countries. The SMEs are considered to be the main foundation and support for economic growth and development. However, with the rapid changes in the external business environment, and coupled with development brought about by ICT, there is always the need for continues studies to keep update possible changes that might occur in the environment and the field. Therefore, firstly, this study examined and analysed the role being played by SMEs toward employment, GDP, economic growth and development in the Nigerian economy. Secondly, the study reviewed the extant literature and empirical research and identified the problems and challenges facing SMEs in Nigeria. The research used data obtained from secondary sources. According to the literature, the problems and challenges facing SMEs are divided into two groups; the internal and external problems. This study attempted to identify the problems and challenges as a positive first step towards formulating a workable framework for the SMEs to overcome the problems and challenges. Hence, it is recommended that government programmes and incentives are either insufficient or not delivered effectively enough to overcome these problems. Consequently, recommendations were given to proffer solutions to the identified problems and challenges facing the SMEs in Nigeria.

Keywords: SMEs, employment, GDP, economic growth and economic development

Introduction

Small and Medium Scale Enterprises (SMEs) are the foundation stone for many country's economic growth and development. Nations with competent, innovative, creative, proactive, appropriately interconnected and with high-performance SMEs, would experience rapid economic growth and development through efficient utilisation of human and material resources (Pulka, 2019). High SMEs performance can be achieved when the SMEs initiate, implement and sustain right strategies, decisions and policies that enable them to gain competitive advantage, manage internal resources as well as external resources in the external environment. Similarly, SMEs serve as the machines for social and economic development and industrialization of many countries (SMEDAN, 2017). Additionally, it has been documented in the literature that SMEs provide an avenue for

enhancing technical, technological and entrepreneurial capabilities in an economy and drastically reducing poverty (Abisuga-oyekunle, Patra, & Muchie, 2019; SMEDAN, 2017). Hence, the increasing importance of the SMEs in any given economy cannot be overemphasized in view of the contributions to the employment, GDP, economic growth and of a nation state (Uzoamaka, 2021).

Likewise, SMEs provide jobs, help in creating wealth, help in income generation, evolution from agricultural to industrial economy, providing entrepreneurial opportunities for value chain links that produce viable livelihoods (Albassami, 2019; SMEDAN, 2017). Equally, SMEs contribute introduction of new products, new methods of processes and processing, aid in absorbing productive local resources and help in attracting foreign investment into the country (SMEDAN, 2017).

The importance of SMEs are vivid; researchers such as Mohamad, Mustapa, and Razak, (2021), Baporikar, Nambira, and Gomxos, (2016), Tarute and Gatautis (2014a), Toma, Grigore, and Marinescu (2014), Acs (2006), Razak (2011), Egena, Wombo, Theresa, & Bridget (2014), Nkechi (2013) and SMEDAN and NBS (2013) explain that the growing number of SMEs, entrepreneurial activities and entrepreneurs in an economy has become an essential area of focus for governments, researchers and other stakeholders. This is because SMEs make tremendous contributions towards employment creation, growth of GDP and export earnings, thereby reducing unemployment, social, political and economic problems inherent in an economy. The contributions of SMEs can be classified into individual, societal and national levels.

At the individual level, SMEs play a vital role in providing employment, improving individual sources of income, an improvement of the standard of living, forging of innovation, new ideas, training ground for new entrepreneurs, self-employment, and building job satisfaction. It also encourages acquisition entrepreneurial skills and knowledge, reduces dependency on family and government, income redistribution, stabilises family income, reduction in the level of poverty and it also enhances family saving and investment (Pulka, 2019; Pulka & Ndubuisi, 2016; Akugri, Bagah, & Wulifan, 2015).

Similarly, SMEs play a vital role in the society and country at large. It is contributing to the growth of GDP, employment, export, creating values for local resources, technological adoption and improvement, the introduction of new technologies, the introduction of new products and services, the introduction of new industries, development of new markets and discovery of new sources of raw materials. Similarly, it also serves in the mobilisation and accumulation of capital resources for the establishment of new businesses and business expansion. Equally, SMEs strengthen export earning of a country through international trade and they assist in boosting capacity utilisation of industries, creating linkages with international organisations through networking and giving the opportunities for development of SMEs into large enterprises (Shettima, 2017; Zafar & Mustafa, 2017; SMEDAN, 2012; Razak, 2011).

Problem Statement

Though, SMEs are been portrait to contribute to the economic growth and development of many countries, unfortunately in Nigeria, SMEs have continue to performed below

expectations (SMEDAN, 2017). This is owing to the several problems springing from both internal and external environments. The internal problems include frequent changes in government policies changes, lack of continuity, inadequate capacity building, risk aversion, aversion to joint ownership, financial mismanagement, lack of basic business capacity and information and communication technology (ICT), Low ICT assimilation, limited capabilities, lack of competencies, unfavourable attitude and habits of owners/managers (SMEDAN, 2017; Ukwu, 2017; Adekoya, 2016; Agabi, 2016; Ezekiel, Glory, & Alfred, 2016; Egbesola, 2015; Alaneme & Ofuani, 2015; SMEDAN & NBS, 2013).

While the external problems facing the SMEs in Nigeria include harsh business environment and inconsistent policies, access to fund, inadequate linkages to local and international supply chains, weak access to technology, low access to information, low capacity to invest in research and development, unstable power supply, poor network, access to market, inadequate finance, stiff competition, lack of trust, insecurity and lack of safety, environmental related issues, inadequate government support, frequent changes in government policies, high cost of doing business, multiple taxation system, high cost of legal documentation, difficulties encountered in obtaining credit facilities, corruption (Ukwu, 2017; Shettima, 2017; Adekoya, 2016; Agabi, 2016; Ezekiel *et al.*, 2016; Adebisi *et al.*, 2015; SMEDAN & NBS, 2013). All these converge to create bottlenecks for the SMEs in Nigeria that hinders them from achieving the desired aims and objectives.

