

# MSME Competitiveness in Nigeria Report 2022



Small & Medium  
Enterprises  
Development  
Agency  
Of Nigeria



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# I 1. FOREWORD

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The last National Micro, Small and Medium Enterprises (MSME) Survey jointly conducted by SMEDAN and the National Bureau of Statistics put the total number of MSMEs in Nigeria at over 39million. The sub-sector is therefore very critical at the global, national and sub-national levels especially for socio-economic reasons but with several limiting challenges.

Despite the challenges, the report showed that the 39million MSMEs in Nigeria accounted for 46.3% of the GDP and 87.9% of total employments. This is similar to the contributions of the sub-sector in other emerging economies such as India, South-Africa, etc. According to the 2021 World Bank report, MSMEs represent about 90% of businesses and more than 50% of employment worldwide. Formal MSMEs contribute up to 40% of national income (GDP) in evolving economies.

In Nigeria and according to the 2021 MSME Survey report, MSMEs contributed only 6.21% to the total export basket of Nigeria compared to 49.35% in India FY2021 and 68% of exports in China (FY 2020). These relatively low contributions of Nigeria's MSMEs to exports are largely attributed to the poor competitive nature of the sub-sector. There are certain innate issues aside known environmental challenges that were inhibitors to MSMEs competitiveness in Nigeria and these were further worsened by the COVID 19 pandemic. There is no doubt that many small and growing businesses in Nigeria are still on the edge of shutting down. The global business landscape which is largely technology-driven has altered the production process, patterns of sales, distribution and even consumer behavior.

The relatively low contributions of Nigeria's MSMEs to export has been a major area of concern to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) as the nodal institution established to midwife a sustainable and competitive MSME sub-sector in Nigeria.

Competitiveness is obviously driven by the capacity of aggregated MSMEs to access inputs (raw materials, finance, human resource etc.) at competitive quality and pricing, effect value addition/processing at competitive rates and market those outputs in a competitive manner.

The MSME Competitiveness Report is therefore initiated to assess the competitiveness of our MSMEs with special focus on the regulatory climate, energy and infrastructure and the business growth environment. Other considerations are the level of education and their local and international competitiveness.

I am convinced that the report will open up other areas of interests to both local, national and other global interests that are key stakeholders in the development of the MSME sub-sector in Nigeria.

**Olawale FASANYA**

Director-General  
SMEDAN



## 2. EXECUTIVE SUMMARY

Nigerians are a creative people, resilient in the face of numerous challenges. **With youth unemployment at 42.5% as at 2020 according to data from the National Bureau of Statistics (NBS)**, a lot of young Nigerians are turning to entrepreneurship. This, combined with our nature as an enterprising people and our youth bulge, has led to a teeming and growing Nano, Micro, Small and Medium Scale Enterprises (NMSMEs) sector made up of approximately 39.6 million businesses.

NMSMEs are the lifeblood of every economy – creating jobs, improving communities, and contributing to economic growth. In 2020, NMSMEs contributed 49.7% to Nigeria's GDP. However, for the sector to live up to its target of contributing 70% to the GDP by 2025, NMSMEs must compete effectively locally and internationally.

The goal of this study is to identify the enablers and challenges impacting competitiveness among Nigeria's NMSMEs and present practical recommendations for improving the competitiveness of NMSMEs in Nigeria.

**“When youth unemployment rate climbed to 41%,  
a lot of youth turned to entrepreneurship”**

### The Research

The research framework was designed by adapting the International Trade Centre's (ITC) framework for measuring NMSME competitiveness. We adapted the 3 competitiveness pillars – Abilities to Compete, Change and Connect – and modified the indicators to fit Nigeria's peculiarities.

We collected data through qualitative and quantitative surveys deployed across the 36 states and FCT in Nigeria. 95% of the survey was conducted offline while 5% was conducted online. We reached 8,886 businesses, exceeding our target of 7,000.

59% of the respondents are male and 41% female. The gender distribution varies by state with some states tilting more towards one gender such as Rivers state with 67% female-led businesses and Katsina with only 7% female-led businesses.

Youth participation is high - over 80% of the businesses surveyed are led by entrepreneurs younger than 40.

### NMSME Competitiveness in Nigeria

To assess NMSME competitiveness in Nigeria, we designed a Competitiveness Index comprising of 3 pillars: Ability to Compete, Ability to Change and Ability to Connect.

Competitiveness was assessed using 10 indicators namely regulatory climate, energy & infrastructure, access to market, financing solution, innovation, technology, business support, business growth, level of education and perception of competitiveness.

## NMSME Competitiveness Index Score



Our findings show that Nigerian MSMEs are uncompetitive, with a competitive index score of 47 out of 100, where 100 is highly competitive. This score indicates that with regards to competitiveness, NMSMEs in Nigeria are below average. This score emphasizes the critical challenges of limited power supply, insecurity, poor access to affordable finance among others, which limit the level of competitiveness of results show that Enugu has the highest competitiveness score of 73 while Taraba had the least score of 35.

**'Our findings show that Nigerian NMSMEs are uncompetitive, with a competitive index score of 47 out of 100, where 100 is highly competitive'**

## Ability to Compete

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This pillar measures the elements that influence operations and efficiency in cost, time, quality, and quantity. **Nigeria scored 55% for its ability to compete.** The pillar encompasses 5 out of the 10 indicators - regulatory climate, business growth, energy and infrastructure, level of education and perception of competitiveness.

### 1. Regulatory Climate

**Our results show that only 51% of businesses surveyed have some form of business registration, 64% of which are registered with the Corporate Affairs Commission (CAC).** 41% of businesses surveyed are registered to pay taxes i.e. they have Tax Identification Numbers (TIN).

The distribution of businesses with TINs by state closely tracks business registration by state perhaps due to the new business registration process that includes registration with the Federal Inland Revenue Service (FIRS).

The duration of registration, cost, complexity, and poor availability of information about the process are the key challenges recorded for both the business registration and certification processes. The certification process also includes demand for financial incentives as a major inhibitor. The most important factor impacting formal tax registration/remittance is multiple taxation with most NMSMEs frequently subjected to multiple informal taxes and levies.

### 2. Energy & Infrastructure

The World Economic Forum placed Nigeria's infrastructure score at 40%, the lowest among comparator countries. In our survey, 78% of the respondents reported that power & energy is the infrastructure that has the most significant impact on their business operations, followed by transportation at 15%. The high cost of alternative energy sources and transportation significantly increases the cost of production and the final price of products, reducing profitability. Inflated selling prices reduce the ability of businesses to effectively compete and reduced profits impacts growth.

### 3. Business growth

**66% of the businesses** surveyed grew in the last year by accessing new (local) markets, an impressive feat given the challenges faced by NMSMEs. The challenges that hinder growth are similar to those that hinder competitiveness and are thoroughly discussed throughout the report.

### 4. Education

**31% of business owners have a Bachelor's degree,** the highest percentage of any education level among those surveyed. The high level of tertiary education might be a reflection of the high rates of graduate unemployment, which reflects limited opportunities for youths to secure paid jobs.

### 5. Perception of Local and International Competitiveness

**58% of businesses believe that they compete well within Nigeria** while only 44% of businesses believe that they compete favourably in international markets. Factors such as cost of production, demand and market prices are significant in influencing the perception of businesses towards competitiveness. The more fundamental challenge for international competitiveness include the failure of NMSMEs to realise that they have the potential to compete internationally.

## NMSME Competitiveness Index by Enterprise Type

Enterprise Index		47%	53%	57%	56%	50%
Pillars	Weighting	Large	Medium	Small	Micro	Nano
<b>Ability to Compete</b>	<b>50%</b>	<b>52%</b>	<b>53%</b>	<b>58%</b>	<b>57%</b>	<b>51%</b>
Regulatory Climate	<b>13%</b>	31%	32%	34%	34%	33%
Energy, Infrastructure and Security	<b>15%</b>	61%	61%	61%	61%	61%
Business Growth	<b>5%</b>	78%	62%	76%	77%	63%
Level of Education	<b>5%</b>	41%	73%	76%	71%	66%
Perception of Competitiveness	<b>13%</b>	55%	53%	64%	63%	46%
<b>Ability to Change</b>	<b>30%</b>	<b>49%</b>	<b>57%</b>	<b>57%</b>	<b>55%</b>	<b>51%</b>
Business Support	<b>10%</b>	51%	92%	89%	84%	79%
Innovation	<b>8%</b>	43%	38%	43%	43%	38%
Financing Solutions	<b>12%</b>	53%	41%	40%	39%	38%
<b>Ability to Connect</b>	<b>20%</b>	<b>30%</b>	<b>45%</b>	<b>54%</b>	<b>54%</b>	<b>46%</b>
Technology Adoption	<b>10%</b>	13%	48%	63%	65%	58%
Access to Market	<b>10%</b>	47%	42%	45%	42%	34%

## Ability to Change

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This pillar measures the ability of firms to respond to changes in the market they operate in, accessing finance and business support, and obtaining & managing talents to improve their competitive advantage. Nigeria scored 39% on this pillar. The three (3) indicators under this pillar are business support, innovation, and financing solutions.

### 1. Business Support

NMSMEs seem to understand the value of business support and training. 66% of the businesses surveyed received business support or training in the past year and over 70% of respondents that accessed business support programs accessed 4 or more. 88% of businesses that received support or training found it impactful for their business.

**65% of respondents who did not access support failed to do so due to the cost.** Most NMSMEs lack adequate awareness of the availability of business support programs; those who are aware of the availability of programs generally believe that there is a level of “connection” required to access government-sponsored support.

### 2. Innovation

Innovation capability is the key productivity driver that creates competitive advantage by discovering a better way to compete in an industry. Our survey showed that 64% of businesses introduced new processes and strategies to improve their businesses in the last year, a promising result for innovation and growth.

### 3. Financing Solutions

Access to finance has been a persistent challenge for Nigeria's NMSMEs. Only 49% of the businesses surveyed have accessed some form of financing in the last three years - 64% of whom are male and 36% female. The challenges around accessing financing solutions for NMSMEs can be viewed from the supply-side and demand-side perspectives.

On the supply end, there are gaps around financial records or documentation on the part of NMSMEs, limited innovative financing products for NMSMEs, limited knowledge of the NMSME space etc. On the demand end, NMSMEs grapple with high interest rates, poor financial management skills stringent collateral requirements etc.

## Ability to Connect

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This pillar measures the ability to connect with customers and other relevant stakeholders as well as embrace effective communication methods. In this pillar, NMSMEs in Nigeria scored 42%. This pillar has two indicators that are discussed below:

### 1. Technology Adoption

Technology is increasingly playing a major role within Nigeria's entrepreneurship ecosystem. According to the FATE Institute's State of Entrepreneurship reports in 2021 and 2022, technology adoption consistently ranked second on the Entrepreneurial Index right after Perception of Opportunities. Also the World Economic Forum's Global Competitiveness Index Report, Nigeria scored 33% under technology adoption, slightly above India, an indication that we are doing something right.

**“71% of businesses surveyed use at least one form of technology for their businesses, mostly social media as indicated by 87% of those who use technology.”**

## 2. Access to Market

The data collected shows that NMSMEs have better access to market opportunities within Nigeria (65%) than they do outside of Nigeria (28%). The major challenges NMSMEs face in accessing local markets include, poor access to finance (87%), poor business support (14%) and unstable market prices (7%). The challenges inhibiting access to foreign markets include product standardisation and packaging (58%), access to information (18%), regulatory issues (10%), bureaucratic bottlenecks and documentation & international licensing challenges.

The African Continental Free Trade Area (AfCFTA) Agreement provides an opportunity to access regional markets but only 18% of respondents had ever heard about AfCFTA. On the flip side, AfCFTA also presents risk to Nigeria's marginally competitive NMSMEs' if nothing is done to improve NMSME competitiveness.

## Recommendations

While there have been significant reforms implemented to improve the business environment in Nigeria, there is still a lot to be done to boost NMSMEs' competitiveness.

Designing and implementing NMSME-focused policies that systematically and sustainably address gaps around the indicator areas such as access to markets, access to finance, energy & infrastructure, technology, innovation etc would have significant positive impact on improving competitiveness within the Nigerian ecosystem.

While addressing gaps from a policy perspective, an intentional approach to program/intervention/initiative design and implementation around improving NMSMEs business knowledge capacity, open access to information and data, infrastructure, technology, access to finance and markets etc; will play a complementary role in boosting competitiveness by influencing the three pillars of competitiveness – the ability to compete, the ability to change and the ability to connect.

**“Every Nigerian benefits from a strongly competitive NMSME sector and thus, it is important, for our communal prosperity, to improve the competitiveness of Nigeria’s businesses..”**



## 3. INTRODUCTION

Nano, Micro, Small and Medium Enterprises (NMSMEs) play a major role in most economies, particularly in developing countries. **They represent about 90% of businesses and more than 50% of employment worldwide.** The World Bank reports that in emerging markets, most formal jobs are generated by small SMEs, which create 7 out of 10 jobs, contributing up to 40% of national income (GDP)<sup>1</sup>. These numbers are estimated to be significantly higher when informal SMEs are included.

In Nigeria, NMSMEs account for **39,654,385 active businesses** as reported in the 2021 MSME survey report developed by the National Bureau of Statistics (NBS) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). Nano enterprises account for the bulk of businesses with 33,034,477 enterprises (83%); followed by micro enterprises at 5,949,461 (15%); then small enterprises at 617,248 (2%) and Medium Enterprises at 53,199 (0.1%)<sup>2</sup> (the number 2 should appear as superscript on top of the bracket). Location-wise, Lagos, Oyo, and Kano States are the top three states in Nigeria with the highest number of NMSMEs in Nigeria.

NMSMEs are the largest employer of labour in Nigeria. **These businesses account for more than 84% of total jobs in Nigeria** - 50% of industrial jobs, 96% of businesses, and nearly 90% of the manufacturing sector<sup>3</sup> In addition, they also account for about 49% of the Gross Domestic Product (GDP), and 7% of goods and services exported out of the country<sup>2</sup>

According to the United Nations Conference on Trade and Development (UNCTAD), 80% of NMSMEs globally suffered significant solvency problems due to the Covid 19 pandemic. In Nigeria, SMEDAN reported a decrease in the number of NMSMEs between 2017 (41,543,028) and 2020 (39,654,385). In addition to the impact of the Covid 19 pandemic, SMEDAN attributes this reduction to insecurity and the negative effects of globalisation on local enterprises.

**“According to UNCTAD, 80% of NMSMEs globally suffered significant solvency problems due to the Covid 19 pandemic”**

### Key Facts

**39.6 MILLION**

MSME's in Nigeria

**40%**

National income contributed by formal SME's

**7.27%**

Contribution to Nigeria's total export.

**95%**

of all firms among WTO countries are MSME's

**48.5%**

Nigeria's Gross Domestic Product

**20%**

Decline in trade services due to COVID19

**>84%**

contribution to total jobs in Nigeria

**50%**

employment worldwide are created by MSME's

While the impact of the pandemic was mostly negative on many businesses, some positive outcomes were recorded. Nigerian NMSMEs were able to adopt technology in the course of their operations, enabling them to discover new markets. Furthermore, some businesses focused on increasing local sourcing of raw materials and other intermediate goods especially for essential commodities<sup>4</sup>.

As the Nigerian economy and businesses strive on the path to recovery post-pandemic, the outbreak of the war in Ukraine further complicates the macroeconomic situation and business environment in Nigeria, triggering inflation, exchange rate depreciation and raising the cost of doing business across the country.

Much like the pandemic, the Ukraine war presents opportunities for small businesses to look inward and build resilience to stay competitive in an increasingly volatile and uncertain environment, at local, national and global levels. In addition, the African Continental Free Trade Area (AfCFTA) Agreement provides hope for Nigerian NMSMEs with its promise to ease access to markets across Africa.

To fully leverage the AfCFTA initiative, the question to ask is whether Nigeria's NMSMEs are structured and positioned to take advantage of the opportunities that are emerging. Hence, it is important to understand the competitiveness of NMSMEs in Nigeria, vis-à-vis their capacity to sustainably grow, thrive, and compete within Nigeria's borders and on a global scale.

**“The question is whether Nigeria’s NMSMEs are structured and positioned to take advantage of the opportunities that are emerging.”**

This report assesses the competitiveness of NMSME in Nigeria, identifies the gaps, shows key enablers, and recommends effective approaches and policies to improve the competitiveness of Nigerian NMSMEs. This will allow for effective and sustainable policy formulation, design, and implementation to better support NMSMEs across board.

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<sup>1</sup> (Small and Medium Enterprises(SMEs) Finance, n.d.)

<sup>2</sup> (SMEDAN, 2021)

<sup>3</sup> The Huge Impact of Small Businesses to the Society, 2022)

<sup>4</sup>(Covid 19: A business Impact Series, 2020)

## 3.1 NMSMEs IN NIGERIA

While most global institutions and bodies categorize businesses as Small and Medium Enterprises (SMEs), in Nigeria, SMEDAN which is the authority on enterprises in Nigeria categorizes businesses as Nano, Micro, Small and Medium Enterprises.

Historically, businesses in Nigeria were categorized as Micro, Small and Medium Enterprises (MSMEs). This was however reviewed in 2021 as part of the Agency's strategy to better understand the ecosystem and design programs that address the varying needs of businesses at different operating levels.

The review involved splitting up the Micro category into Micro and Nano, introducing the Nano category which "refers to those enterprises that have only one or two persons engaged in the operation" while redefining micro enterprises' to consist of "those enterprises with three to nine persons engaged in its operations".<sup>5</sup>

### 3.1.1 NMSME Categories

SMEDAN defines NMSMEs as:

- Nano/Homestead enterprises are businesses with not more than 2 employees/human labour which generate less than N3million in turnover.
- Micro enterprises have 3-9 employees and have a turnover of between N3million and less than N25million.
- Small enterprises employ between 10 and 49 individuals and have a turnover of between N25million and less than N100million
- Medium enterprises are businesses with 50-199 employees and generate a turnover of over N100million but less than N1billion

Enterprise Type	No of Employees	Total Turnover (Naira)
Nano	< 3	< 3 million
Micro	3 to 9	3million - < 25million
Small	11 to 50	>25million - < 100million
Medium	51 to 200	< 1billion

Table 1: SMEDAN's NMSME Categories<sup>6</sup>

### 3.1.2 Contribution to the Economy

Nano, Micro, Small and Medium sized enterprises in Nigeria are referred to as Nigeria's engine rooms as they make up a large portion of businesses in Nigeria. The major economic sectors among Nigerian NMSMEs are Agriculture (38%), wholesale/retail trade (33%), manufacturing (4%) and other service activities (10%). In 2020, 61,954,073 people were employed in NMSMEs, with medium enterprises accounting for employment of 16,042,067 people<sup>7</sup>.