Despite all the resources injected into the SMEs sub-sector, still, is not performing as planned and expected. For example, according to Aminu and Mahmood (2016) and Rogo, Noor, Shariff and Hafeez (2017) the contribution of SMEs to employment, GDP and export in Nigeria is very low (at 25%) and to employment (at 46.54%) compared to other countries like Japan (GDP, 53%; employment, 71% and export, 35%), India (GDP, 45%, Taiwan (GDP, 55% and employment, 78.3%) and China (GDP, 60% and employment, 75%) and Ghana (GDP, 70% and employment, 85%). Similarly, the performance of the SMEs is very low considering the employment SMEs provide, wealth and value creation and sustainable economic growth, despite having a pool of labour force of over 80 million. In the same vein, there is a high mortality rate among SMEs in Nigeria (International Finance Corporation, 2016). The report indicates that only 2% of newly established SMEs survive into the 5th year. SMEDAN and NBS (2013) and Hassan and Ogundipe (2017) expounded that just 15% of the newly established SMEs survived the first five years and some go into extinction between 6 to 10 years.

Moreover, with the oil boom in Nigeria, the non-oil sector (SMEs) has been neglected over the years. Before the discovery of crude oil in Nigeria, the non-oil sector used to contribute 93% of national income, but now is contributing less than 10% (Donwa, Mgbame, & Ekpulu, 2015; Ibenegbu, 2017), while the oil sector contributes over 90% of Nigeria national income. This made Nigerians and its government to neglect SMEs which is the bedrock for sustainable economic growth and development. Surprisingly, fall in the price of crude oil in the international market, the discovery of oil in many countries and high rate of corruption in the country has led to the poor achievement of government goals on the development of SMEs which further affected the economy negatively (Samans, Blanke, Corrigan, & Hanouz, 2017; Akeem, 2011).

Therefore, it is imperative to examine the factors that hinder the development of SMEs performance. Furthermore, these issues need urgent and adequate consideration to enhance the performance of SMEs in Nigeria capable of providing employment, growth in GDP and strengthening export capacities for foreign earning and balance of trade. Consequently, the objectives of the study are as follows; to evaluate the contribution of the SMEs to the growth of GDP; to assess the contribution of the SMEs to employment and to determine the key problems and challenges facing the SMEs in Nigeria.

Literature Review

This section provides a literature review on the various definitions SMEs, contributions of SMEs to the economy and problems facing the SMEs.

Small and Medium Scale Enterprises (SMEs)

Like any other concept of management and entrepreneurship, SMEs also has been loosely defined (Carpenter, 2001). These definitions take different perspectives, for example, some definitions are based on quantitative or qualitative decisions. The quantitative definitions use SMEs turnover, its size, number of employees and other variables. On the other side, qualitative definitions use some feature that distinguishes SMEs from Large Scale Enterprises (LEs). According to Peterson, Albaum and Kozmetsky (1986), SMEs are independently owned and operated by their owners/managers and that mostly they are not leading in their field of operations. The definitions of SMEs vary from country to country. Even among researchers, the definitions are many, with different perspectives. Most of the definitions are based on the profit yield of the SMEs, the nature of the business, whether a sole proprietorship or not, total assets, annual turnover, total numbers of employees and classification of the business, whether in manufacturing or service business. Thus, the subsequent section provides definitions of SMEs in various countries.

Definition of SMEs

Precisely, there is no consensus or one generally accepted definition of SMEs. Different researchers, agencies and countries defined SMEs differently. According to European Commission (2005), SMEs are business organizations that are employing 10 to 250 employees, have between €2 million to €50 million annual turnovers and have balance sheet value of €2 to €43 million. The European Commission (2015) employed three criteria for the definition of SMEs, number of employees, total annual turnover and balance sheet value of SMEs. Therefore, according to European Commission, to determine the status of a firm, it has to meet the required number of employees and annual turnover or total balance sheet value. This definition has been depicted in table 1.

Table 1 Definition of SMEs by European Commission

Company Category	Staff Headcount	Turnover	Or	Balance Sheet Total
Micro	< 10	≤ € 2 m		≤ € 2 m
Small	< 50	≤ € 10 m		≤ € 10 m
Medium-sized	< 250	≤ € 50 m		≤ € 43 m

Source: European Commission (2015)

In Kenya SMEs are defined based on number of employees of the firms. A firm is considered to be SMEs when it has 10 to 99 employees. Table 2 depict the definition of SMEs in Kenya.

Table 2. Definition of SMEs in Kenya

Size Category	Employment
Micro enterprises	Less than 10
Small enterprises	10 to 49
Medium enterprises	50 to 99

Source: KNBS (2016)

Similarly, the definition of SMEs in Malaysia differs substantially with that of European commission, Kenya, Kosovo and Nigeria. The definition is based on business sector, i.e. manufacturing, services and others. According to the Department of Statistics Malaysia and SME Corporation (2015), a small firm is a business that is having a turnover of a minimum of RM 300,000 and maximum of RM5 million or employing 5 to 75 workers in the manufacturing sector. While in services and other sectors, a firm is small when it has a turnover of RM 300,000 to RM 3 million or employing 5 to 30 workers. In the manufacturing sector, a firm is considered medium if the turnover is between RM 15 million and RM 50 million or employing from 75 to 200 employees. In services and other firms or businesses, medium scale firm is a firm that has a turnover of RM 3 million to RM 20 million or having between 30 to 75 employees. Table 3 depicts the definition of SMEs in Malaysia as defined by (Malaysia Department of Statistics and SME Corporation, (2015).

Table 3. Definition of SMEs in Malaysia

Size Category	Manufacturing OR	Services and other Sectors OR
Micro	Sales turnover: < RM300,000	Sales turnover: < RM300,000
Small	Sales turnover: RM300,000 to RM5 mil	Sales turnover: RM300,000 to RM3 mil
Medium	Sales turnover: RM 15 mil ≤ RM 50 mil	Sales turnover: RM3 mil ≤ RM20 mil

Source: Department of Statistics Malaysia SME Corporation (2015)

Additionally, in Kosovo, the definition of SMEs takes different range. Small scale business is defined as a firm that has up to 9 employees with an annual turnover of EUR 500,000 or less. While medium scale enterprises are the firms that employs between 10 to 49 people with an annual turnover of EUR 2.4 million or less. Table 4 presents the summary of the definition of SMEs in Kosovo.

Table 4. Definition of SMEs in Kosovo

Size Category	Employment	Annual turnover (Euro)
Small enterprises	Up to 9	500,000 or less
Medium enterprises	10 to 49	2.4 million or less

Sources: SMEADAN (2013)

Likewise, in Nigeria, the definition SMEs differs slightly from other countries. SMEDAN is a government agency that is responsible for promoting SMEs in Nigeria. In the midst of different definitions, even among different agencies in Nigeria, led SMEDAN to come up with a definition of SMEs that is being used in Nigeria. Small scale enterprises are firms that are having 10 to 49 employees and assets less than five million Naira (N5, 000, 000). While firms that are having employees between 50 to 199 and having assets of a maximum of five hundred million Naira (N500,000,000) and a minimum of fifty million Naira (N50,000,0000) fall into the category of medium scale enterprises (SMEDAN, 2012). This definition excludes buildings and lands owned by the SMEs. Therefore, this study will use the definition of SMEs as defined by (SMEDAN & NBS, 2013) since the study will be carried out in Nigeria. Table 5 presents the definition of SMEs in Nigeria. This is because the study was conducted in Nigeria, and what may be considered as small in the definition and classification of SMEs in other countries may be medium or even large enterprises in other countries. Table 5 present the definition of SMEs in Nigeria.

Table 5. Definition of SMEs in Nigeria

Size Category	Employment	Assets (N, million)excluding building and land
Micro enterprises	Less than 10	Less than 5
Small enterprises	10 to 49	5 to less than 50
Medium enterprises	50 to 199	50 to less than 500

Source: (SMEDAN, 2017)

Materials and Methods

The study used data obtained from secondary sources. These include the use of published articles in journals, theses, dissertations, government bulletins, SMEDAN national MSMEs survey reports, working papers, CBN annual reports, World Bank policy research working papers, international finance corporation reports, European Comission annual reports on European SMEs and host of others. Similarly, the study reviewed the extant literature to identify the contributions of SMEs to employment, GDP and export. It also searched the literature to identify problems and challenges facing SMEs in Nigeria and place on some recommendations.

Findings of the Study

Contributions of SMEs to Gross Domestic Product (GDP)

According to Gagliardi *et al* (2014) and European Commission (2014), there are about 23 million SMEs operating in Europe that significantly upholds the economy. 99.8% of businesses in the EU are SMEs (European Comission, 2015). EconomicWatch (2010) explained that the UK is the sixth largest economy on the planet with GDP growth at 1.1 percent. The UK has a population of 61 million people and a GDP per capita is rated the US \$37 which makes it one of the 30 richest countries in the world. Business Population

Estimates for the UK and Region (2016) explained that the SMEs are the pillars on which the United Kingdom's economy is fending on. They further explained that the statistics showed SMEs contributes 48 trillion pounds to the country's GDP. According to Ndumanya (2013), SMEDAN (2012) and Hendrickson (2009) SMEs contribute 66.6% of the UK's GDP.

Similarly, in Singapore, SMEs contributions to the economy are to the tune of 47% of its GDP. In Taiwan, SMEs provides 55% of GDP and 62% of total manufacturing output. In Russia, SMEs contribute to about 3 to 17% of the country's GDP. The United States (US) is one of the most technologically powerful economies of the world. The economy of the United States is the world's largest national economy. Its GDP is estimated to be \$14.3 trillion in 2009. According to Ayyagari, Demirguc-Kunt, and Maksimovic, (2011), USA SMEs accounts for over 50% of the country's GDP.

Whereas, India has over 13 million SMEs, 80% of the total businesses in the country are SMEs (Ghatak, 2010) and contributing tremendously to the economy, where it provides a total of 45% of its GDP. India's economy has achieved remarkably in the recent times. It witnesses extraordinary levels of economic achievement over the years. According to EconomicWatch (2010), India has been benefiting from exponential cost-efficient and labour intensive economy that has assisted immeasurably through outsourcing of work from advanced countries, coupled with trustworthy and robust manufacturing and export-oriented industrial frameworks that are existing in the country. The Indian economy has been predicted to grow at the level of 6.9 %. According to EconomicWatch (2010) growth in the Indian economy has steadily increased since 1979, at an average rate of 5.7% per year in 23 years. The report added that the growth of the Indian economy had placed an outstanding GDP growth of 6.8% from 1994. The rationale for this strong performance of the economy was attributed to the high growth of SMEs in industries and service sectors, the favourable external environment and stability of prices of goods and services over a period (Economic Watch, 2010).

In addition, in Hong Kong, SMEs contribute almost 52% of the country's GDP. In Japan, 4.2 million firms, out of which 99.7% (4.19 million) of the firms are SMEs, contribute up to 50% of the GDP in that country. China is witnessing a high rate of economic growth in the recent time; China is having an average of 8% growth rate in GDP per year. China's economy has experienced rapid growth and GDP reaching 3.42 trillion US dollars at the end of 2007. EconomicWatch (2010) predicted that China would turn into the leading economy on the planet shortly. In China, SMEs account for 60% of GDP in the industrial sector in the country. In Indonesia, SMEs dominated the economy, 99.7% of the businesses being SMEs (Kusumawardhani, 2013). SMEs in Indonesia contribute to the tune of 53.7% to GDP in 2007. Similarly, SMEs contributed 2.4% to the economic growth of the country out of the 6.3% growth rate.