<sup>5</sup>(Small and Medium Enterprises Development Agency of Nigeria, 2022)

<sup>6</sup>(SMEDAN)

<sup>7</sup>(National Policy on Micro, Small and Medium Size Enterprise, 2021)

### 3.1.3 Ownership Structure

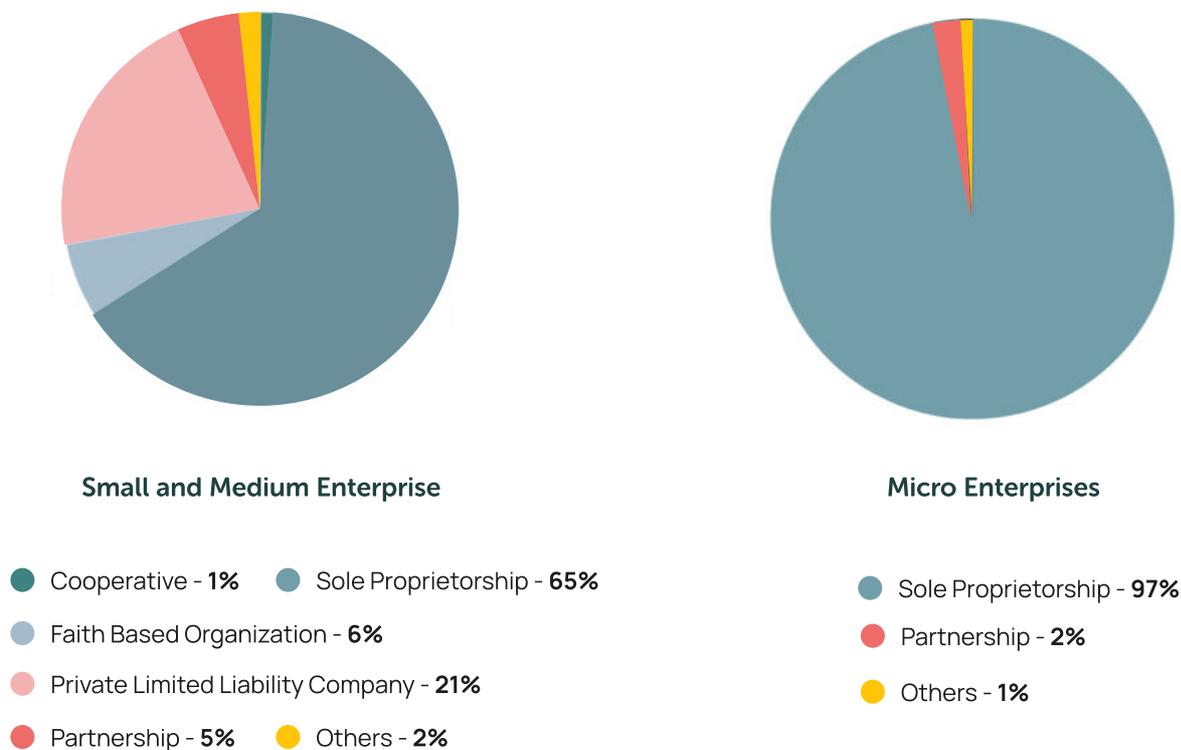


Figure 1: NMSME Ownership Structure in Nigeria<sup>8</sup>

NMSMEs are most often sole proprietorships with a few operating as partnerships, limited liability companies or faith-based organisations. The smaller the enterprise, the less likely that it will have a formal legal structure.

### 3.2 NMSME Clusters

There is a regional spread of small-business clusters across the six geo-political zones of Nigeria. The dynamics of economic development across the regions drive the level of dynamism in the clusters, with the southern regions of the country contributing about 78% of the clusters in the country.<sup>9</sup>

Nigeria's business clusters are mostly location-based, with a fair regional spread of clusters, latching on the local competitive advantages of specific regions and places. The cluster pattern is largely sector-based, with the dominant sectors including agriculture and agro-processing, woodwork and furniture-making, the production of automobiles and auto parts, leather, clothing and footwear production as well as film production.

<sup>8</sup>(National Survey of Micro Small and Medium Enterprises(MSMEs), 2017)

<sup>9</sup>(Enhancing Small Business Competitiveness in Nigeria Through Public Private Partnership in Cluster Development, 2017)

### 3.3 Global Perspective of NMSME Competitiveness

The concept of business competitiveness has recently become a topic of interest, internationally and locally. International comparisons make it possible to determine which countries – through their businesses – have delivered improvements to citizens by increasing their national income, employment, productivity, and entrepreneur training. The international competitiveness of a country's NMSME sector is closely related to the availability of highly productive NMSMEs that make the most of the competitive advantages they generate.

The World Bank estimates that an increase in NMSME productiveness in Nigeria will support robust growth and job creation, keep an additional 30 million people from falling into extreme poverty, increase the level of income and simultaneously drive economic growth (World Bank, 2019).

Competitiveness as a whole, can be assessed at either the national or the enterprise level.

**“The World Bank estimates that an increase in NMSME productiveness in Nigeria will support robust growth and job creation, keep an additional 30 million people from falling into extreme poverty, increase the level of income and simultaneously drive economic growth.”**

#### 3.3.1 National Level

At the national level, competitiveness is the ability to produce goods and services that meet the standard of international markets while simultaneously maintaining and expanding real incomes of its people over the long term.

The ability to compete in international markets is usually thought to be dependent on macroeconomic policies and conditions (trade policies and exchange rates etc.) as well as on a nation's comparative advantage, that is its factor endowment (land, labour, and capital)<sup>10</sup>.

Comparing Nigeria with the BRICS and a few African countries reveals Nigeria's weak competitive positioning. According to the 2019 World Economic Forum report which assessed countries for competitiveness, China ranked 28th overall, Brazil ranked 71st, India ranked 68th, Kenya ranked 95th, Ghana ranked 111th and Nigeria ranked least on the table at 116th<sup>(11)</sup> amongst the 141 countries assessed.

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<sup>10</sup>(United Nations Conference on Trade and Development - Improving The Competitiveness Of Smes Through Enhancing Productive Capacity, 2005)

<sup>11</sup>(Global Competitiveness Index, 2019)

Comparator Country	Competitiveness Ranking
China	28th
South Africa	60th
India	68th
Brazil	71st
Kenya	95th
Ghana	111th
Nigeria	116th

Table 2: Comparator Countries Competitiveness Ranking

China's strengths include the sheer size of its market, macroeconomic stability, and the rapid increase of its innovation capabilities. The functioning of its labour market is however severely undermined by insufficient workers' rights protection, rigidities in wage determination, conflicting industrial relations, low participation of women and high tax on labour. At the same time, educational institutions as well as businesses are struggling to keep up with evolving skills needs of the economy<sup>12</sup>

South Africa's competitiveness moved up 7 places to 60th place in 2019 because of its recent political landscape shift. It had also developed one of the most advanced transport infrastructures in the region, enhanced administrative efficiency of its public sector and corporate governance. South Africa's sensitivity to exports of mineral resources however is likely to hit the country's economic outlook and might make reducing unemployment challenging.

### 3.3.2 Enterprise Level

Enterprise competitiveness is the ability to sustain a market position by supplying high quality products on time and at competitive prices. This is achieved through the acquisition of the flexibility to respond quickly to changes in demand and by successfully managing product differentiation through innovative capacity and effective marketing systems<sup>13</sup>. This report looked at assessing competitiveness in Nigeria as a whole as well as competitiveness by enterprise type and by state

<sup>12</sup>(Global Competitiveness Index, 2019)

<sup>13</sup>(United Nations Conference on Trade and Development - Improving The Competitiveness Of Smes Through Enhancing Productive Capacity, 2005)



# 4. RESEARCH OVERVIEW

## 4.1 Approach & Methodology

Data was collected using surveys and interviews administered online and offline for a duration of 8 weeks.



Figure 3: Survey Methods and Instruments

Respondents were spread across all 36 states and the Federal Capital Territory (FCT) and included NMSME owners and Stakeholders in Nigeria.



Figure 4: Channels and Target Respondents

The response target of 7000 expected respondents from the 36 states in Nigeria, including the FCT, was exceeded and a total of 8886 responses were received. 45% of these were nano businesses, 34% micro businesses, 15% small businesses, 3% were medium businesses and 1% large businesses.

## 4.2 Data Overview

The research collected data from **8,886 businesses** spread across the 36 states and Federal Capital Territory (FCT).

### 4.2.1 Gender of Entrepreneurs

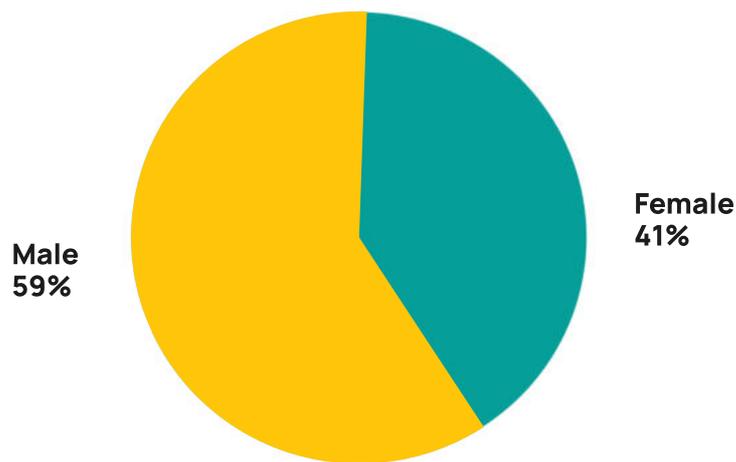


Figure 5: Gender Distribution of Entrepreneurs

Across the nation, more businesses are led by men (59%) than women (41%). Across various states however, there are differences in the distribution between male-led and female-led businesses. For example, in Rivers state, 67% of the businesses in the state are female-led. In Katsina however, only 7% of business in the state are female-led.

The leadership gender distribution across various enterprise types is more consistent with the overall result. All enterprise types are predominantly led by males, with female representation highest among nano and micro businesses and lowest among medium to large scale businesses.

**“more businesses are led by men (59%) than women (41%)”**

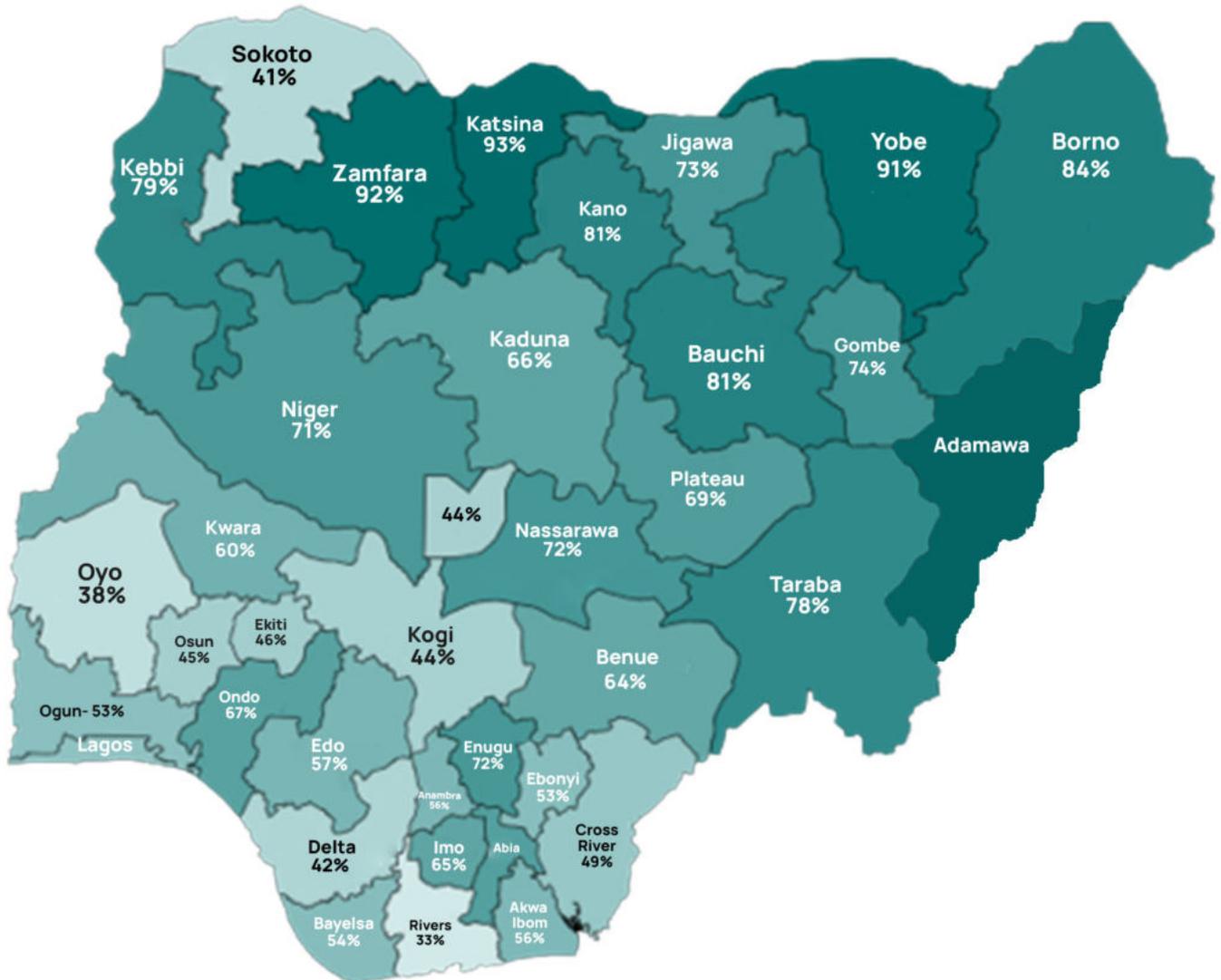


Figure 6: Distribution of Female Led Businesses Across Nigeria

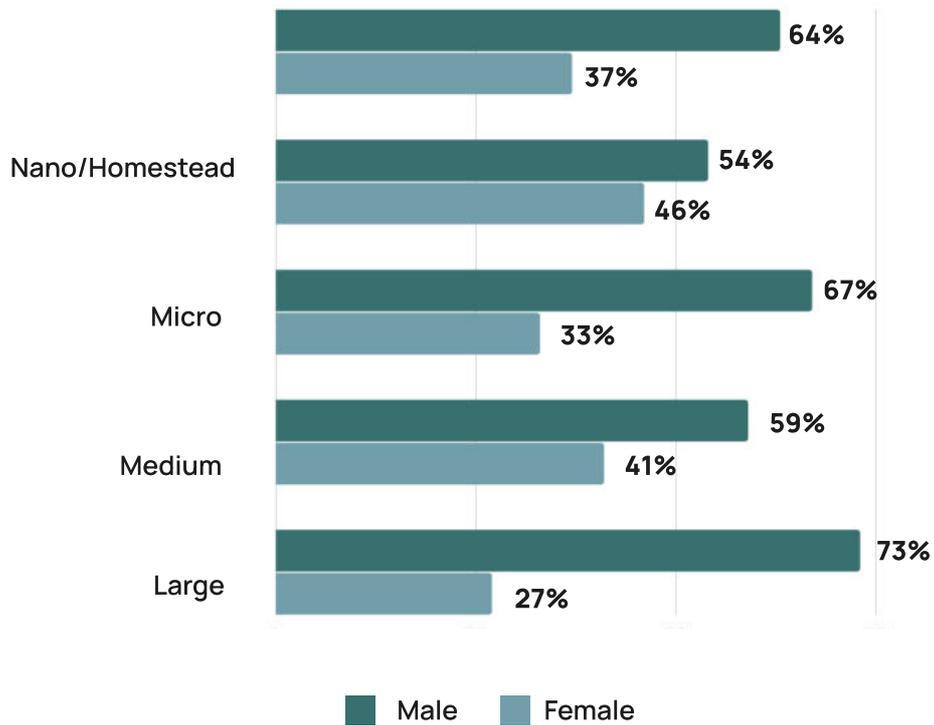
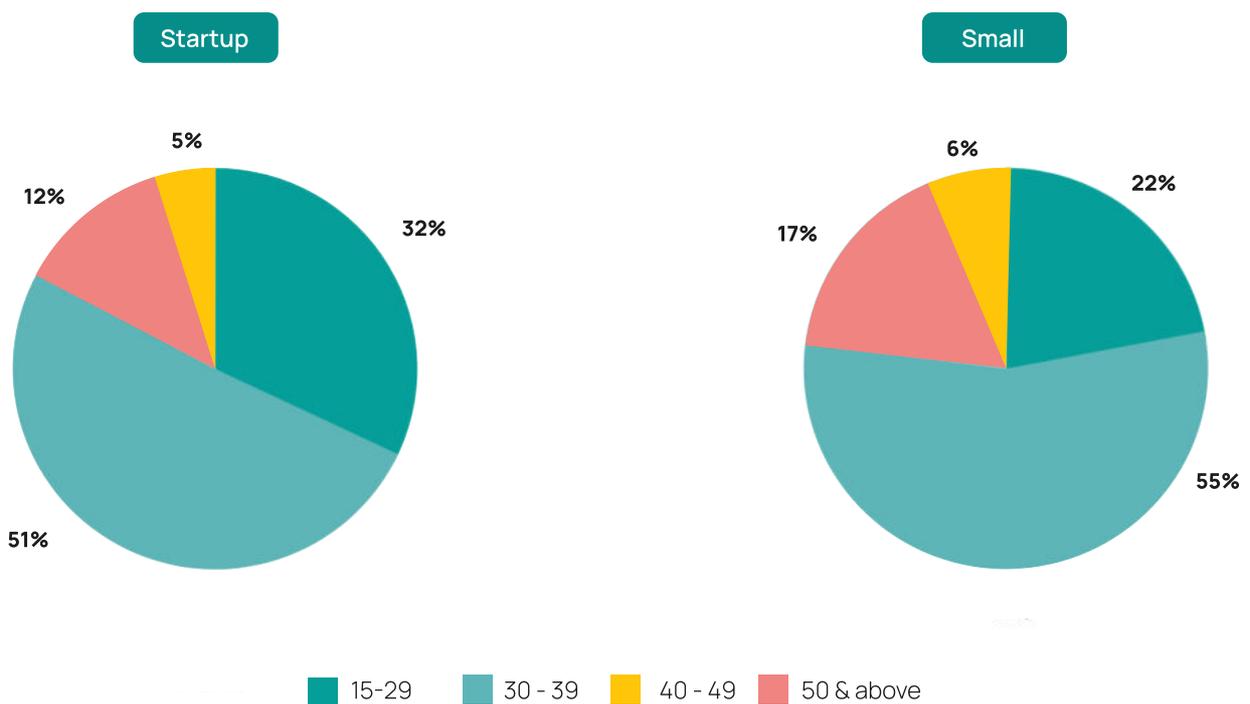


Figure 7: Enterprise Leadership by Gender

#### 4.2.2 Age of Entrepreneurs

The entrepreneurial space appears to be predominantly youth-led with more than 80% of entrepreneurs younger than 40 and 50% of entrepreneurs being between 30 and 39 years old.



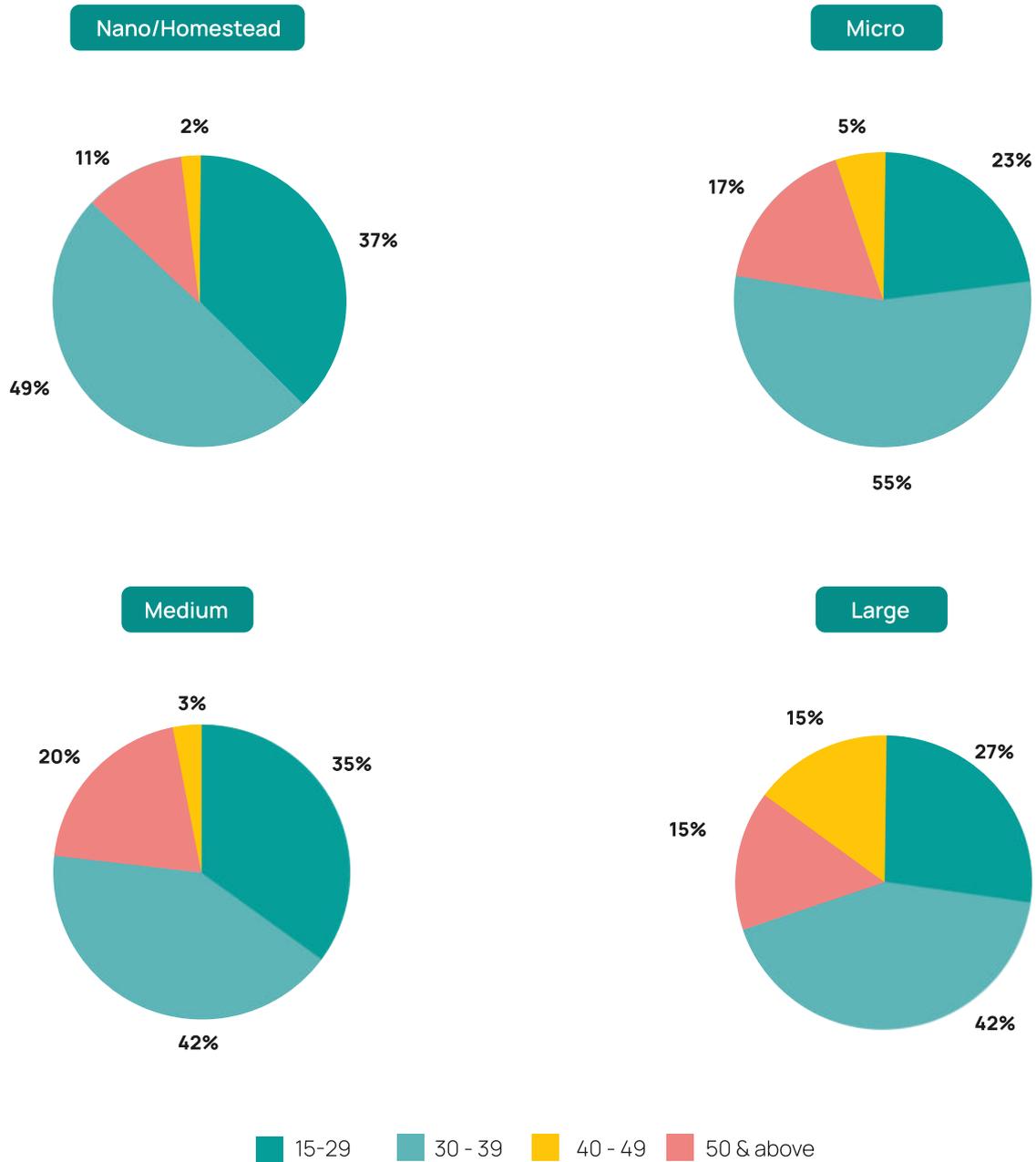


Figure 8: Age Distribution of Enterprise Leaders

**"...more than 80% of entrepreneurs (are) younger than 40"**

The data is consistent across enterprise types with leaders older than 50 having the least representation and those between 30 and 39 having the highest representation across all enterprise types.