Equally, in Africa, Muriithi (2017) and Okafor (2006) found that SMEs in Africa contribute immensely to the growth and development of the economy, where SMEs contribute over 50% of Africa's GDP. In Kenya, Njagi (2016) indicated SMEs are contributing up to 14% of the overall GDP in the country. In Ghana, 92% of the firms are SMEs and making a 70 % contribution to the GDP (Ndumanya, 2013; Abor & Quartey, 2010). In South Africa, SMEs constitute 9% of the total firms and are contributing 52-57% of GDP of that country.

Surprisingly, in Nigeria, according to Ndumanya (2013) and Kale (2016), SMEs contribute to barely 25% of the GDP and export to 7.27%.

It is clear from the above discussion that the SMEs contributions to GDP in Nigeria is low (at 46.54%) compared to other countries like Japan (GDP, 55.3%), Taiwan (GDP, 55) and China (GDP, 60%) (Rogo *et al*, 2017; Naala & Mahmood, 2016). Consequently, this is one of the issues of this study. These severe problems need to be urgently tackled if Nigeria is to solve the political, social and economic problems inherent in the country.

Contributions of SMEs to Employment

According to SMEDAN and NBS (2013), SMEs is assisting in converting unemployment by providing employment, improving individual and organisation's sources of income, an improvement of the standard of living, enhance raw material exploitation and supply, strengthening export earnings for the country through international trade and its assist in boosting capacity utilisation of industries. Similarly, SMEs contribute towards the mobilisation of saving, developing saving and investment habit (Rikwentishe *et al*, 2015), contribute to the establishment and growth of indigenous entrepreneurs/SMEs and giving the opportunities of development of SMEs into large enterprises (Razak, 2011).

Nielsen (2013) reported that SMEs constitute 95% of the total firms in the sample countries in his study. The SMEs is contributing about 60% of employment, serving as a significant source of innovation and SMEs support the economic development of the members' countries (Ayyagari *et al*, 2011). In the same vein, according to Ayyagari *et al* (2011) in low-income countries, SMEs makes 78% contribution to employment generation. In lower/middle-income countries, the contribution of SMEs to employment is 67%. In upper/middle-income countries, the contribution is 59%. While in high-income countries, the contribution is 66%. This information is presented in figure 1.

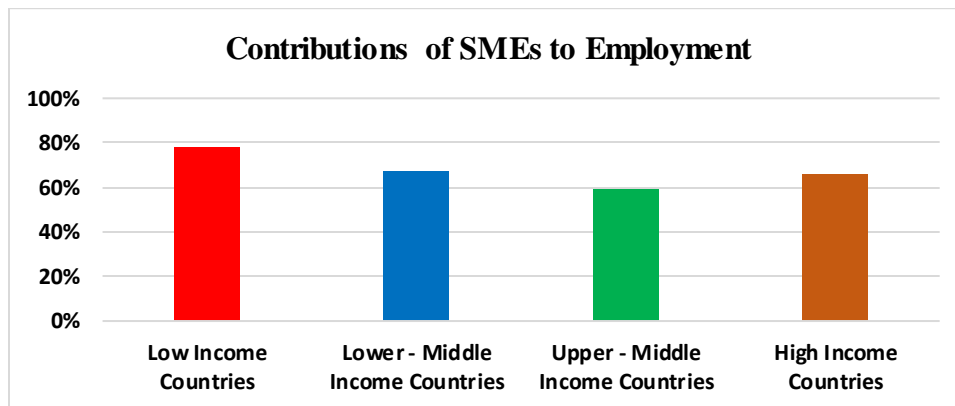


Figure 1: Contributions of SMEs to Employment

Source: Ayyagari *et al* (2011)

Table 6 and 7 indicate the contributions of SMEs to employment in different regions of the world. The table shows the contribution according to different definitions given to SMEs in different countries based on the number of people the SMEs employ.

Table 6. SMEs Contributions to Employment Shares by Region – Median

Median Across Regions	SME 100	SME 150	SME 200	SME 250	SME 300	SME 500
Africa	54.77	63.79	68.15	76.85	80.56	85.11
East Asia and Pacific	56.79	61.58	67.42	65.70	71.34	71.34
Europe and Central Asia	44.71	53.08	59.46	66.32	67.48	75.47
Latin America	53.72	56.71	64.36	67.77	70.99	78.26
Middle East and North Africa	31.20	48.10	36.63	57.31	58.56	62.30
North America	41.73	39.34	41.99	Nil	59.27	56.58
South Asian Region	56.68	65.29	73.63	78.00	80.26	88.55

Source: Ayyagari *et al* (2011)

SMEs in low income countries contribute more than SMEs in lower-middle, upper-middle- and high-income groups.

Table 7; SME Contributions to Employment Shares by Income Group Median

Median Across Income Groups	SME 100	SME 150	SME 200	SME 250	SME 300	SME 500
Low	59.43	65.73	74.21	78.00	83.29	86.71
Lower-Middle	52.58	59.16	64.70	66.19	71.34	77.80
Upper-Middle	41.84	49.15	53.90	58.15	64.03	73.86
High	48.13	54.39	61.46	66.89	67.23	75.16

Source: Ayyagari *et al*, 2011

Table 7 shows the contributions of SMEs, according to income classification and country SMEs definitions. The table shows that in SME 100, SME 150, SME 200, SME 250, SME 300 and SME 500.

Globally, it is estimated that 95% of the businesses are SMEs and contributing up to 60% of employment in the private sector of the economy (Ayyagari *et al*, 2011). According to Ayyagari *et al* (2011), USA SMEs accounts for 75% of the new job in that economy and 80% of peoples in the US find their first job in SMEs. In Europe, SMEs has provided jobs for more than 75 million people (54%), and SMEs contribute to about 67% of employment in Europe (European Commission, 2015). According to Business Population Estimates for the UK and Region (2016), 99.6% of over 4.9 million businesses in the economy of the United Kingdom is characterised by SMEs. The SMEs provides jobs to over 14.42 million individuals Ward and Rhodes (2014). But this rose in 2015 were SMEs is now employing 15.6 million people (60%) and having turnover £1.8 trillion (47%), (Business Population Estimates for the UK and Region, 2016).