Across states, there were a few outliers that had poor representation among the 15 – 29 age range such as Kebbi (5%), Ondo (5%), Kaduna (8%), Enugu (9%) and Kwara (10%) states. This is indicative of poor youth participation in the entrepreneurial space in these states i.e., fewer youth choosing entrepreneurship.

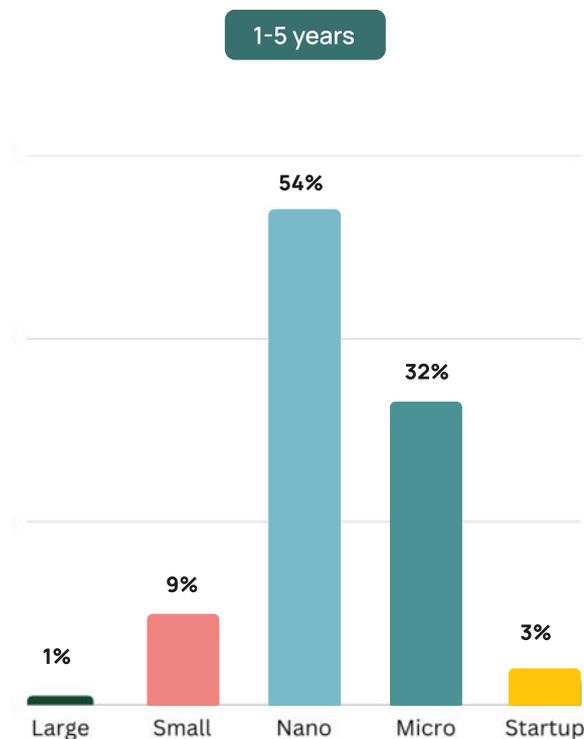
### 4.2.3 Age of Businesses

It is easier to start a business than it is to grow and/or sustain it. It thus stands to reason that there is a larger concentration of businesses in their early years and the concentration tapers with age. Over 50% of the businesses surveyed are less than 5 years old and only about 4% are 20 years older. Plateau, Borno, and Kaduna states recorded the highest proportion of businesses aged 20 years and above with 9%, 5%, and 5% respectively.

### 4.2.4 Business Size

Similar to age distribution, the survey revealed a higher concentration of smaller sized enterprises within the entrepreneurship ecosystem in Nigeria.

The survey reveals that a significant proportion of businesses in Nigeria are nano businesses (45%), followed by micro businesses (34%), and small businesses (15%). Yobe (86%), Ogun (71%), and Niger (70%) have the highest proportion of nano businesses, while Ebonyi (17%), Abuja (20%) and Kaduna (5%), have the least. Most Nano businesses are 1-5 years old (60%).



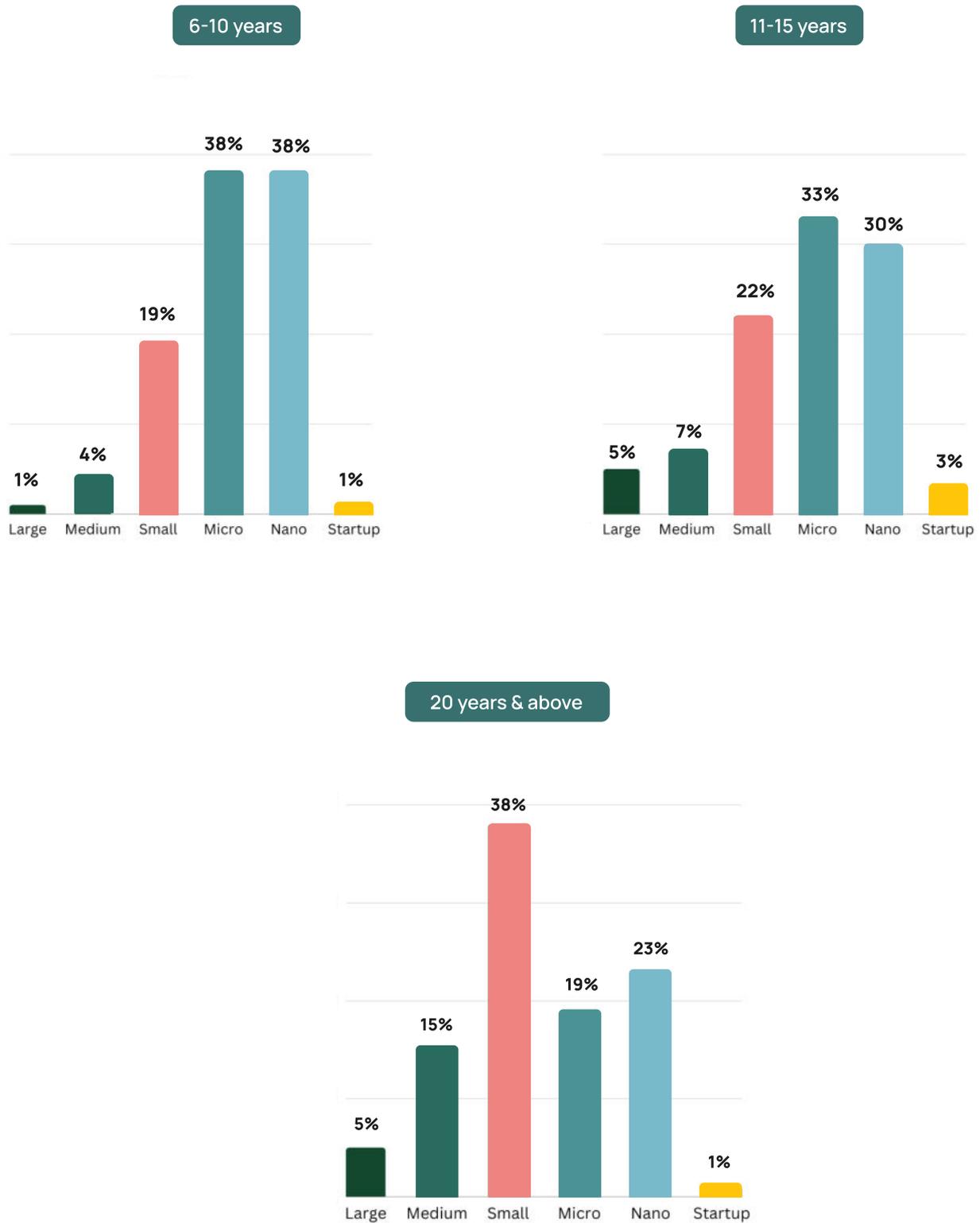


Figure 9: Distribution of Enterprises by Age

Kano (22%), Lagos (24%), and Rivers (48%) have the highest proportion of micro-businesses while Yobe (6.96%), Oyo (21%) and Ogun (21%) have the least.

Kaduna (46%), Ebonyi (35%), and Anambra (25%) have the greatest proportion of small enterprises while Delta (1%), Jigawa (2%) and Ogun (2%) have the least.

Kaduna appears as one of the states with the highest proportion of small and medium enterprises, but it is also one of the states with the least proportion of nano enterprises.

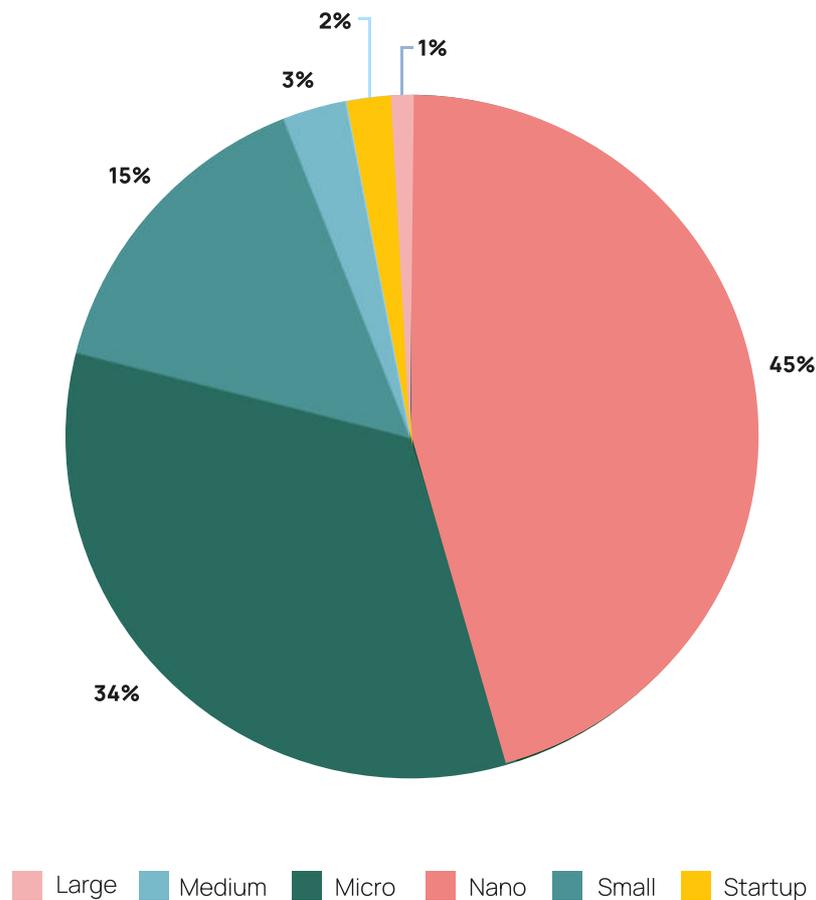


Figure 10: Distribution of Enterprises by Type

## Enterprise Types Across States

States	Nano/ Homestead	Micro	Startup	Small	Large	Medium
Abia	111	44	3	10		
Abuja	71	126	16	97	2	56
Adamawa	42	76	2	12		
Akwa Ibom	72	145	4	60		8
Anambra	111	83	2	67	1	8
Bauchi	62	52	1	20		2
Bayelsa	103	69		15		3
Benue	55	66	6	38		3
Borno	61	34	3	4	3	4
Cross River	107	39	2	7		1
Delta	126	97	1	3		
Ebonyi	11	25	2	23		4
Edo	117	57	13	24	1	1
Ekiti	92	41	6		2	
Enugu	123	151	3	38		10
Gombe	80	39		19		1
Imo	98	108	10	66		14
Jigawa	49	54		2		1
Kaduna	18	83	14	178	66	26
Kano	135	180	2	77		9
Katsina	78	31		4		
Kebbi	32	50	19			3
Kogi	38	22	3	27		3
Kwara	137	47	4	9		
Lagos	241	170	35	81	1	29
Nassarawa	36	75	1	12	1	1
Niger	95	31	5	5		
Ogun	233	73	16	6		2
Ondo	86	86		33		10

States	Nano/ Homestead	Micro	Startup	Small	Large	Medium
Osun	97	69	14	35	1	6
Oyo	28	91	11	29	6	5
Plateau	61	78	3	18	1	3
Rivers	15	17	4	57		15
Sokoto	17	12	5			
Taraba	13	18	1	8		
Yobe	99	8	1	7		
Zamafara	72	27		5		2

Distribution of Enterprise types Across States

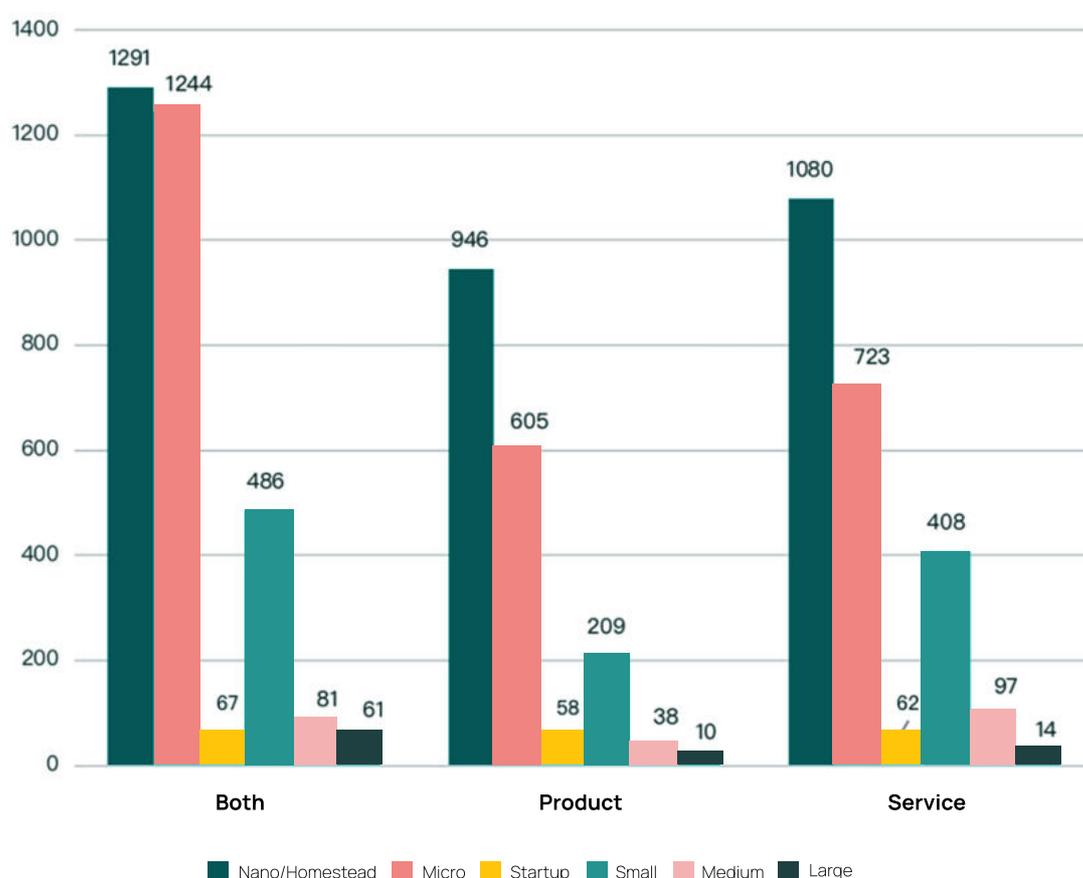


Figure 12: Distribution of Offering Type Across Enterprise Types

The data showed that most businesses in Nigeria offer both products and services (43%). The results also showed the number of businesses that offer services alone (32%) are greater than that of the number offering products alone (25%).



## 5. ASSESSMENT OF NMSME COMPETITIVENESS IN NIGERIA

Competitiveness is one of the most complex concepts in economics and business management. In economics, the concept is used in analysing and designing regional or national policy frameworks and strategies while in business, it is often adopted when reviewing business growth strategies or conducting comparative analysis (Voinescu and Moisoiu, 2015). Across these two fields, one central idea of competitiveness is productivity, whether at firm, national and regional levels. By this, competitiveness examines the features or qualities of an economy that ensure the optimal use of factors of production. Competitiveness therefore emphasises how productive a firm, sub-national entity, nation and region can be as well as the enabling factors that can ensure productivity growth over time.

The World Economic Forum (WEF) defines competitiveness as “the set of institutions, policies and factors that determine the level of productivity”. WEF provides the annual Global Competitiveness Index which ranks countries based on their level of competitiveness. WEF’s GCI has become major tool for policymakers to assess their progress in terms of competitiveness. The index is organised across four main categories: Enabling Environment, Markets, Human Capital, and Innovation Ecosystem. It also has 12 pillars which are: Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labour market; Financial system; Market size; Business dynamism; and Innovation capability.

In addition to WEF’s approach to competitiveness which places emphasis on the macro dimensions, the International Trade Centre (ITC) plays a leading role in assessing competitiveness for SMEs across countries. The ITC defines competitiveness as “the ability of a firm to design, produce and commercialize a good or service that meets market demand, while connecting with the business environment and earning returns in a sustainable way”. For the ITC, the discourse of competitiveness centres on three key areas: **Compete** – how efficiently operations are run and how is the business environment; **Connect** – how information is used; and **Change** – responsiveness of a firm to changing market forces.

### 5.1 Competitiveness Measurement Framework

To assess the level NMSME competitiveness in Nigeria, we designed a competitiveness measurement framework. The framework builds on the concept of systemic competitiveness which assesses a business’ ability to compete by analysing economic development policies, social and cultural factors, from an enterprise level to an industrial level. Leveraging on the International Trade Centre’s (ITC) competitiveness assessment framework<sup>14</sup>, we designed a framework that is particularly suited to the Nigerian ecosystem.

The framework measures competitiveness using three pillars – the ability to compete, the ability to change and the ability to connect. The ability to compete is static, and centres on the operations and efficiency in cost, time, quality, and quantity; the capacity to change, centres on the ability of firms to react in response to dynamic market forces and to invest in human and financial capital; and the ability to connect links the static and the dynamic part of competitiveness, focusing on collecting, processing, and communicating information & knowledge.

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<sup>14</sup>(International Trade Centre, 2017)

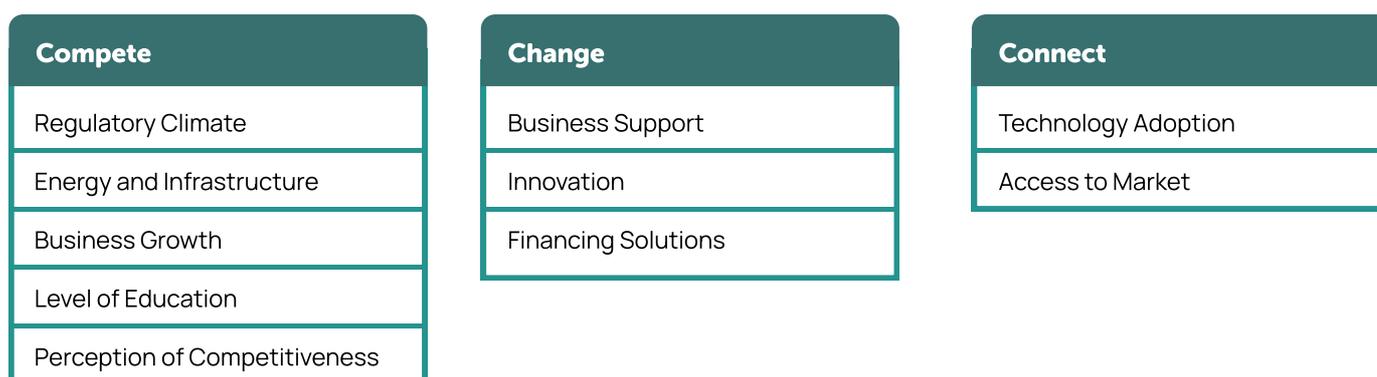


Figure 2: Competitiveness Measurement Pillars

Each pillar is made up of indicators which point to different aspects of business competitiveness. Each indicator is measured using a predefined set of measures (survey questions) deployed to participating NMSMEs across Nigeria in the form of surveys. The results of the responses to the indicator survey questions are then aggregated to determine a ranking in percentages.

The index of each pillar is computed by weighting the indicator scores and the competitiveness score is then calculated through a weighted scoring of the pillars.

Pillars	Measures
<b>Ability to Compete</b>	
<b>Regulatory Climate</b>	<ul style="list-style-type: none"> <li>• Duration for business registration</li> <li>• Duration for certification registration</li> <li>• Duration for tax registration</li> <li>• Ease of tax payment</li> </ul>
<b>Energy, Infrastructure and Security</b>	<ul style="list-style-type: none"> <li>• PEBC's Ease of doing business subnational baseline survey ranking for transport, security, and electricity</li> </ul>
<b>Business Growth</b>	<ul style="list-style-type: none"> <li>• Percentage of businesses that grew in the last 1 year</li> </ul>
<b>Level of Education</b>	<ul style="list-style-type: none"> <li>• Measure of formal education (33%)</li> <li>• % that received business training (67%)</li> </ul>
<b>Perception of Competitiveness</b>	<ul style="list-style-type: none"> <li>• Perception of competitiveness within Nigeria</li> <li>• Perception of international competitiveness</li> </ul>

Pillars	Measures
<b>Ability to Change</b>	
<b>Business Support</b>	<ul style="list-style-type: none"> <li>• Percentage of entrepreneurs that received business support</li> <li>• Weighted impact of the support</li> </ul>
<b>Innovation</b>	<ul style="list-style-type: none"> <li>• Share of businesses that introduced new processes to their business in the last one year</li> <li>• Type of technology (excluding social media)</li> </ul>
<b>Financing Solutions</b>	<ul style="list-style-type: none"> <li>• Percentage of business with access to financing</li> <li>• Time taken to access finance</li> <li>• Type of funding accessed</li> </ul>
<b>Ability to Connect</b>	
<b>Technology Adoption</b>	Percentage of businesses using technology (social media)
<b>Access to Markets</b>	<ul style="list-style-type: none"> <li>• Percentage of businesses that accessed new opportunities to sell their products/ services in and outside Nigeria</li> <li>• Percentage of business that are aware of AfCFTA</li> <li>• Percentage of businesses that accessed new opportunities to sell their products/ services in Nigeria</li> <li>• Percentage of businesses that accessed new opportunities to sell their products/ services outside Nigeria</li> </ul>

Table 3: Pillar Measures

We assessed NMSME competitiveness in Nigeria as a whole - the national competitiveness index, competitiveness index by enterprise type and by state.

### 5.1.1 Results: National NMSMEs Competitiveness Index at 47 out of 100

The national NMSMEs competitive index places Nigeria at 47 out of 100. Close to average, this score indicates that Nigeria's NMSMEs are borderline uncompetitive, requiring much more to be done to improve competitiveness.

National Index	47%	Borderline uncompetitive	
Pillars	Weighting	National	Weighted Average
<b>Ability to Compete</b>	<b>50%</b>		<b>55%</b>
Regulatory Climate	13%	46%	
Energy, Infrastructure and Security	15%	57%	
Business Growth	5%	66%	
Level of Education	5%	67%	
Perception of Competitiveness	12%	51%	
<b>Ability to Change</b>	<b>30%</b>		
Business Support	10%	47%	
Innovation	8%	38%	
Financing Solutions	12%	31%	
<b>Ability to Connect</b>	<b>20%</b>		
Technology Adoption	10%	56%	
Access to Market	10%	28%	

Table 5: National NMSME Competitiveness

## 5.1.2 Competitiveness Index by Enterprise Type

Enterprise Index		47%	53%	57%	56%	50%
Pillars	Weighting	Large	Medium	Small	Micro	Nano
<b>Ability to Compete</b>	<b>50%</b>	<b>52%</b>	<b>53%</b>	<b>58%</b>	<b>57%</b>	<b>51%</b>
Regulatory Climate	13%	31%	32%	34%	34%	33%
Energy, Infrastructure and Security	15%	61%	61%	61%	61%	61%
Business Growth	5%	78%	62%	76%	77%	63%
Level of Education	5%	41%	73%	76%	71%	66%
Perception of Competitiveness	13%	55%	53%	64%	63%	46%
<b>Ability to Change</b>	<b>30%</b>	<b>49%</b>	<b>57%</b>	<b>57%</b>	<b>55%</b>	<b>51%</b>
Business Support	10%	51%	92%	89%	84%	79%
Innovation	8%	43%	38%	43%	43%	38%
Financing Solutions	12%	53%	41%	40%	39%	38%
<b>Ability to Connect</b>	<b>20%</b>	<b>30%</b>	<b>45%</b>	<b>54%</b>	<b>54%</b>	<b>46%</b>
Technology Adoption	10%	13%	48%	63%	65%	58%
Access to Market	10%	47%	42%	45%	42%	34%

Table 7: NMSME Competitiveness by Enterprise Type

Small enterprises have the highest competitive index of 57 due to their seeming ability to grow, to seek and obtain business support, to innovate and adopt technology. While micro businesses had a score of 56, medium-scale enterprises ranked 3rd place with an index of 53.

### 5.1.3 Competitiveness Index by State

The state-by-state competitiveness index provides an indication of how well each state is doing competitiveness wise. A few outliers emerge: States with very low indexes such as Federal Capital Territory (32), Taraba (33), and Zamfara (35); States with high indexes such as Kaduna (66), Plateau (65), and Bayelsa (62%), Enugu (62) & Imo States (62); and States that rank similar to the national index - Abia (46), and Oyo (48).

For states with high index score, several factors contribute to their emergence as highly competitive states. NMSMEs are remodeling to capture markets with wider disposable incomes especially outside Lagos and Abuja. These markets have lower barriers to entry, ease of penetration, and stronger purchasing power.

Cooperatives, associations, and semi-formal institutions provide support for NMSME segments/members in their clusters to facilitate positioning, growth, penetration, and competitiveness.

States	State Index	Regulatory Climate	Energy & Infrastructure	Business Growth	Level of Education	Perception of Competitiveness	Ability to Compete	Business Support	Innovation	Financing Solutions	Ability to Change	Technology Adoption	Access to Market	Ability to Connect
							50%				30%			20%
Abia	46%	22%	43%	83%	69%	33%	42%	76%	39%	46%	54%	62%	21%	41%
Abuja	32%	36%	37%	18%	68%	15%	33%	94%	13%	25%	44%	19%	10%	14%
Adamawa	54%	35%	58%	92%	52%	68%	57%	69%	31%	39%	47%	77%	38%	58%
Akwa Ibom	57%	31%	72%	90%	53%	67%	60%	88%	62%	50%	66%	26%	49%	38%
Anambra	60%	28%	47%	83%	59%	54%	49%	72%	47%	26%	47%	80%	36%	58%
Bauchi	61%	38%	71%	87%	55%	71%	63%	67%	47%	41%	51%	94%	51%	72%
Bayelsa	62%	41%	49%	80%	84%	71%	59%	89%	46%	52%	63%	87%	43%	69%
Benue	54%	30%	39%	75%	67%	73%	52%	80%	42%	32%	51%	84%	42%	64%
Borno	61%	40%	64%	87%	73%	63%	61%	84%	52%	38%	57%	93%	30%	67%
Cross River	41%	37%	52%	43%	35%	33%	41%	60%	44%	37%	46%	40%	25%	35%
Delta	51%	41%	45%	70%	70%	52%	37%	75%	35%	33%	48%	85%	12%	55%
Ebonyi	36%	30%	52%	21%	74%	18%	57%	94%	16%	29%	47%	19%	43%	67%
Edo	59%	31%	47%	92%	74%	72%	42%	86%	48%	38%	57%	91%	39%	41%
Ekiti	43%	37%	41%	31%	74%	40%	59%	74%	37%	31%	47%	44%	67%	75%
Enugu	62%	29%	60%	80%	79%	73%	52%	95%	41%	41%	59%	60%	32%	46%
Gombe	51%	29%	66%	58%	78%	46%	56%	86%	34%	37%	52%	90%	61%	75%
Imo	62%	32%	48%	79%	78%	74%	51%	55%	49%	45%	62%	81%	42%	62%
Jigawa	52%	27%	53%	67%	75%	56%	64%	89%	43%	44%	47%	97%	55%	76%

States	State Index	Regulatory Climate	Energy & Infrastructure	Business Growth	Level of Education	Perception of Competitiveness	Ability to Compete	Business Support	Innovation	Financing Solutions	Ability to Change	Technology Adoption	Access to Market	Ability to Connect
							50%				30%			20%
Kaduna	66%	38%	60%	95%	66%	81%	64%	86%	50%	56%	64%	97%	55%	76%
Kano	59%	39%	59%	91%	40%	74%	59%	55%	50%	49%	51%	89%	52%	71%
Katsina	60%	21%	46%	89%	84%	69%	54%	89%	53v	49%	63%	95%	50%	72%
Kebbi	60%	37%	70%	85%	64%	84%	66%	86%	39%	49%	58%	64%	35%	49%
Kogi	39%	35%	47%	32%	71%	27%	40%	87%	20%	32%	47%	31%	17%	24%
Kwara	60%	38%	59%	58%	91%	63%	58%	85%	56%	50%	63%	74%	46%	60%
Lagos	56%	40%	27%	86%	72%	65%	50%	79%	50%	42%	56%	88%	51%	70%
Nassarawa	49%	30%	33%	67%	71%	57%	46%	80%	42%	45%	56%	67%	33%	50%
Niger	60%	52%	54%	91%	89%	59%	62%	92%	48%	24%	53%	96%	36%	66%
Ogun	41%	21%	34%	45%	60%	34%	34%	78%	30%	43%	51%	58%	27%	43%
Ondo	60%	33%	50%	93%	53%	73%	56%	76%	49%	53%	59%	96%	42%	69%
Osun	41%	25%	38%	48%	86%	32%	39%	89%	31%	43%	55%	34%	22%	28%
Oyo	48%	41%	46%	53%	48%	39%	44%	76%	37%	43%	52%	63%	36%	49%
Plateau	65%	50%	49%	87%	78%	77%	63%	88%	55%	41%	60%	93%	57%	75%
Rivers	43%	30%	22%	41%	89%	28%	34%	91%	21%	27%	46%	94%	28%	61%
Sokoto	39%	38%	67%	36%	44%	30%	45%	56%	25%	30%	37%	33%	23%	28%
Taraba	33%	32%	47%	28%	49%	26%	36%	65%	16%	27%	37%	26%	15%	21%
Yobe	53%	38%	59%	71%	78%	48%	54%	95%	38%	41%	58%	48%	40%	44%
Zamfara	35%	26%	54%	35%	64%	13%	36%	85%	15%	29%	43%	25%	13%	19%

Table 8: NMSME Competitiveness Index and Ranking by State

## 5.2 Ability to Compete

One of the pillars of competitiveness is businesses' ability to compete. Ability to compete is a static measure that centres on elements that influence operations and efficiency in cost, time, quality, and quantity. It encompasses five (5) indicators - Regulatory Climate, Energy and Infrastructure, Business Growth, Level of Education, and Perception of Competitiveness.

## 5.2.1. Regulatory Climate

### • Business Registration

Registered businesses are more likely to be formal, recognised by the government and other formal firms. They are also more likely to receive support from the government and enjoy other incentives. These attributes present these businesses with more advantages, thus increasing the opportunity for them to be more competitive than those that are not registered.

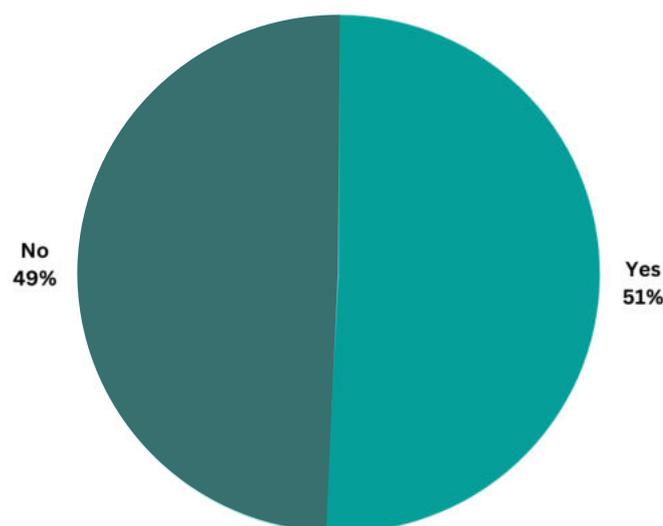


Figure 14: Percentage of Registered Businesses

Similar to the findings in the (SMEDAN) 2021 MSME survey report which showed about 50% business registration, and the FATE Institute's State of Entrepreneurship Report 2022 which showed 49% business registration, this study showed that 51% of the businesses surveyed have some form of business registration. Of the 51% that have some form of registration, 64% indicated that they were registered with the CAC, 26% with SMEDAN, and 8% with formal trade groups and associations.

The most common type of business incorporation is the business name (79%). Retail, fashion and FMCG are the sectors with the highest number of businesses under business name registration; healthcare sector has the highest number of businesses under company limited by guarantee; agriculture; fishery & forestry have the highest number of businesses under private company limited by shares as well as limited liability partnership.

Agriculture, Fishing & forestry sector has the highest number of total registered businesses (17%), while Retail, Fashion & FMCG sector has the highest number of unregistered businesses (24%).

The high registration representation among the Agriculture, Fishing and Forestry sector may be due to government focus and consequently support (grants, loans, business support, export opportunities and formal retail opportunities) which generally require applicants to be registered with the CAC. The opposite is true for the Retail, Fashion & FMCG sector, which is much easier to get into, has less government focus and has easier access to customers.

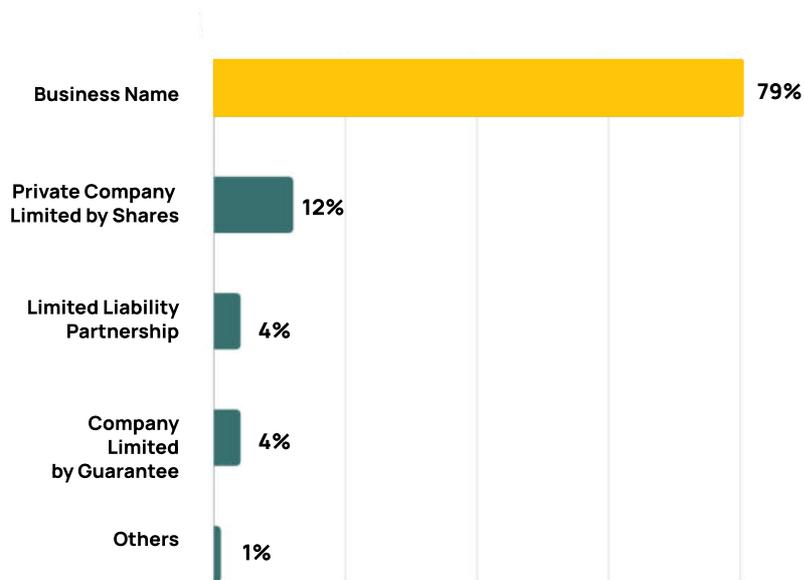


Figure 15: Business Incorporation by Type

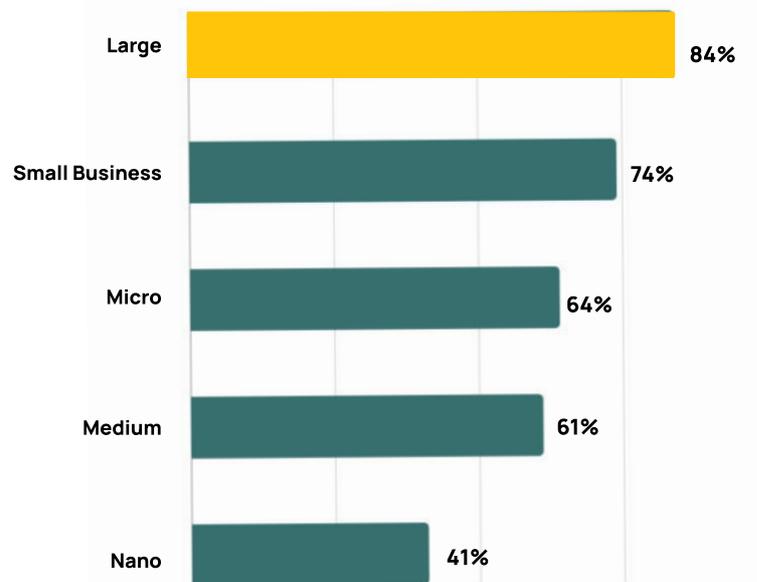


Figure 16: Distribution of Business Registration by Enterprise Type

Large enterprises have the highest proportion of registered businesses (84%) followed by small businesses (74%), micro (64%), medium (61%), and nano (41%).

“Business Name” is the most common registration type across all enterprise types, ranging from 50% of all large enterprises to 84% among Nano enterprises.

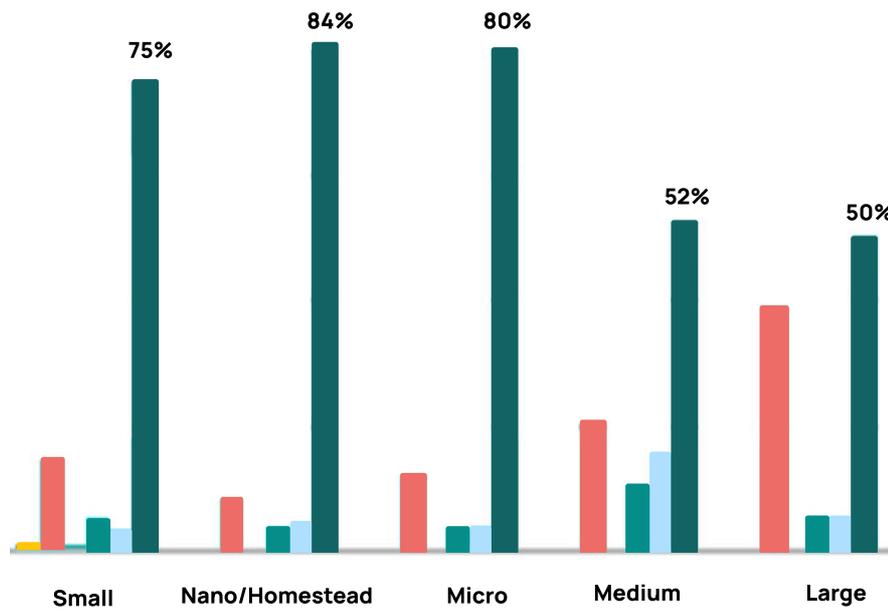


Figure 17: Business Registration Distribution across Enterprises



### • Registration Challenges

44% of respondents took one month to complete the process of business registration, 7% of respondents took 6 months and 4% of respondents took a year or more to get registered.

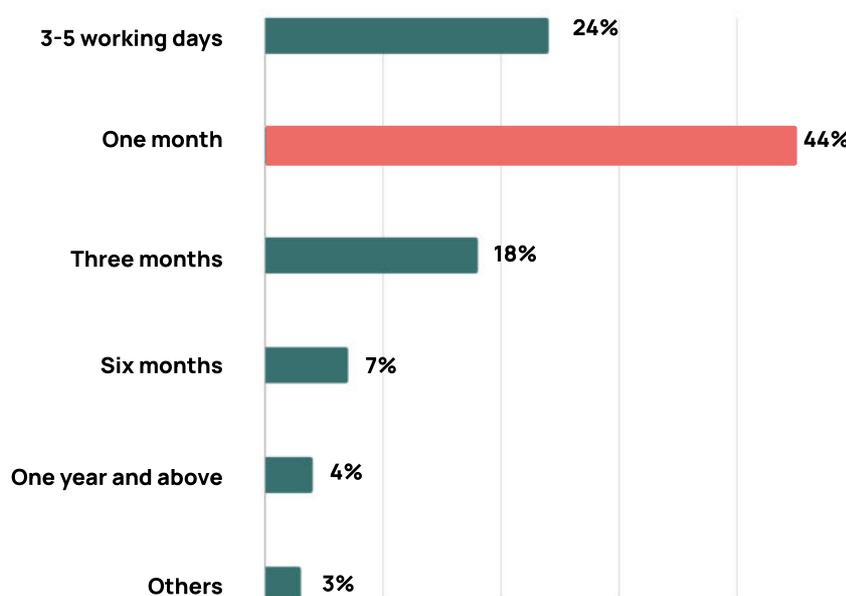


Figure 18: Length of Registration Process

**“44% of respondents took one month to complete the process of business registration, 7% of respondents took 6 months and 4% of respondents took a year or more to get registered.”**

This timeline is poor, compared to the more competitive African countries such as Mauritius where business registration takes 1 day as noted in the Republic of Mauritius Government Directory<sup>15</sup>; Rwanda where it takes only 1-2days<sup>16</sup>, and South Africa where registration takes between 5 days and 5 weeks as noted by Harbour & Associates<sup>17</sup>.