According to Ndumanya (2013) and SMEDAN and NBS (2013) in Belgium, SMEs contribute 99.8% of jobs. In Singapore, SMEs provides 62% of total employment in the economy. In Germany, SMEs in manufacturing sector contribute a total of 57% of the employment opportunities. In Taiwan, SMEs provides 70% of employment. In Korea, SMEs dominated by providing 81.9% employment. In Brazil, SMEs account for 81.4% of employment in that economy, and it has a total of 4.6 million registered SMEs. In China, SMEs provides 75% of jobs in the country. Mwihaki (2015) indicated that there are about 900,000 SMEs operating in Kenya employing over 2 million Kenyans. In Morocco, SMEs contribute 46% of employment.

In the same vein, In Bangladesh SMEs employment account for 58% of the total employment. Likewise, in Morocco, 93% of industrial firms are SMEs that contribute to the tune of 38% of the production, 33% of total investments and 30% of all exports in the economy. In Ecuador, SMEs is providing 55% of the employment while in South Africa, SMEs provides 61% of jobs (Abor & Quartey, 2010). In Ghana, according to Ndumanya (2013), SMEs provides jobs to almost 85%. However, in Nigeria, according to Naala (2016), Rogo *et al* (2017) and SMEDAN and NBS (2013), the contribution of SMEs employment is only 25%.

Given the above discussion, the contribution SMEs to employment in Nigeria is discouraging compared to other countries. The SMEs in Nigeria contribute as low as 25% to employment, while other SMEs in countries contribute greater than SMEs in Nigeria. for example of such countries are; Taiwan 70%, China 75%, and Ghana 85% (Rogo *et al*, 2017; Naala & Mahmood, 2016). Therefore, these severe problems require and deserve immediate attention if Nigeria is to achieve economic growth and development. Therefore, the next section discusses the institutions established by Nigeria government to provide support to SMEs. Table 8 present the contributions of SMEs to employment, export and GDP of some countries compared to Nigeria (SMEDAN & NBS, 2013; Mohd Rosli, Kuswanto & Che Omar, 2012).

Table 8: Statistics on Establishment, Employment, GDP and Economic Growth

S/No.	Country	Establishment SMEs (%)	of Employment (%)	Export (%)	GDP (%)
1.	Malaysia	99.2	56.4	-	32.0
2.	Japan	99.7	71.0	-	55.3
3.	Taiwan	98.0	76.9	-	55.0
4.	Thailand	99.6	69.0	-	38.9
5.	Singapore	90.0	45.0	-	25.0
6.	Germany	99.7	79.0	-	49.0
7.	Indonesia	99.7	99.6	20.0	57.0
8.	China	99.0	75.0	-	60.0
9.	Philippines	99.6	70.0	-	32.0
10.	India	80.0	-	40	36
11.	S/ Africa	91.0	55	-	57.0
12.	Ghana	92.0	85	-	70.0
13.	UK	99.3	60.0	-	66.6
14.	Nigeria	96.0	46.54	7.27	49.78%

Source: adapted from Rosli, Kuswanto, and Omar (2012) and SMEDAN and NBS (2013)

Problems and Challenges Affecting SMEs Performance in Nigeria

SMEs are facing severe problems and challenges as revealed in the literature. According SMEDAN and NBS (2013), Bekele and Worku (2008), Agabi (2016), Folabi (2015) and Gumboh and Gichira (2015), some of the problems and challenges facing SMEs in Nigeria include: low competencies, low capacity to invest in R&D, ICT, e-commerce, access to finance and poor infrastructure, inadequate and poor network to local and international firms, limited access to markets and weak access to technology. Equally, Adebisi *et al* (2015), Egbesola, (2015), Bangudu (2013), Osotimehin, Charles, Babatunde and Olajide (2012) and Central Bank of Nigeria (2015) reported that the problems facing SMEs in Nigeria include inadequate government support, workspace and product markets,

multiplicity of taxes and levies, low access to information, unfair/stiff competition with dumped products substitutes, aversion to joint ownership, family ties inconsistent government policies and regulations, erratic power supply, insecurity and poor transportation system. In a study conducted by International Finance Corporation (2016) revealed that access to finance, lack of sufficient power supply, high level of corruption, high tax rate, bad transportation system, political instability, practice of informal sector, access to land, customs duties and registration problems and tax administration as problem facing SMEs in Nigeria.

Similarly, other problems include infrastructural problems such as bad state of roads and its network, epileptic power supply were about 57% of Nigerians don't have access to electricity (Samson, 2015), poor supply and high cost of energy, communication, portable water supply, availability of raw materials, security and poor manufacturing environment. Production inputs such as raw materials, equipment, land and energy and technology are all mentioned as problems/challenges facing SMEs in Nigeria.

Therefore, this study has identified the major internal and external problems facing SMEs in Nigeria that need adequate and immediate attention and resources. The internal problems include unfavourable attitude and habits of the owner / manager, low management skills and competencies, low ICT assimilation and poor ICT services, risk aversion, limited capabilities, financial constraint, low entrepreneurial skills, low equity participation, limited application of innovation as discovered by Shettima (2017), Agabi (2016), Folabi (2015), Adebisi *et al* (2015), Egbesola (2015), Gumboh and Gichira (2015), Bangudu (2013), and Osotimehin *et al* (2012) their studies.