In addition to the duration of the registration process, 61% of respondents noted the high cost of getting registered while 13% noted issues with the registration platform and poor availability of information on the registration process.

Given the challenges businesses encounter when trying to register their businesses, it is imperative to address gaps to improve business registration rate as this study shows that 49% of businesses are not registered at all.

## Product Certification

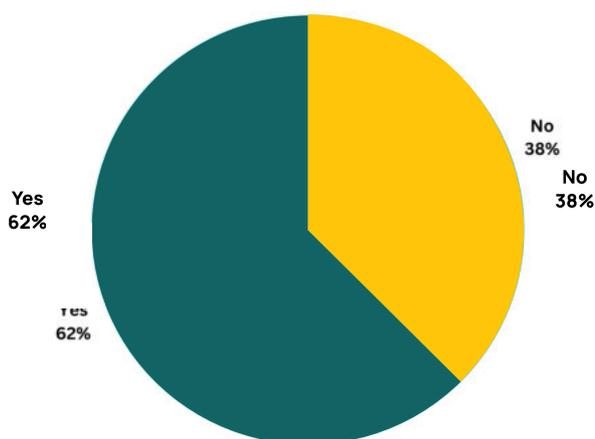


Figure 19: Percentage of Certified Businesses

Out of 8,886 businesses surveyed, only 36% of businesses offer certified products/services in Nigeria micro businesses (35%), nano (31%), small (21%) and medium (4%) businesses.

<sup>15</sup>Republic of Mauritius-2020, Starting a Business, retrieved from:<https://govmu.org/EN/infoservices/business/Pagesstartbusiness.aspx#:~:text=The%20person%20or%20company%20need,company%20usually%20takes%20half%2Dday>

<sup>16</sup>Rwanda- Register a new Business, retrieved from: [https://www.wikiprocedure.com/index.php/Rwanda\\_-\\_Register\\_a\\_New\\_Company](https://www.wikiprocedure.com/index.php/Rwanda_-_Register_a_New_Company)

<sup>17</sup>Harbour Associates, Business Registration, retrieved from: <https://www.harbourassociates.co.za/seo-blog/general-business/how-long-does-it-take-to-form-a-company-in-south-africa#:~:text=Company%20registration%20can%20take%20anything,normally%20takes%20about%205%20days>

**“Out of 8,886 businesses surveyed, only 36% of businesses offer certified products/services in Nigeria -micro businesses (35%), nano (31%), small (21%) and medium (4%) businesses.”**

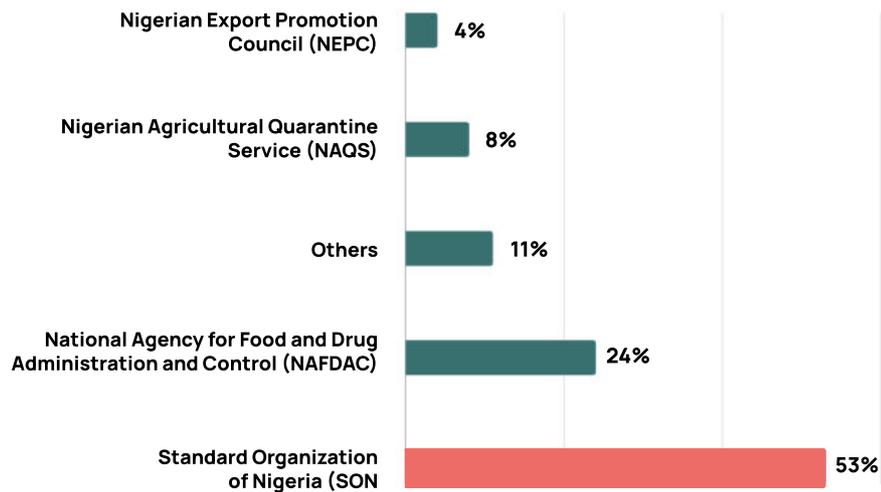


Figure 20: Bodies Responsible for Certifying Respondent's Products or Services

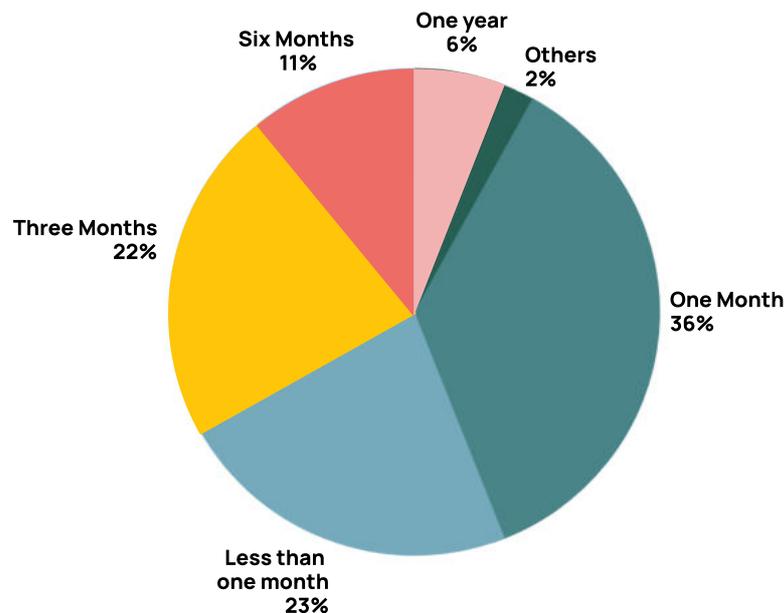


Figure 21: Time taken to obtain certification

23% of respondents obtained certifications for their products in less than a month, for 36% of respondents, certification took about 1 month while for 41% of respondents, it took between 3 months and one year.

### • Certification Challenges

Similar to the challenges encountered during business registration, the cost of certification is a major constraint to product and service certification as indicated by 78% of respondents. Other challenges encountered include long duration of the process, poor information around certification processes and requests for monetary incentives.

The certification terrain is difficult to navigate for most small businesses. A cursory look at NAFDAC and SON's websites reveal the availability of information with minimal support for navigating the requirements and registration processes for small businesses. In addition, the overlaps between the mandate of both institutions and the seeming lack of collaboration create an additional barrier to certification for most NMSMEs.

### • Taxes

Do you have a Tax Identification Number

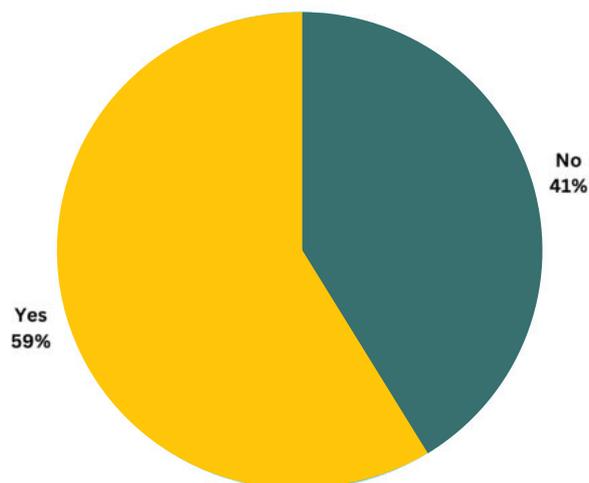


Figure 22: Businesses with Tax Identification

Only 41% of businesses surveyed are within the formal tax net i.e. they have tax identification numbers (TIN), however, only 66% percent of those businesses pay taxes to the government.

Across states, the proportion of those registered to pay taxes vary widely from only 11% - 17% in Katsina, FCT, Osun, Ebonyi, Abia, Bayelsa and Rivers States to as high as 65% -88% in Kano, Benue, Borno, Bauchi, Ondo, Plateau, Kaduna and Niger states. The rate of registration for Tax Identification Numbers (TIN) closely trails the rate of business registration per state. This is understandable as the new process of business registration generates a TIN which is linked to the business bank account by the bank once it is opened.

**“..... the cost of certification is a major challenge according to 78% of respondents.”**

• Business and Tax Registration by State

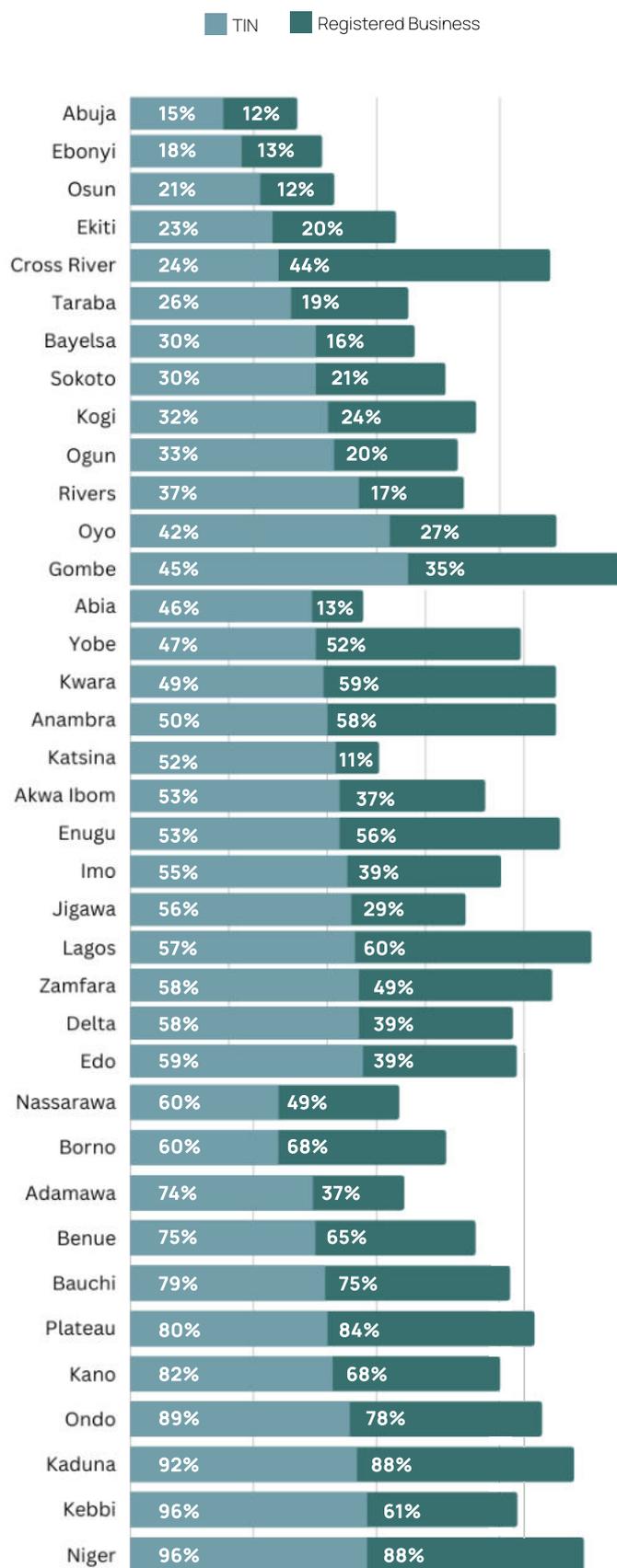


Figure 23: Tax Registration and Business Registration rates by state

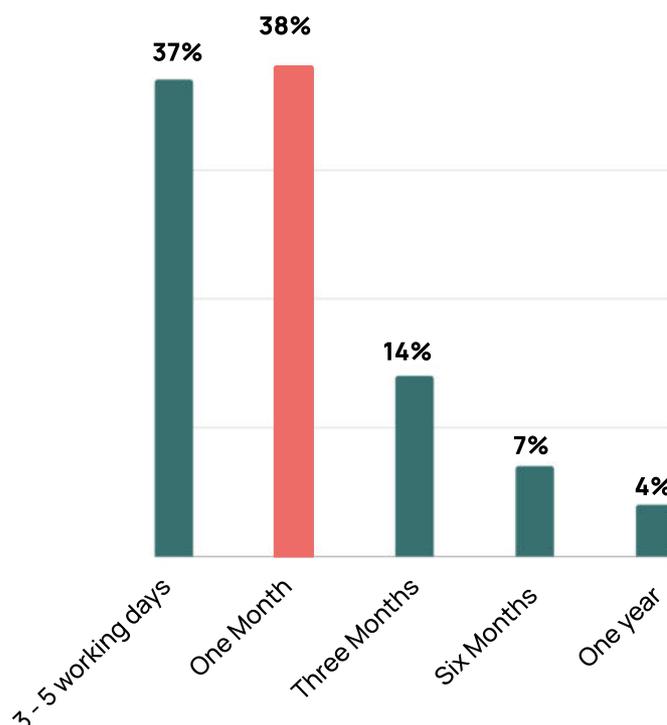


Figure 24: Time to Get a Tax Identification Number

37% of respondents obtained their Tax Identification Number (TIN) within a week, 38% within a month, and 25% above 1 month to obtain their TIN.

36% of respondents indicate that the process was easy and 35% of respondents say the process was difficult. Respondents in Adamawa, Ogun and Akwa Ibom found the process of obtaining their TIN particularly difficult while those in Plateau, Enugu and Adamawa found the process very easy.

From the responses, the duration or difficulty in the process of getting TIN is one of the major challenges NMSMEs encounter in tax registration.

#### • Challenges

According to 77% of businesses surveyed, the major challenges preventing them from acquiring their TIN is multiple taxation. Some of the other challenges include poor information/clarity around tax processes, high tax rates and complex filling processes.

Multiple taxation has been a consistent challenge within the entrepreneurship ecosystem and is estimated to deprive the country of significant revenue. NMSMEs bear the brunt of this multiple taxation system, increasing their operation costs significantly, threatening their ability to remain in business and reducing their competitiveness. In addition, it acts as a disincentive to register for or remit formal taxes since formal taxation is believed to deliver no additional benefits, whereas, failure to pay the informal taxes and levies brings business to an immediate halt.

**“According to 77% of businesses surveyed, the major challenge preventing them from acquiring their TIN is multiple taxation.”**

## 5.2.2 Energy and Infrastructure

According to the Ease of Doing Business Subnational Baseline Survey Report<sup>18</sup>, infrastructure and security have major impact on businesses in Nigeria. Indexed at 61%, this indicator measures access to standard infrastructure such as power, water, telecommunications, internet, transportation, and waste management.

Consistent with the report, our survey results show that infrastructure is a major pain point for NMSMEs. For 78% of the respondents, Power and Energy have the most significant impact on business operations. Transportation comes second at 15% followed by water (3%), telecommunication (2%), internet (2%) and waste management at 2%.

This indicates that NMSMEs are having to invest in sourcing and paying for their own power generation, navigate the unreliable transportation structure, and provide other forms of infrastructure such as water and waste management.

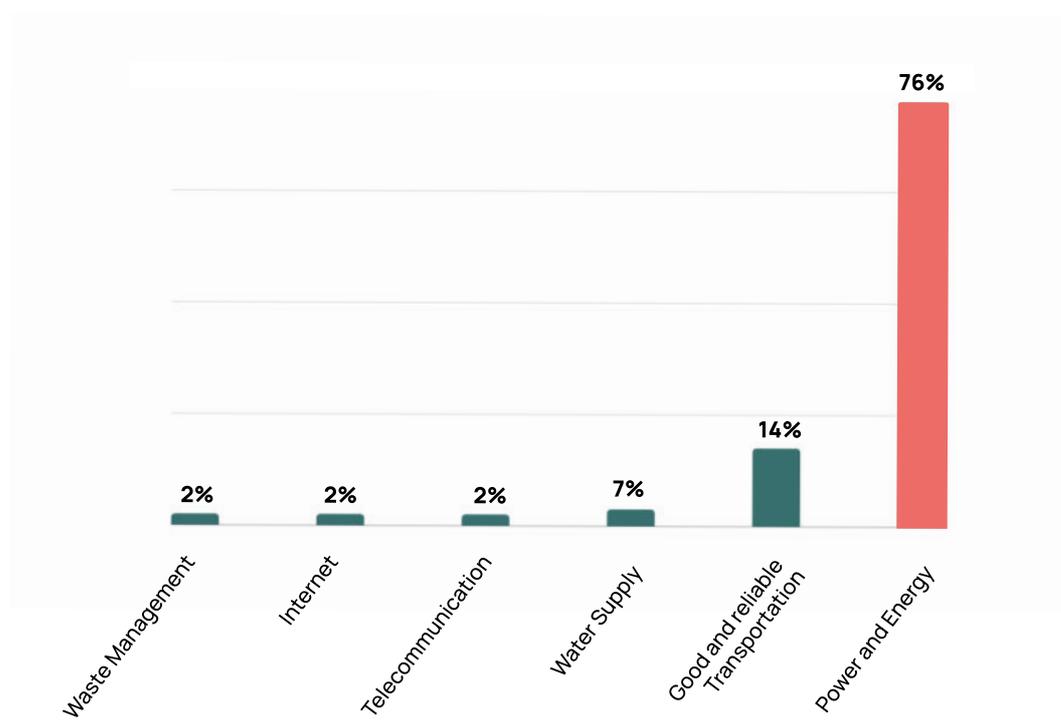


Figure 25: Most Important Infrastructure Affecting Business Operation

### • Challenges

The state of energy and infrastructure in Nigeria is cause for concern. The World Economic Forum places Nigeria's infrastructure score at 40%, a less than average score, low in comparison with countries such as China (78%), South Africa (68%), India (68%), Brazil (65%), Kenya (54%), and Ghana (47%)<sup>19</sup>.

<sup>18</sup>(Enabling Business Environment Secretariat, 2021)

<sup>19</sup>(Global Competitiveness Index Report, 2019)

Plagued by constant power outages, poor road network, bad roads, absence of portable water and rising widespread insecurity, the poor state of Nigeria's infrastructure affects NMSMEs and negatively impacts their performance in various ways. The results show that 63% of respondents noted that increase in production costs and final pricing is the most significant impact that the state of infrastructure has on their business. This is followed by decreased profits (14%), unfavorable competition (6%), increased cost of transportation (6%) and delayed delivery (5%).

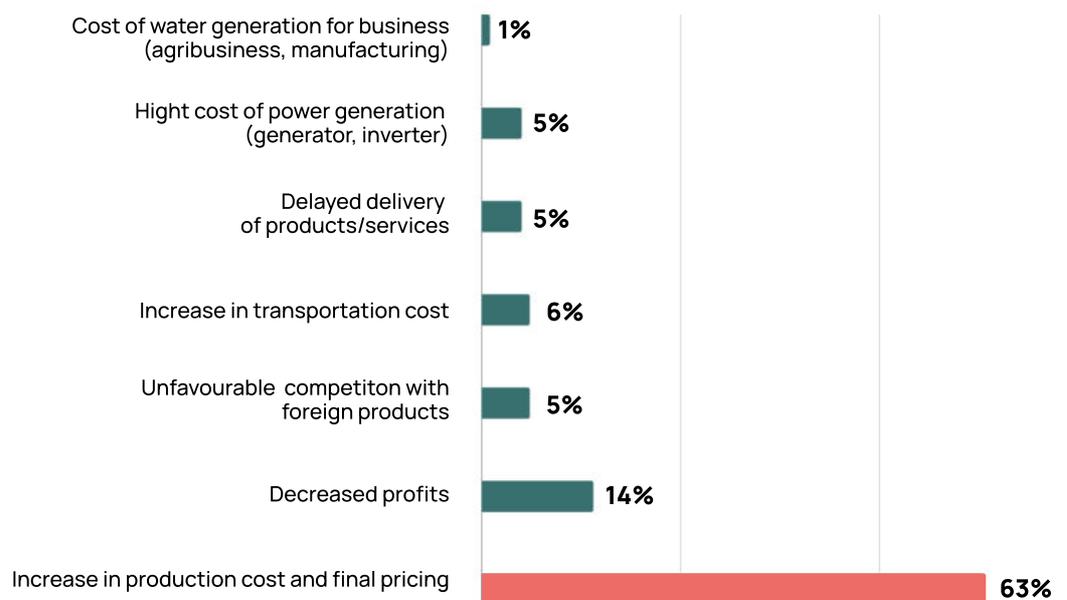


Figure 26: Negative Impact of Poor Infrastructure on Businesses

**“63% of respondents noted that increase in production costs and final pricing is the most significant impact that the state of infrastructure has on their business”**

### 5.2.3 Business Growth

The growth of NMSMEs is important for several reasons. At the enterprise level, business growth often leads to better revenue and profits, improving the potential income and livelihood of the business owner and staff. It also often leads to growth in employee numbers and a movement from one classification to another e.g., nano to micro to small business.

This has a ripple effect on the community that the business serves, increasing jobs and improving the standard of living. At the national level, the economy at large benefits from the contribution to employment and the GDP.

Business growth is also a factor of competitiveness as it ensures economies of scale and the usage of resources such as capital and manpower to improve the business' ability to favourably compete.

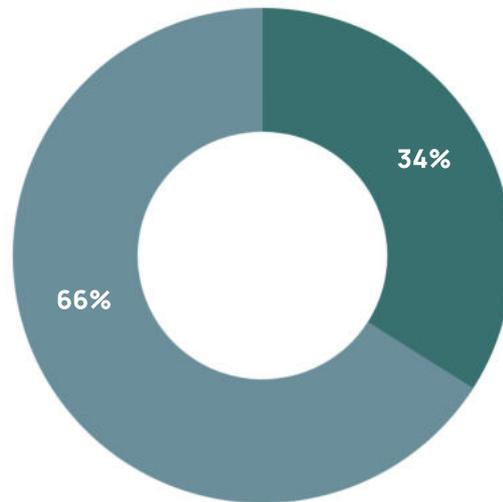


Figure 27: Did Your Business Experience Growth in the Last 1 Year?

From the survey, 66% of respondents noted that they experienced growth in the past year. Across enterprise types, the growth is similar, with large enterprise experiencing the most growth at 78% and medium scale businesses experiencing the least (62%).

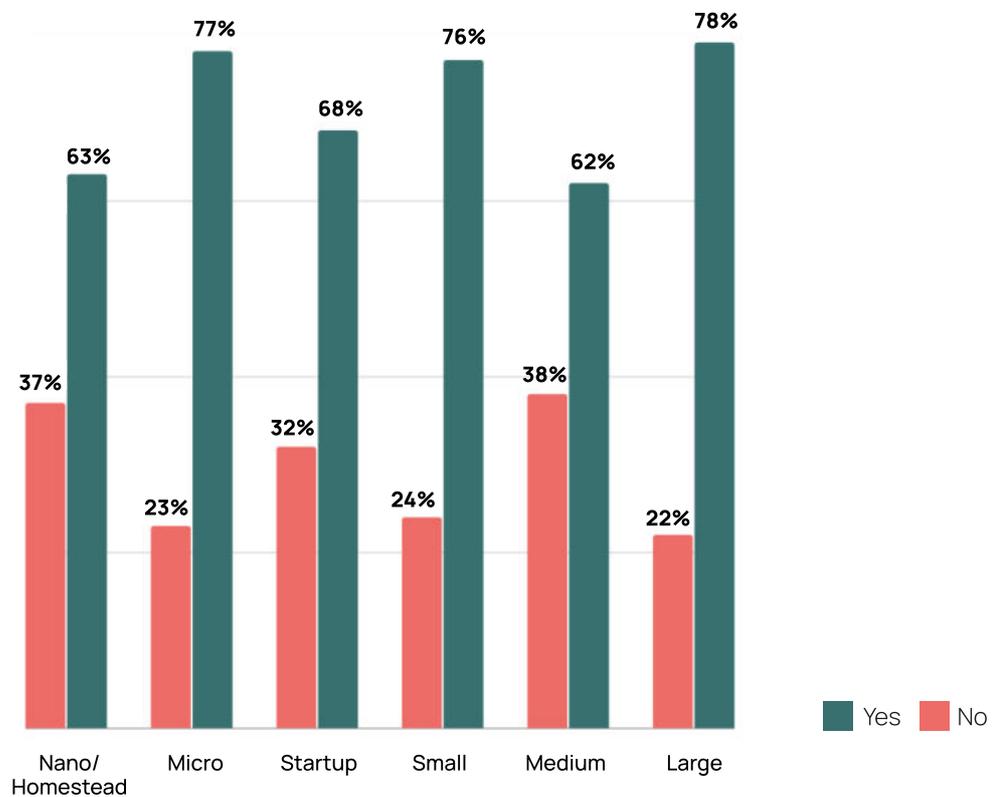


Figure 28: Growth Across Enterprise Types

Growth took place in several forms including top line revenue (53%), new product or services lines (22%), increase in bottom line profits (17%), additional business outlets (1%), and exports (0.11%).

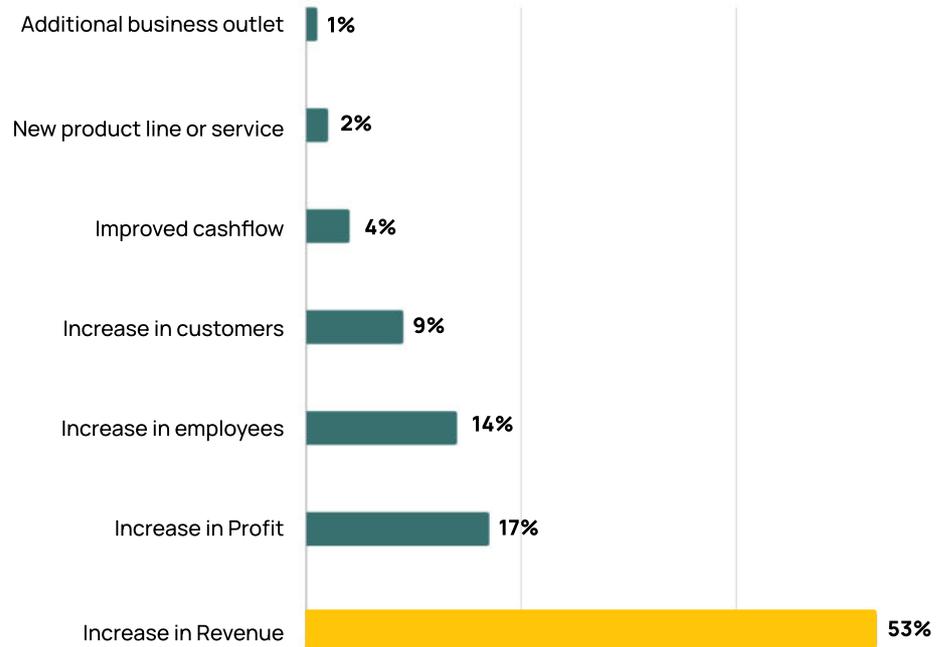


Figure 29: Areas in Which Businesses Experienced Growth

Businesses that experienced increase in revenue, profits, and customers estimated the value of the growth their businesses recorded. 17% of businesses that grew revenue experienced above 15% revenue increase. Majority (66%) of the businesses experienced minimal growth, ranging between 1% and 10%.

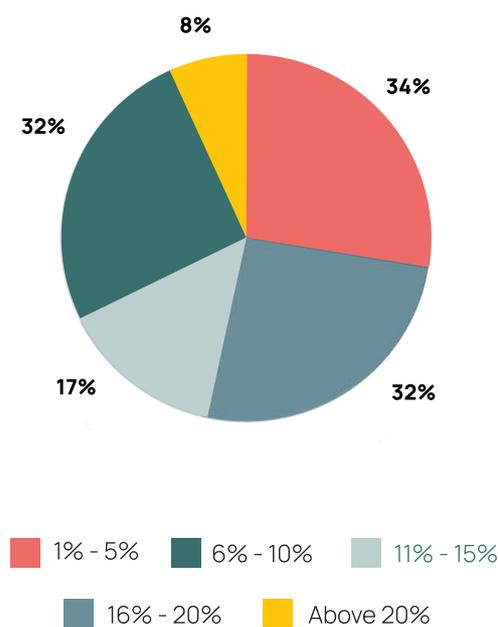


Figure 30: Revenue Growth Rate

Cashflow is the lifeblood of every business and can be a good indicator of business health. For businesses that experienced growth in cashflow, 55% estimated their growth to be between 1% - 10%; 26% estimated it to be between 11% - 15%; and the others, above 15%.

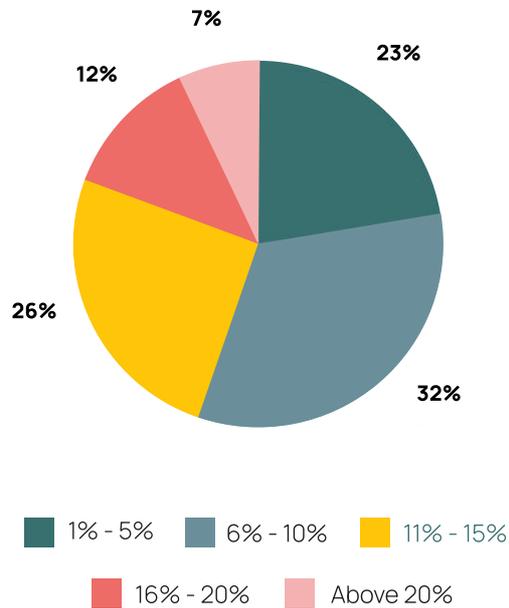


Figure 31: Cashflow Growth Rate

Customer growth was more evenly distributed. 13% of NMSMEs surveyed grew their customer base by more than 20%. 25% of NMSMEs grew their customer base by 11% to 15%; 24% grew their customer base by 6% to 10%; 23% grew their customer base by 1% to 5%; and 15% grew their customer base by 16% to 20%.

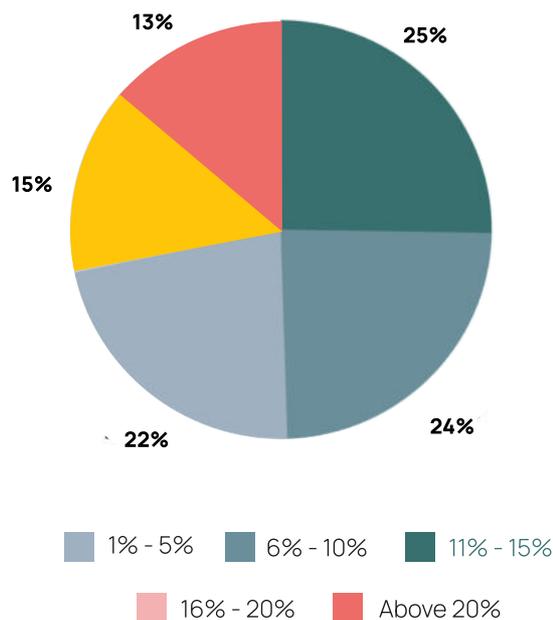


Figure 32: Customer Growth Rate

When survey respondents were asked for the most important factors that enabled them to grow, 73% of respondents stated that access to new opportunities to sell within Nigeria was the most critical factor that fuelled their growth.

Access to Finance was the second most important factor reported as affecting the growth of NMSMEs (7%) while access to foreign markets was the third most significant factor (6%) impacting the growth of NMSMEs.

Other factors that enabled growth include technology adoption, capacity development, skilled workforce, business and trade groups and government policies and support.

**“73% of respondents stated that access to new opportunities to sell within Nigeria was the most critical factor that fueled their growth.”**

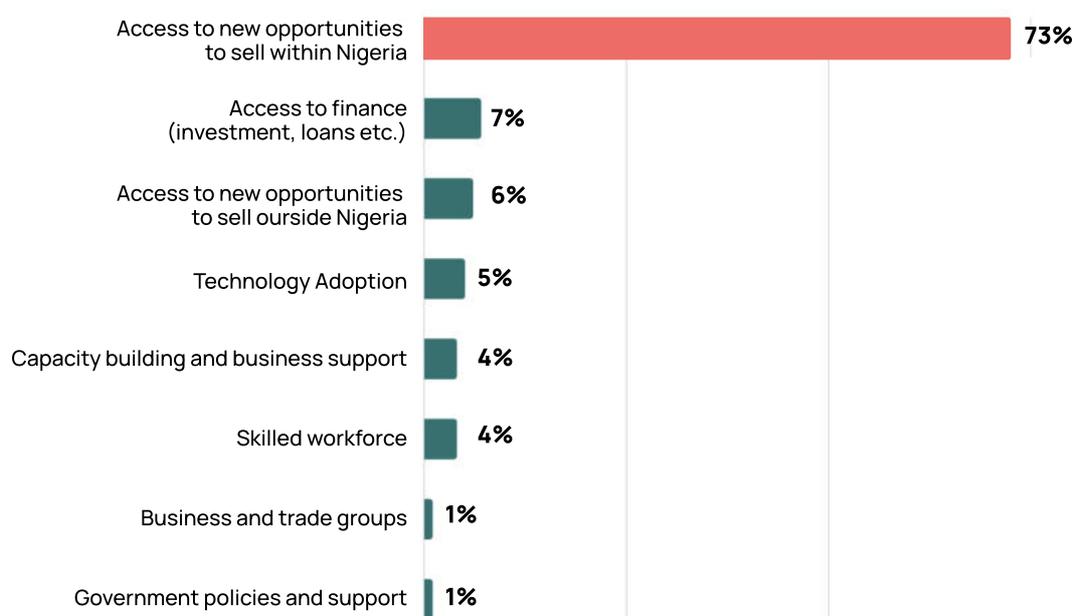


Figure 33: Factors that Enable Business Growth

## • Challenges

Nigerian businesses are as resilient as Nigerians themselves and the extent of growth recorded despite the challenges that exist attest to the resilience of Nigerian entrepreneurs. Some of the reasons cited by respondents as impeding the expansion of NMSMEs, include "access to market" (64%), "poor capacity building and business support opportunities" (17%), and "energy and infrastructure" (2%)<sup>20</sup>.

However, other factors such as an unskilled Labour (6%), unstable government policies, energy and infrastructure challenges, multiple taxation, insecurity were some of the other challenges identified.

<sup>20</sup>See sections 5.4.1, 5.3.1, and 5.2.2.

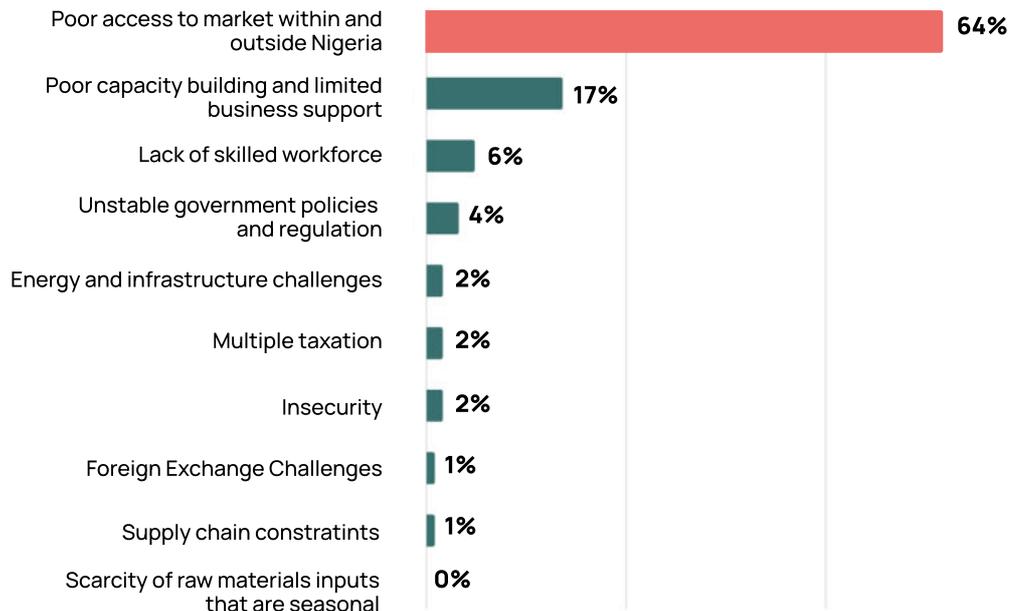


Figure 34: Factors that Inhibit Business Growth

## 5.2.4 Education

The survey showed that the highest level of education most common among business owners in Nigeria is the bachelor's degree (31%) closely followed by Secondary School (22%) level. Similarly, the FATE Institute's State of Entrepreneurship Report 2022 showed that 40% of businesses surveyed were Bachelors Degree holders.

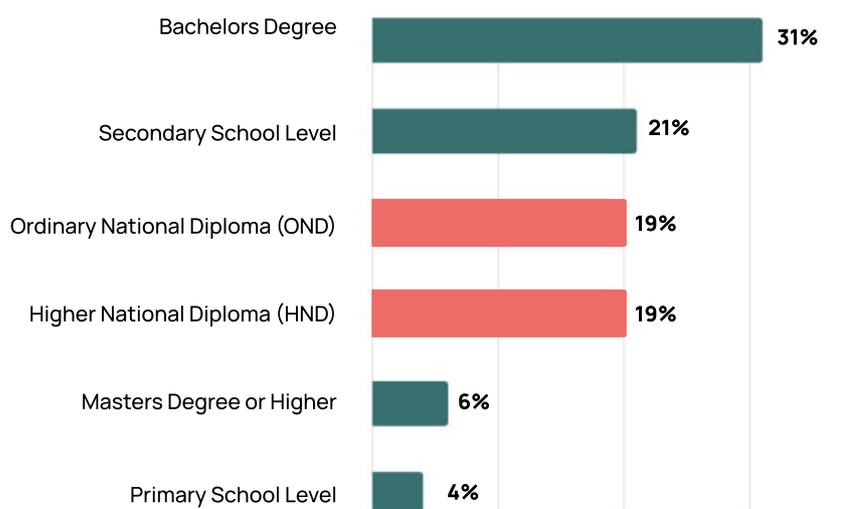


Figure 35: Highest Education Level for Entrepreneurs

**“the highest level of education most common among business owners in Nigeria is the bachelor’s degree (31%) closely followed by Secondary School (22%) level.”**

The large number of tertiary educated entrepreneurs might be a reflection of the high rate of unemployment which rose to 33% with underemployment at 28% in 2020. Unemployment was highest for the youth (41%) especially youth with a bachelor’s degree (41%) unlike their counterparts with vocational skills who have a much lower unemployment rate (18%)<sup>21</sup>.

The increase might also be due in part to the impact of Covid-19 which increased remote working opportunities, opening doors to multiple jobs, self-employment, and new youth-led businesses.

Across states, the results vary. The proportion of entrepreneurs with a master’s degree or more is highest in Ekiti State (34%), while it is lowest in Delta and Sokoto State. Businesses run by primary school graduates are most prevalent in Yobe State (20%). There is however a small number of businesses that are run by primary school certificate holders in Gombe, Adamawa, Benue, Kaduna and Kwara states.