On the other side, the external problems according to the researchers include; environmental related issues, inadequate government support, funding gap, inconsistent and frequent changes in government policies and regulations. Others are poor and inadequate infrastructure and other facilities, limited access to finance, multiple taxations, unstable power supply and the fund released by government is far from the reach of the SMEs in Nigeria and poor business network. Similarly, the problems include access to market, lack of trust, insecurity and lack of safety, unfavourable entrepreneurial environment, unhealthy competition with foreign goods and services, unfavourable entrepreneurial environment, erratic power supply, insecurity, poor transportation system and market failure. Hence, this study carefully selected problems that were given less research interest and attention as the variables of this study, these include; entrepreneurial competencies, entrepreneurial orientation, ICT, entrepreneurial network, GBS and external environment.

Using the SMEDAN report of 2017, it was found that the hike in the price of fuel (19.3%), high rate of taxes (76.0%), epileptic power supply, high cost of electricity tariff (79.1%), high rate of interest (48.6%), demolition of illegal structures (7.4%) and regulatory bottlenecks (26.5%).

Furthermore, the survey also revealed that the foremost challenges facing SMEs in Nigeria towards business development includes access to finance, lack of entrepreneurship/vocational training, lack of workspace, weak infrastructural facilities and

frequent changes and inconsistent government policies. Therefore, these problems are summarised in Table 9.

Table 9. Summary of the Internal and External Problems Facing SMEs in Nigeria

Authors	Internal Problems	External Problems
Adekoya (2016)	lack of continuity and inadequate capacity building	High cost of doing business, multiple taxation system, high cost of legal documentation, Difficulties encountered in obtaining credit facilities, Corruption, Unstable government policies.
Ezekiel et al., (2016)	Limited financing, lack of action plan, lack of managerial and marketing skill, lack of research appreciation and technical expertise.	
Ukwu (2016)	Risk aversion	Harsh environment and fluctuating policies Epileptic power supply, high mortality rate, access to fund.
SMEDAN and NBS (2013), SMEDAN (2012), Bekele (2008)	aversion to joint ownership, family ties, financial mismanagement, lack of basic business capacity and ICT	inadequate linkages to local and international supply chains, weak access to technology, low access to information, low capacity to invest in research and development,
Adebisi, Alaneme, and Ofuani (2015) and Egbesola (2015)	Low Information technology assimilation, limited capabilities, lack of competencies	unstable power supply, lack of government support, poor network, access to market, inadequate finance, stiff competition, lack of trust, insecurity and lack of safety
Agabi (2015)	Unfavourable attitude and habits of owner/manager	Business environmental related issues, inadequate government support, instability in government policies, funding gap and frequent changes in government policies.
SMEDAN (2017)	aversion to joint ownership, low level of awareness of government regulatory and enterprises promoting agencies, low business registration, gender gap in business ownership	High electricity tariff, high taxes, high interest rate, subsidies withdrawal and regulatory bottlenecks, lack of access to finance, inconsistent policies, weak infrastructure and lack of entrepreneurship/vocational training and high cost of borrowing.

Source: compiled from the literature (2019).

Conclusion

This study reviewed relevant literature in order to ascertain various contributions SMEs are making to employment, growth of GDP and export and economic development. Similarly, it reviewed the extant literature in identify the problems and challenges facing the SMEs in Nigeria. The results indicated that SMEs in Nigeria accounted for more than 90% of firms in the country. Therefore, this is an advocated that SMEs are playing an essential role in the Nigeria economic growth and development. The contribution of SMEs is vividly clear as they contribute to GDP, employment, export, creating values for local resources, technological adoption and improvement, the introduction of new technologies, introduction of new products and services, the introduction of new industries, development of new markets, discovery of new sources of raw materials, mobilization and accumulate

capital resources for new businesses and business expansion. It also serves as breeding and nurturing grounds for entrepreneurs.

Recommendations

1. It is therefore, recommended that the Nigerian Government should provide support to the SMEs in critical areas such as access to finance, training, providing favourable business environment, reduction in cumbersome registrations, multiple taxes, and reduce reporting to many government agencies. Similarly, the government should endeavour to introduce new policies that can stand the test of time and continue to reconfigure the policies on periodical basis.
2. The government need to improve on the existing infrastructure and facilities so as to ease going into and doing business in Nigeria.
3. SMEDAN and other related agencies in Nigeria should initiate and present a legal framework for registering SMEs in the country.
4. The entrepreneurship education in tertiary institutions should be strength to provide the necessary training to the young ones.
5. SMEDAN should intensify their efforts on creating awareness on the existence of different government policies on SMEs.
6. SMEs and entrepreneurs ought to be encouraged to initiate and form cooperatives to easy access to finance.
7. NGOs should provide training to entrepreneurs on various aspects of managing SMEs.
8. A national legislation is needed to aid in assimilating the large pool of SMEs informal economy into the registering and becoming formal enterprises.
9. Government should encourage technology transfer to the SMEs so as to boost their capacity utilisation and performance.

References

- Abisuga-oyekunle, O.A., Patra, S.K., & Muchie, M. (2019). SMEs in sustainable development : Their role in poverty reduction and employment generation in sub-Saharan Africa SMEs in sustainable development : *African Journal of Science, Technology, Innovation and Development*, 0(0), 1–15. <http://doi.org/10.1080/20421338.2019.1656428>
- Abor, J. & Quartey, P. (2010). Issues in SME Development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39(39), 218–228. <http://doi.org/ISSN 1450-2887>
- Acs, Z. (2006). How is entrepreneurship good for economic growth? *Journal of Innovation Management*, 1(1), 97–107.
- Adebisi, S.A., Alaneme, G. C., & Ofuani, A. B. (2015). Challenges of Finance and the Performance of Small and Medium Enterprises (SMES) in Lagos State. *Developing Country Studies*, 5(8), 46–58.
- Adekoya, A. (2016). Problems and Prospects of SME's in Nigeria. Retrieved July 21, 2017, from <https://infoguidenigeria.com/problems-prospects-smes-nigeria/>