### Highest Level of Education by State

States	Bachelor's degree	Higher National Diploma (HND)	Master's Degree or higher	Ordinary National Diploma (OND)	Primary School level	Secondary School level
Kaduna	130	96	82	61	0	13
Ekiti	28	22	50	25	10	10
Oyo	111	57	34	83	42	85
Rivers	140	79	34	45	8	92
Lagos	172	144	31	105	3	86
Kano	183	89	30	49	7	32
Anambra	129	40	24	20	3	54
Ondo	64	70	21	27	1	14
Kwara	80	53	19	32	0	13
Benue	82	20	17	27	0	22
Edo	131	24	14	14	1	24
Imo	96	67	12	57	7	56

<sup>21</sup>(PwC, 2020)

Figure 36: Highest Level of Education by State

States	Bachelor's degree	Higher National Diploma (HND)	Master's Degree or higher	Ordinary National Diploma (OND)	Primary School level	Secondary School level
Abuja	40	26	12	78	73	138
Plateau	54	21	11	38	2	37
Jigawa	23	16	11	14	8	34
Ogun	40	59	10	60	4	154
Kebbi	40	23	8	14	1	18
Akwa Ibom	67	100	8	39	3	71
Enugu	183	70	7	37	6	20
Bauchi	49	37	6	31	2	10
Gombe	50	28	6	32		23
Katsina	24	12	5	25	2	45
Adamawa	46	8	5	34	0	39
Nassarawa	44	28	5	30	1	18
Abia	49	31	5	39	0	44
Cross River	56	17	4	27	0	50
Niger	56	10	3	56	0	11
Osun	24	39	3	73	14	68
Borno	45	14	2	21	3	23
Zamfara	8	15	2	46	1	32
Bayelsa	31	34	1	57	4	63
Ebonyi	19	11	1	10	8	16
Kogi	24	22	1	24	6	13
Delta	79	56	0	43	0	49
Yobe	14	6	0	27	23	42
Sokoto	4	4	0	12	2	11
Taraba	27	2	0	8	2	1

**“The large number of tertiary educated entrepreneurs might be a reflection of the high rate of unemployment which rose to 33% with underemployment at 28% in 2020.”**

Large enterprises have the highest proportion of leaders with a master’s degree or higher (67%). This might be explained by the penchant of larger corporations to seek out leaders who are well trained and better educated on average. Other enterprise types have largely undifferentiated distributions.

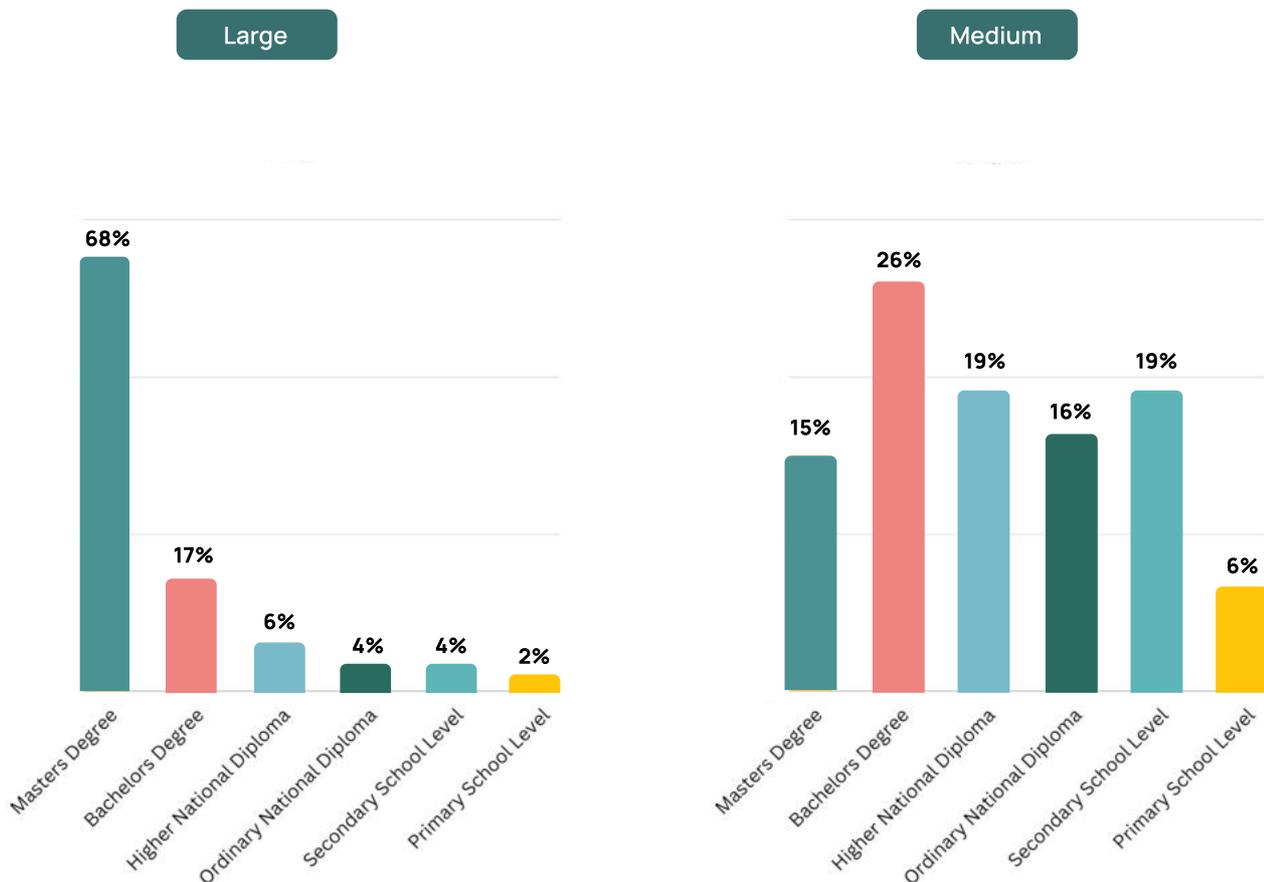
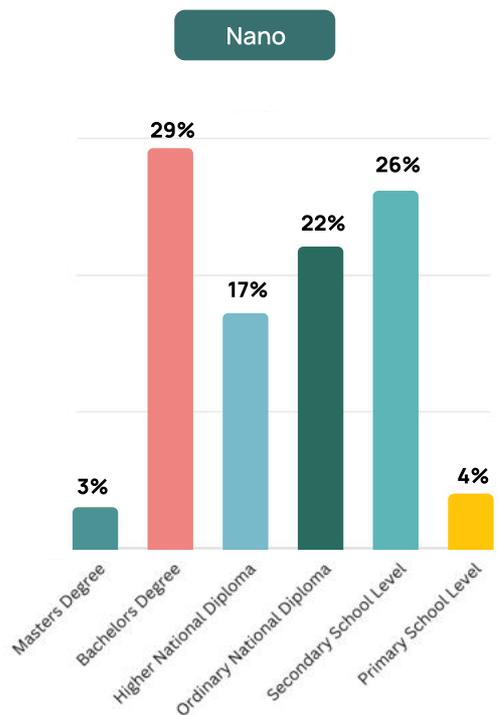
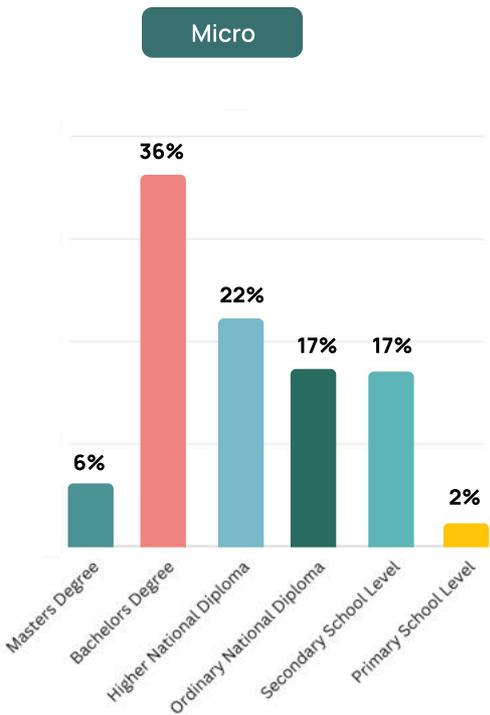
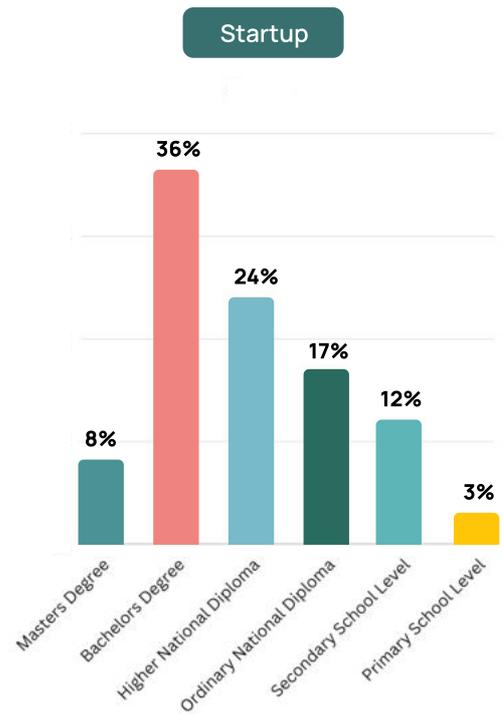
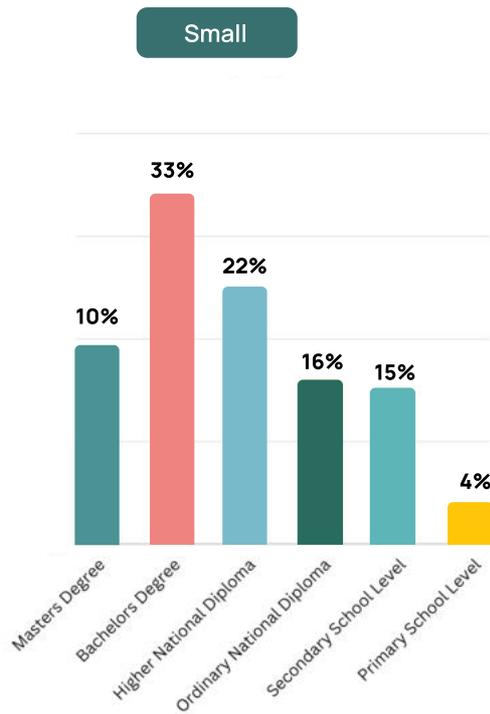


Figure 37: Highest Level of Education by Enterprise Type



Large enterprises have the highest proportion of leaders with a master's degree or higher (67%). This might be explained by the penchant of larger corporations to seek out leaders who are well trained and better educated on average.

## 5.2.5 Perception of Competitiveness

### • Local Competitiveness

58% of businesses surveyed believe that their businesses compete well within Nigeria while 42% believe that their businesses do not compete well within Nigeria.

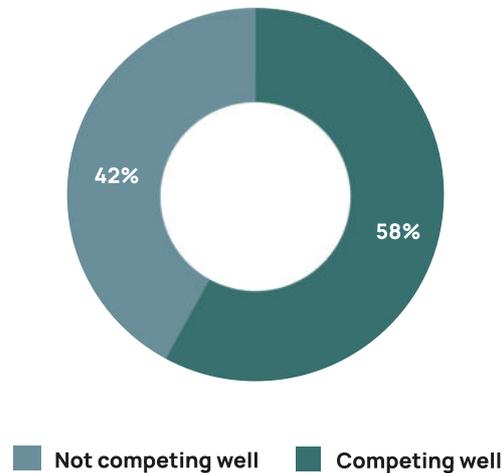


Figure 38: How Well Businesses are Competing Within Nigeria

The 58% of NMSMEs that indicated that they compete well colocationally shared the factors that enhance competitiveness. Top on the list is low cost of production (34%), followed closely by competitive market price (30%), and high demand (18%).

These and the other factors (favourable government policies, unique innovative edge, good power supply, good transportation network, and good water supply) form a decent mix of the competitiveness enablers for these NMSMEs.

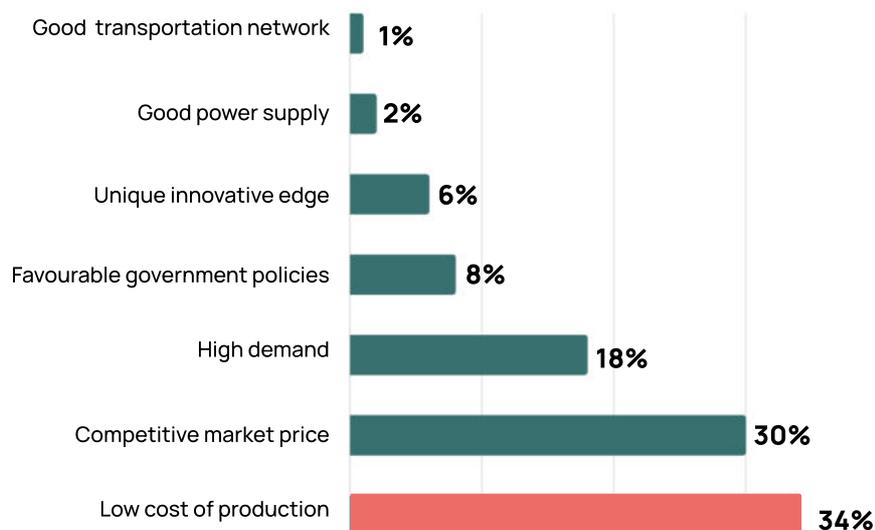


Figure 39: Factors Enhancing NMSMEs ability to Compete Well within Nigeria

NMSMEs that reported that they do not compete well locally (42%) noted that the factors that inhibited their ability to compete include high cost of production (58%), uncompetitive market price (12%), poor capacity building and business support (11%).

**“...the top two factors reported as either challenges or enablers influencing NMSMEs ability to compete internationally are – demand and cost of production.”**

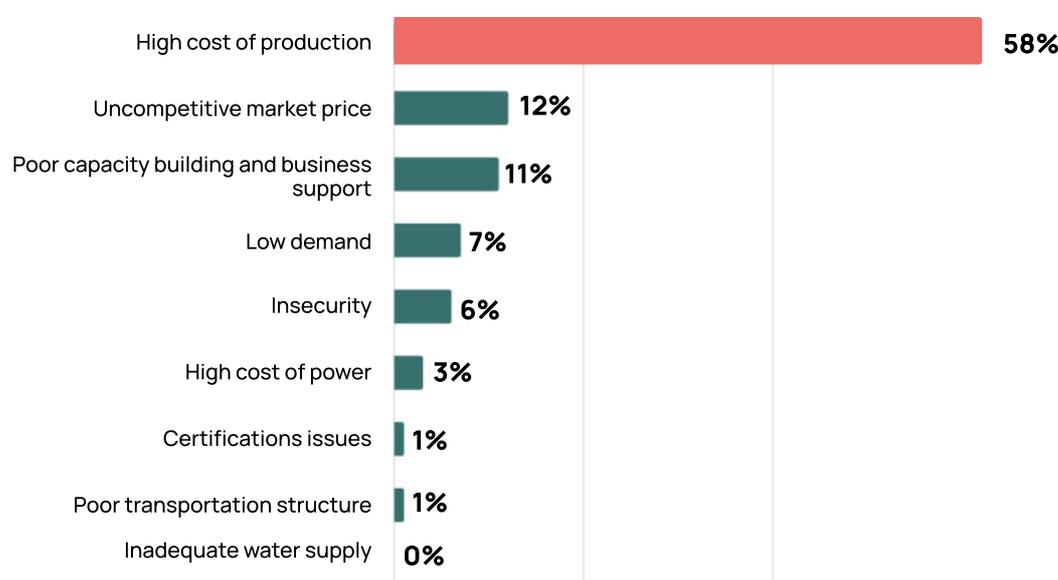


Figure 40: Challenges Businesses Faced Accessing New Opportunities to Sell in Nigeria

From the responses, we see that high cost of production and uncompetitive market price were the strongest inhibitors to competing well in Nigeria as indicated by almost 70% of respondents. Low production cost typically influences low market prices while high cost of production influences high market prices. This emphasizes the need to improve the business environment so that it impacts NMSMEs positively on a larger scale as the influence of business environment factors like cost of production and market prices have significant on NMSMEs operation.

The cost of production in business has a significant impact on the market price. Low production cost typically influences low market prices while high cost of production influences high market prices. Apart from the cost of raw material and labour, other drivers of production cost include cost of finance, informal taxes & levies, power generation, transportation, poor technology i.e. production inefficiencies, etc.

## International Competitiveness

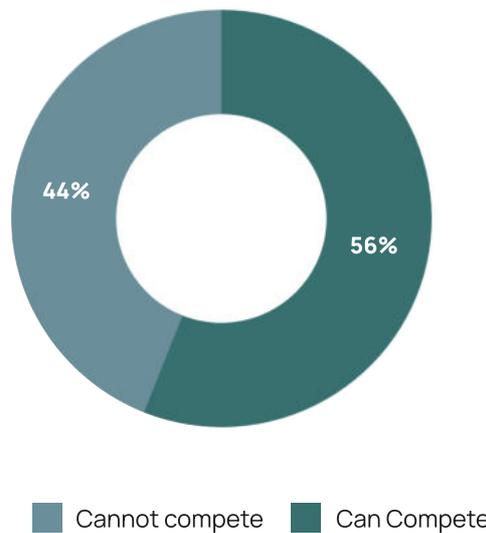


Figure 41: How Well Businesses are Competing in Foreign Markets

The outcome of the international competitiveness assessment was marginally worse than the results of local competitiveness. 56% of the NMSMEs surveyed indicated that they do not believe they can compete internationally and only 44% believe they can compete internationally.

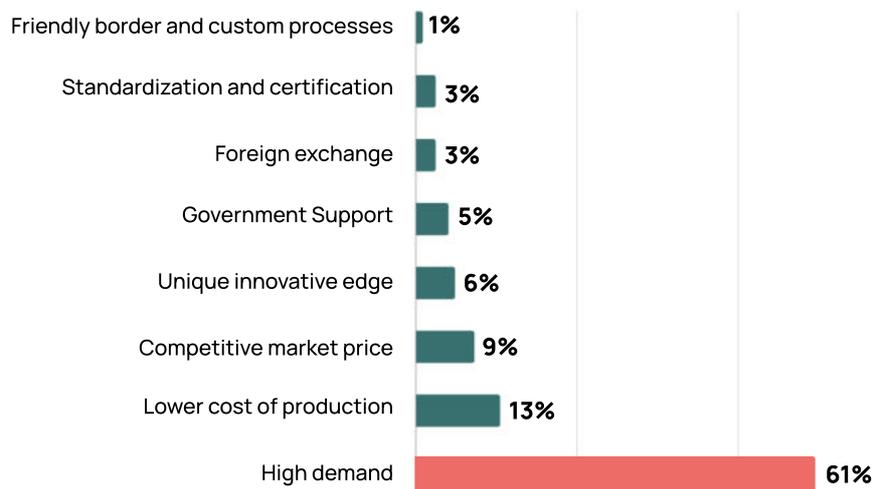


Figure 42: Factors Enhancing NMSMEs ability to Compete Outside Nigeria

Similar to local competitiveness, the top two challenges and enablers influencing international competitiveness are the same – demand and cost of production with demand ranking higher. In both situations, they account for over 60% of the overall responses.

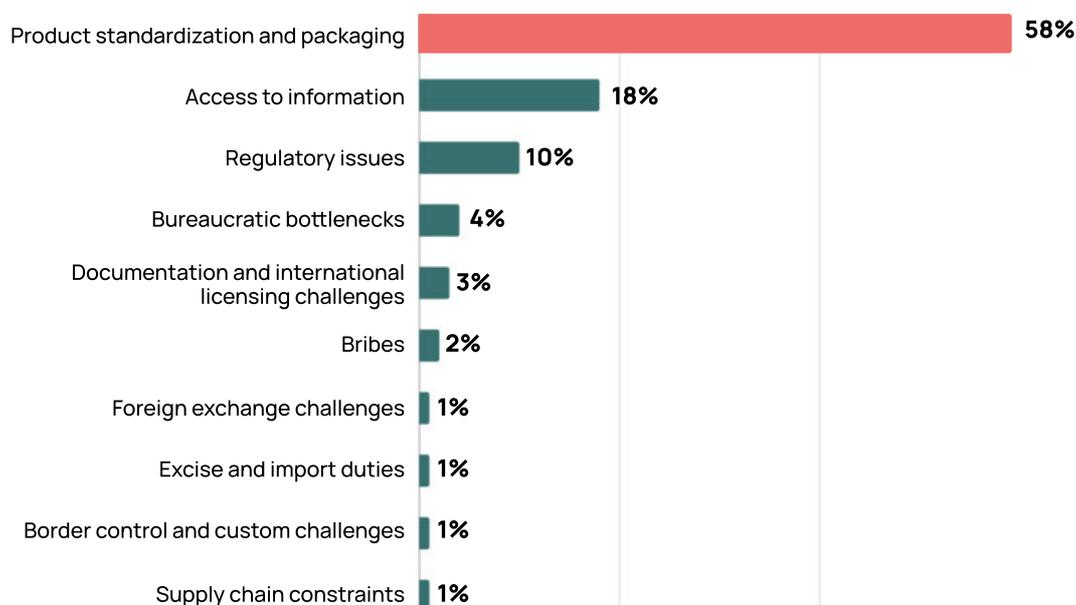


Figure 43: Challenges to Competing well Outside Nigeria

Apart from these top two reasons, other challenges that stand out include product standardization and packaging, poor government support uncompetitive market prices and poor capacity building & business support.