- Agabi, C. (2016). Challenges of SMEs operation in Nigeria. *Daily Trust Newspaper, Nigeria*, pp. 11–13.
- Akeem, U. O. (2011). Performance evaluation of foreign trade and economic growth in Nigeria. *Research Journal of Finance and Accounting*, 2(2), 1–15.
- Akugri, M. S., Bagah, D. A., & Wulifan, J. K. (2015). The Contributions of Small and Medium Scale Enterprises to Economic Growth : A Cross-Sectional study of Zebilla in the. *European Journal of Business and Management*, 7(9), 262–275.
- Albassami, A. M. (2019). Does Knowledge Management Expedite SMEs Performance through Organizational Innovation? An Empirical Evidence from Small and Medium-sized enterprises (SMEs), 12(1), 11–22.
- Aminu, M. I., & Mahmood, R. (2016). Modeling dynamic capabilities in their logical sequence and relation to performance. *Social Sciences (Pakistan)*, 11(2), 106–112. <http://doi.org/10.3923/sscience.2016.106.112>
- Ayyagari, M., Demirguc-Kunt, A., & Maksimovic, V. (2011). *Small vs. young firms across the world: contribution to employment, job creation, and growth. World Bank Policy Research Working Paper Series*.
- Bangudu, O. (2013). Nigeria's operating environment for businesses has been difficult. *Perium Times*.
- Baporikar, N., Nambira, G., & Gomxos, G. (2016). "Exploring factors hindering SMEs' growth: evidence from Nambia. *Journal of Science and Technology Policy Management*, 7(2), 190–211. [http://doi.org/10.1108/S1871-3173\(2013\)0000007004](http://doi.org/10.1108/S1871-3173(2013)0000007004)
- Bekele, E., & Worku, Z. (2008). Factors That Affect the Long-Term Survival of Micro, Small and Medium Enterprises in Ethiopia. *South African Journal of Economics*, 76(3), 548–568.
- Business Population Estimates for the UK and Region. (2016). Business Population Estimates for the Uk and Regions. *Statistical Release*, (October), 1–19. <http://doi.org/10.1017/CBO9781107415324.004>
- Carpenter, C. (2001). Making small business finance profitable in Nigeria SME finance in Nigeria.
- Central Bank of Nigeria. (2015). *Central Bank of Nigeria Annual Report*. Retrieved from <http://www.cenbank.org/documents/annualreports.asp>
- Donwa, P., Mgbame, C., & Ekpulu, G. (2015). Economic Growth: Oil and Gas Contributions. *Sci-Afric Research Journal of Accounting and Monetary Policy*, 1(2), 102–108.
- EconomicWatch. (2010). http://www.economywatch.com/world_economy/nigeriaNigeria Economy.
- Egena, O., Wombo, D. N., Theresa, E. E., & Bridget, M. N. (2014). Institutional Support for Small and Medium Enterprises in Nigeria: An Empirical Investigation. *International Journal of Economy, Management and Social Sciences*, 3(9), 481–489.

European Commission (2005). What is an SME?

European Commission (2014). European SMEs. Retrieved from http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review-2016_en

European Commission (2015). *Annual Report on European SMEs*. Retrieved from http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/portugal_en.pdf

Ezekiel, E.T., Glory, B., & Alfred, U.J. (2016). An Appraisal of Nigeria's Micro, Small and Medium Enterprises (MSMEs): Growth, Challenges and Prospects. *International Journal of Small Business and Entrepreneurship Research*, 4(4), 1–15.

Femi Egbesola (2015). Challenges of SMEs operation in Nigeria. *Daily Trust Newspaper, Nigeria*.

Folabi, F. (2015). *Issues, Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) In Africa. (A Survey of Small and Medium Scale Enterprises in Nigeria) Degree Programme in Innovative Business Services 2015*.

Gagliardi, D., Caliendo, C., Bohn, N.U., Vidal, D., Probst, L., & Schiersch, A. (2014). Annual Report on European SMEs 2013 / 2014 – A Partial and Fragile Recovery Final Report. *SME Performance Review 2013 / 2014*.

Ghatak, B.S. (2010). Micro, Small and Medium Enterprises (MSMEs) in India: An appraisal. *Journal of Technology Management & Innovation*, 6(1), 66–76.

Gumboh, J., & Gichira, R. (2015). Supply Chain Collaboration among SMEs in Kenya: A Review of Collaboration Barriers. *International Journal of Humanities and Social Science*, 5(91), 223–229.

Hassan, H., & Ogundipe, A. (2017). ICT Adoption by Micro and Small Scale Enterprises in Nigeria, 1–25.

Hendrickson, M. (2009). SME competitiveness in the Caribbean: Challenges and opportunities. *Port of Spain*.

Ibenegbu, G. (2017, June 26). Positive and negative contribution of petroleum to Nigerian economy. *NAIJ.COM*. Retrieved from <https://www.legit.ng/1110434-positive-negative-contribution-petroleum-nigerian-economy.html>

International Finance Corporation. (2016). *Annual Report 2016*. Retrieved from http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/annual+report/2016+online+report/printed+version

Kale, Y. (2016). Pushing Nigeria ' S Economic Diversification Forward : Issues & Options. *National Bureau of Statistics at the 7th Stanbic IBTC Bank Investors Conference: Unlocking Nigeria's Potential...growing through Diversification*, (February), 1–16.

Kusumawardhani, A. (2013). *The role of entrepreneurial orientation in firm performance : a study of Indonesian SMEs in the furniture industry in Central Java (Doctoral Thesis, University of Wollongong)*.

- Malaysia Department of Statistics and SME Corporation, (2015). SME Definition.
- Mohamad, A., Mustapa, A.N., & Razak, H.A. (2021). An Overview of Malaysian Small and Medium Enterprises: Contributions, Issues, and Challenges. *Modeling Economic Growth in Contemporary Malaysia*. <http://doi.org/10.1108/978-1-80043-806-420211004>
- Mohd Rosli, M., Kuswantoro, F., & Che Omar, A.R. (2012). Competitive Strategies and Firm Performance: A Comparative Study of Malaysian and Indonesian Small and Medium Enterprises. In *3rd International Conference on Business and Economic Research (3rd ICBER)* (pp. 460–474).
- Muriithi, S.M. (2017). African Small And Medium Enterprises (SMEs) Contributions , Challenges And Solutions. *European Journal of Research and Reflection in Management Sciences*, 5(1), 36–48.
- Mwihaki, M.A. (2015). *Involvement Of Mainstream Banks In Financing Small And Medium Enterprise Projects In Kenya . The Case of Diamond Trust Bank*.
- Naala, M.N.I., & Mahmood, R. (2016). Mediating role of competitive advantage on the relationship between entrepreneurial orientation and the performance of small and medium enterprises. *International Business Management*.
- Ndumanya, N. (2013). Why SMEs' contribution to the nation's GDP is poor. *Business Day. Lagos Nigeria*.
- Nielsen, L. (2013). How to Classify Countries Based on Their Level of Development. *Social Indicators Research*, 114(3), 1087–1107. <http://doi.org/10.1007/s11205-012-0191-9>
- Njagi, P.W. (2016). *The Relationship Between Corporate Governance Practices And The Financial Performance Of Top 100 Small And Medium Enterprises In Kenya*.
- Nkechi, N. (2013). . U'orner, ax! economic development. *Daily Trust Newspaper, Nigeria*, p. 1.
- Okafor, E. (2006). *Africa Unchained*. <http://africaunchained.blogspot.com/African>.
- Osotimehin, K.O., Jegede, Charles. A, Akinlabi, Babatunde. H, Olajide, O.T. (2012). An Evaluation of the Challenges and Prospects of Micro and Small Scale Enterprises Development in Nigeria. Department of Business Administration and Management Technology Lagos State University External System. *American International Journal of Contemporary Research*, 2(4), 174–185.
- Peterson, R.A., Albaum, G., & Kozmetsky, G. (1986). The public's definition of small business. *Journal of Small Business Management*, 24(63).
- Pulka, B.M. (2019). *The Determinants of SMEs Performance in Nigeria; The Moderating Role of External Environment*. PhD Thesis Submitted to Universiti Utara Malaysia. Universiti Utara Malaysia.
- Pulka, B. M., & Ndubuisi, V. N. (2016). *Introduction to Entrepreneurial Skills. An Unpublished Lecture Note for Undergraduate Students. University of Maiduguri*.

- Razak, R.A. (2011). Entrepreneurial Orientation as a Universal Remedy for the Receding Productivity in Malaysian Small and Medium Enterprises : A Theoretical Perspective. *International Journal of Business and Social Science*, 2(19), 249–257.
- Rikwentishe, R., Pulka, B.M., & Msheliza, S.K. (2015). The Effects of Saving and Saving Habits on Entrepreneurship Development. *European Journal of Business and Management*, 7(23), 111–119.
- Rogo, H.B., Noor, M., Shariff, M., & Hafeez, M.H. (2017). Moderating effect of access to finance on the relationship between total quality management, market orientation and small and medium enterprises performance: A proposed framework. *International Review of Management and Marketing*, 7(1), 119–127.
- Samans, R., Blanke, J., Corrigan, G., & Hanouz, M.D. (2017). *The Inclusive Growth and Development Report*. World Economic Forum. Retrieved from http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf
- Samson, A.T. (2015). *Strategic Orientations , Reconfiguring Capability , Environmental Turbulence and Export Performance of Smes in Nigeria Doctor of Philosophy Universiti Utara Malaysia*. Universiti Utara Malaysia.
- Shettima, M.B. (2017). Impact of SMEs on Employment Generation in Nigeria. *IOSR Journal Of Humanities And Social Science (IOSR-JHSS)*, 22(9), 43–50. <http://doi.org/10.9790/0837-2209134350>
- SMEDAN (2012) *Smedan 2012 annual report*. Retrieved from [http://www.smedan.gov.ng/images/SMEDAN 2012 ANNUAL REPORT.pdf](http://www.smedan.gov.ng/images/SMEDAN%2012%20ANNUAL%20REPORT.pdf)
- SMEDAN & NBS (2013). *Smedan and National Bureau of Statistics Collaborative Survey : Selected Findings*.
- SMEDAN. (2017) *National Survey of Micro Small and Medium Enterprises (MSMEs)*. Abuja, Nigeria.
- Tarutė, A. & Gatautis, R. (2014). ICT Impact on SMEs Performance. *Procedia - Social and Behavioral Sciences*, 110, 1218–1225. <http://doi.org/10.1016/j.sbspro.2013.12.968>
- Toma, S.G., Grigore, A.M., & Marinescu, P. (2014). Economic Development and Entrepreneurship. *Procedia Economics and Finance*, 8(14), 436–443. [http://doi.org/10.1016/S2212-5671\(14\)00111-7](http://doi.org/10.1016/S2212-5671(14)00111-7)
- Ukwu, J. (2017). 5 pains Nigeria's small businesses go through daily Read more: <https://www.legit.ng/949257-5-challenges-nigerias-small-businesses-face-daily.html>. *Legit News*. Abuja.
- Uzoamaka, C.F. (2021). Business Planning and Performance of Small and Medium Enterprises in Anambra State. *International Journal of Multidisciplinary Research (IJMR)*, 7(8), 270–281. <http://doi.org/10.36713/epra2013>
- Ward, M., & Rhodes, C. (2014). Small businesses and the UK economy. *Standard Note: SN/EP/6078, House of ...*. Retrieved from http://www.myveryownblog.co.uk/wp-content/uploads/2015/01/sme_stats_2014.pdf

Zafar, A., & Mustafa, S. (2017). SMEs and its Role in Economic and Socio-Economic Development of Pakistan. *International Journal of Academic Research in Economics and Management Sciences*, 6(4), 1–16. <http://doi.org/10.6007/IJARAFMS/v7-i4/3484>