Foreign exchange fluctuations, chaotic border & custom processes, standardization and certification issues, and lack of innovation are also challenges NMSMEs face when trying to compete internationally.

Other challenges mentioned by respondents include: poor access to finance, inadequate knowledge, importing raw materials or finished goods, and failure to fulfill necessary standards.

### 5.3 Ability to Change – 39%

The second pillar of competitiveness, the ability to change, focuses on a firm's capacity to adapt to market conditions as well as its capacity to invest in both people and financial resources. This measure is dynamic and includes three indicators - Business Support, Innovation, and Financing Options.

### 5.3.1 Business Support

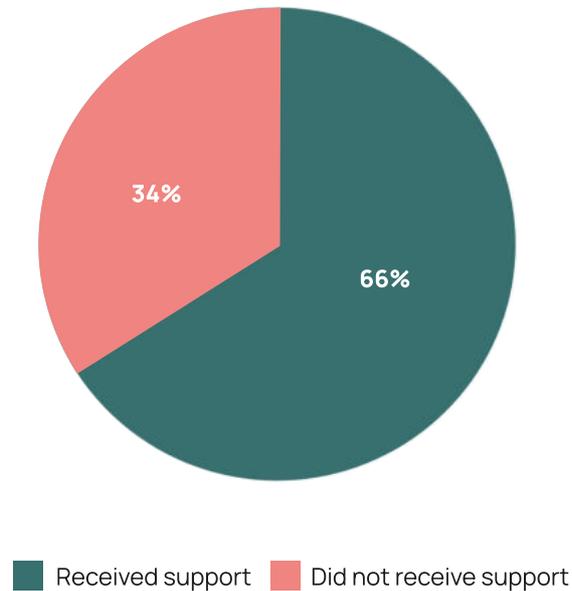


Figure 44: Proportion of Entrepreneurs that Received Business Support

66% of enterprises indicated that they accessed or received business support within the last year. These support programs took various forms and included trainings and programs on Business Management, Financial Literacy, Investor Readiness, Corporate Governance, Supply Chain & Inventory Management, Access to Market, Technology & Innovation, Customer Relations/ Acquisition and Talent Management.

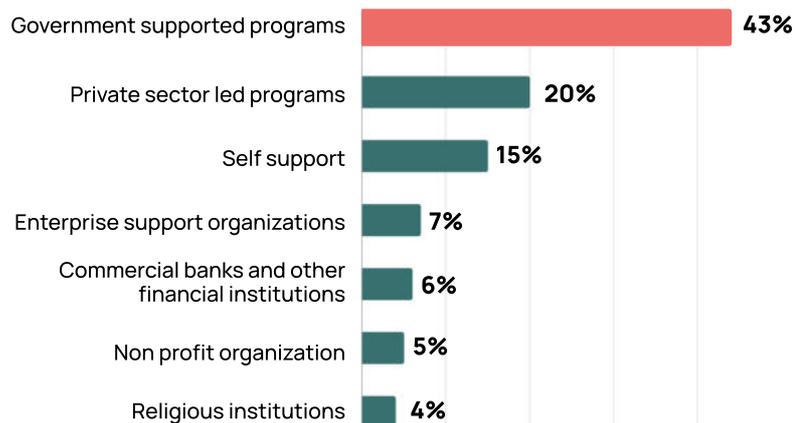


Figure 45: Sources of Business Support Programs

Entrepreneurs accessed business support from various sources with Government (43%) indicated as the highest provider of business support programs followed by private sector-led programs (20%) and self-support (15%). Other sources of support include online trainings.

88% considered the programs impactful and very impactful; an indication of the importance and impact of business support programs on NMSMEs. The results also reveal that entrepreneurs tend to seek out multiple forms of business support where possible. Over 70% of respondents that accessed business support programs accessed 4 or more programs as shown in figure 46.

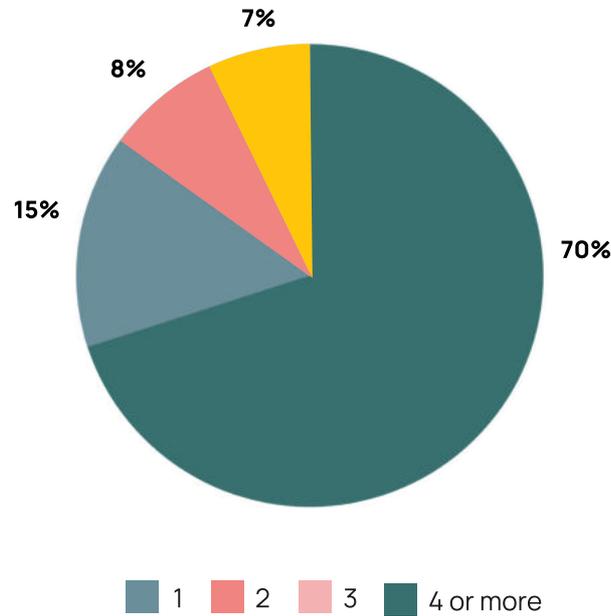


Figure 46: Number of Business Support Programs Accessed by Respondents

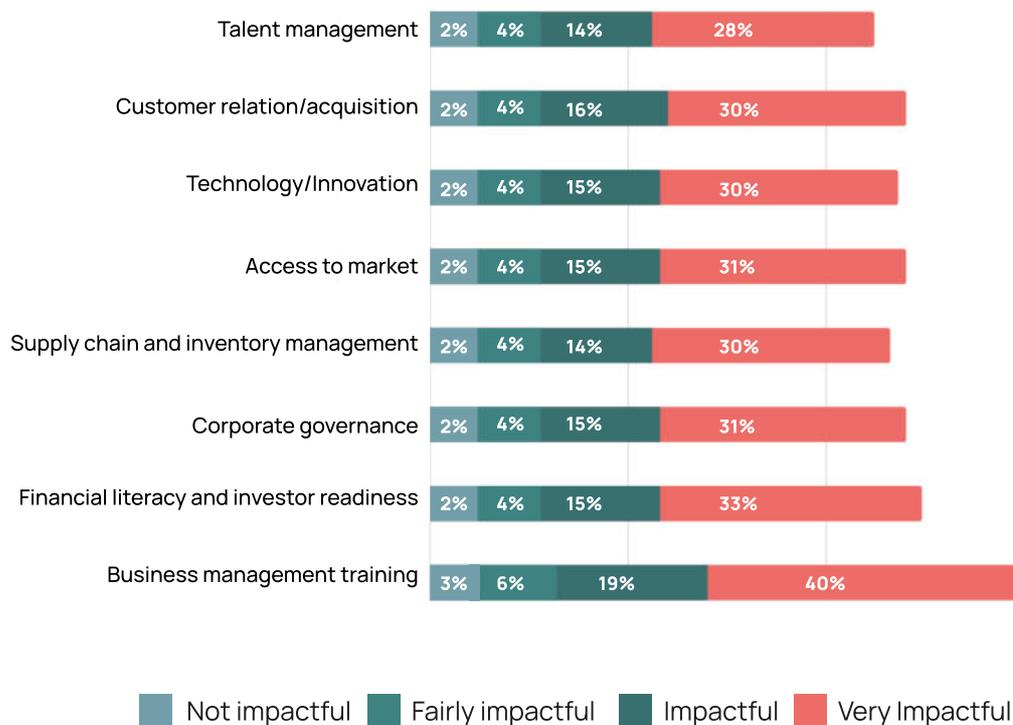


Figure 47: Impact of Business Support Programs

## • Challenges

Entrepreneurs do not always access these support programs without challenges. Majority of the respondents (65%) mentioned cost as a major factor impacting access to support followed by a dearth of tailored business support programs (18%) and lack of trained business support providers (18%).

Some of the direct feedback received from respondents indicate that there is poor awareness of the existence of support programs and those who are aware of available government programs sometimes believe that they need to know someone in government to be able to access government sponsored business support programs.

**“majority (65%) of the respondents mentioned cost as a major factor impacting access to support.....”**

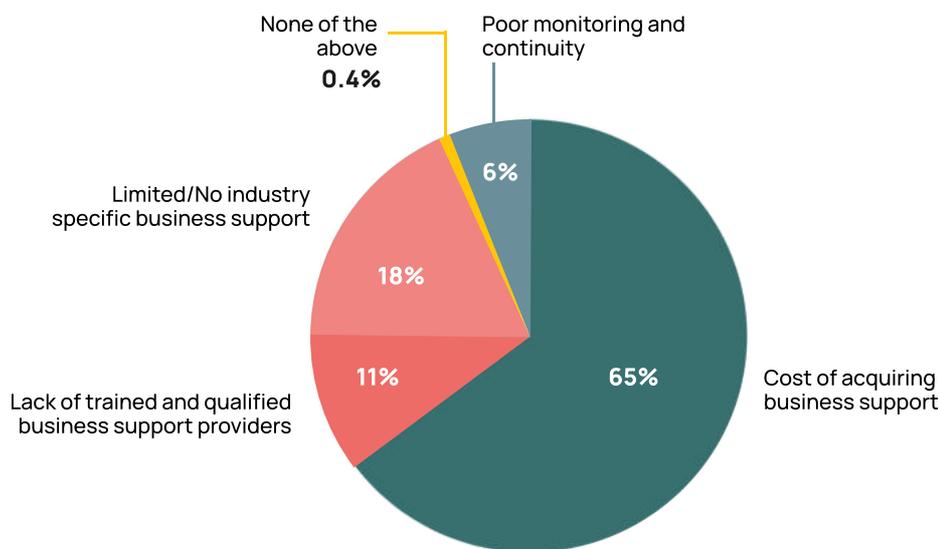


Figure 48: Challenges Accessing Business Support

## 5.3.2 Innovation

Innovative firms often experience higher levels of productivity, growth and are more likely to export successfully. Innovation could simply be a new strategy or new processes introduced by a business to improve business outcomes.

Innovation could also include Research & Development (R&D), patenting, spin-offs, niche market segmentation, standardization, quality up-grading, differentiation, lean manufacturing (waste elimination) and corporate re-engineering etc all of which are critical to improving NMSME competitiveness.

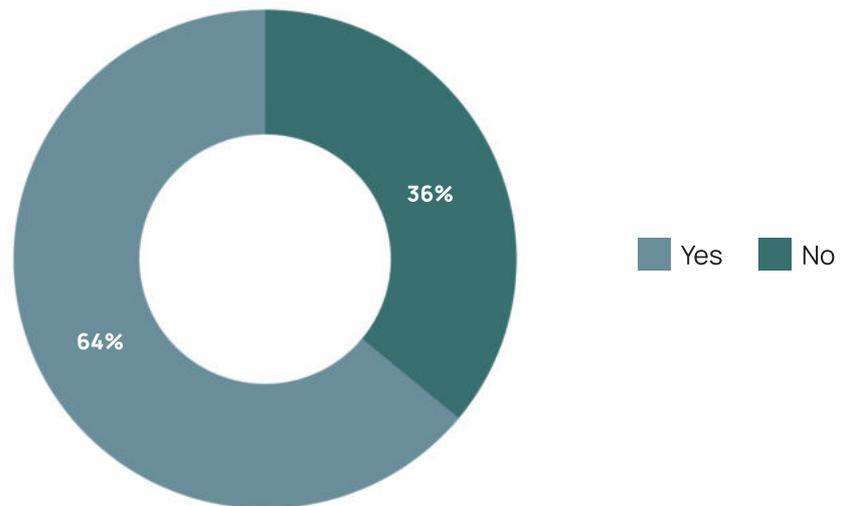


Figure 49: Percentage of Respondents that Introduced New Processes / Strategies in the last 1 year

In the last year, 64% of businesses introduced new processes/strategies to improve their businesses while a total of 36% did not introduce new processes/strategies to their business. Majority of businesses that introduced new processes/ strategies did so in business operations (65%), product/service design (15%), marketing (8%) and accessing new markets (7%).

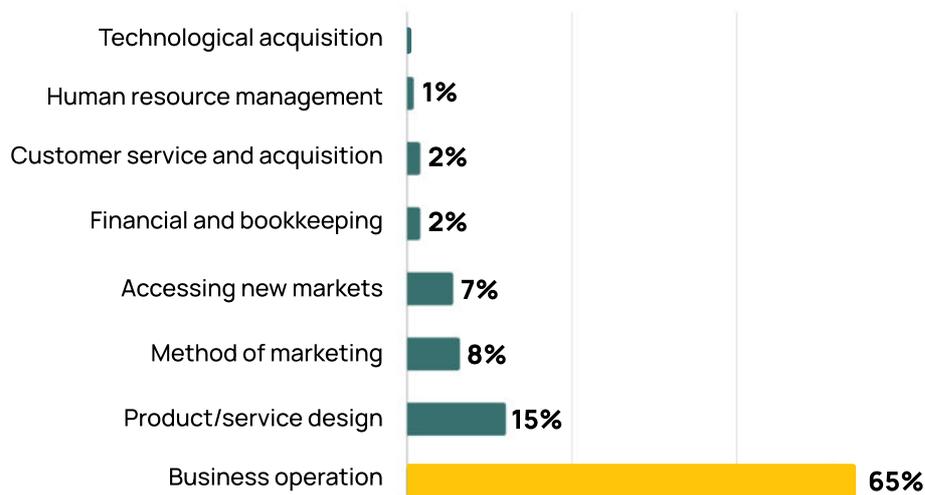


Figure 50: New Processes and Strategies Introduced in the last Year

According to 76% of respondents, new processes and strategies introduced had the most impact on their businesses' ability to access new markets within and outside Nigeria. New processes and strategies also helped businesses with better management of financial records (8%), ability to raise funding (5%) and better human resource management (5%).

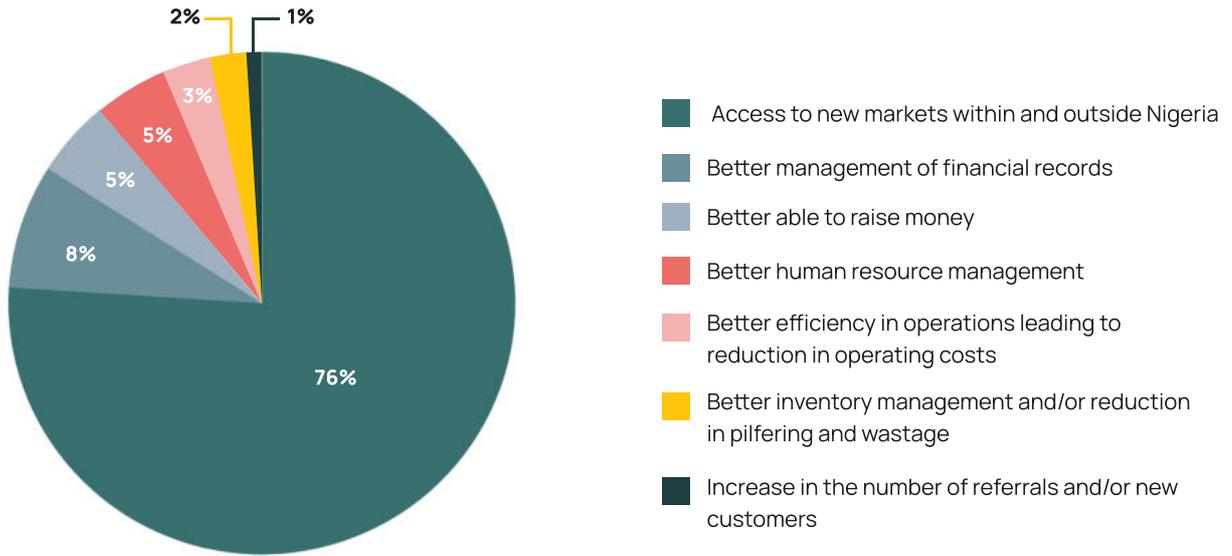


Figure 51: Impact of New Processes and Strategies on Businesses

When it comes to innovation in Africa, Nigeria ranks 13th in Sub-Saharan Africa and 114 out of 132 countries in the 2022 Global Innovation Index (GI). This emphasizes the need for Africa's largest economy to intentionally invest in key areas that can boost Nigeria's innovative capacity and make it more globally competitive. The Nigeria Startup Bill is a great step in this regard as it is poised to spur innovation and technology growth within the entrepreneurship ecosystem.

### 5.3.3 Financing Solutions

Finance is a major driver of business growth. A business goes through different stages in the business life cycle and its finance needs vary at the different stages. The ability of a business to grow and strengthen its competitiveness is heavily reliant on its ability to invest in new ventures, innovation, improvements, and diversification over time. Finance is required to achieve this.

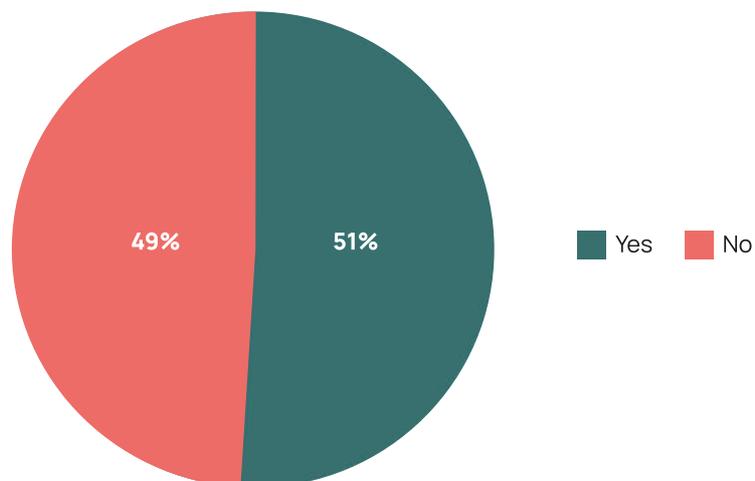


Figure 52: Access to Finance in the last 3 years

Only 49% of the enterprises surveyed have had access to finance in the last 3 years, a reminder that access to finance remains elusive to most businesses in Nigeria. Of the 49% business that have had access to finance in the last three years, 36% are female entrepreneurs while 64% are male entrepreneurs, indicating that male entrepreneurs have better access to financing opportunities than their female counterparts.

**“Only 49% of the enterprises surveyed have had access to finance in the last 3 years”**

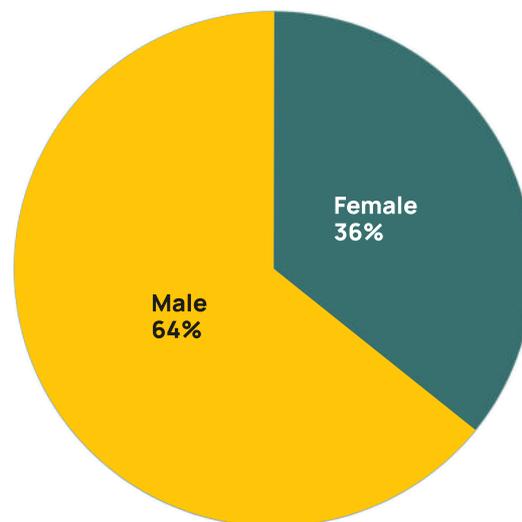


Figure 53: Split of Entrepreneurs that Accessed Finance by Gender

**“Of the businesses that have had access to finance in the last three years, (only) 36% are females”**

Large businesses have the best access with 73% having accessed finance in the last 3 years. This is not surprising as large businesses have the ability to easily meet the stringent requirements of banks and other financial institutions relative to small businesses.

**“The ability of a firm to grow and strengthen its competitiveness is heavily reliant on its ability to invest in new ventures, innovation, improvements, and diversification over time”**

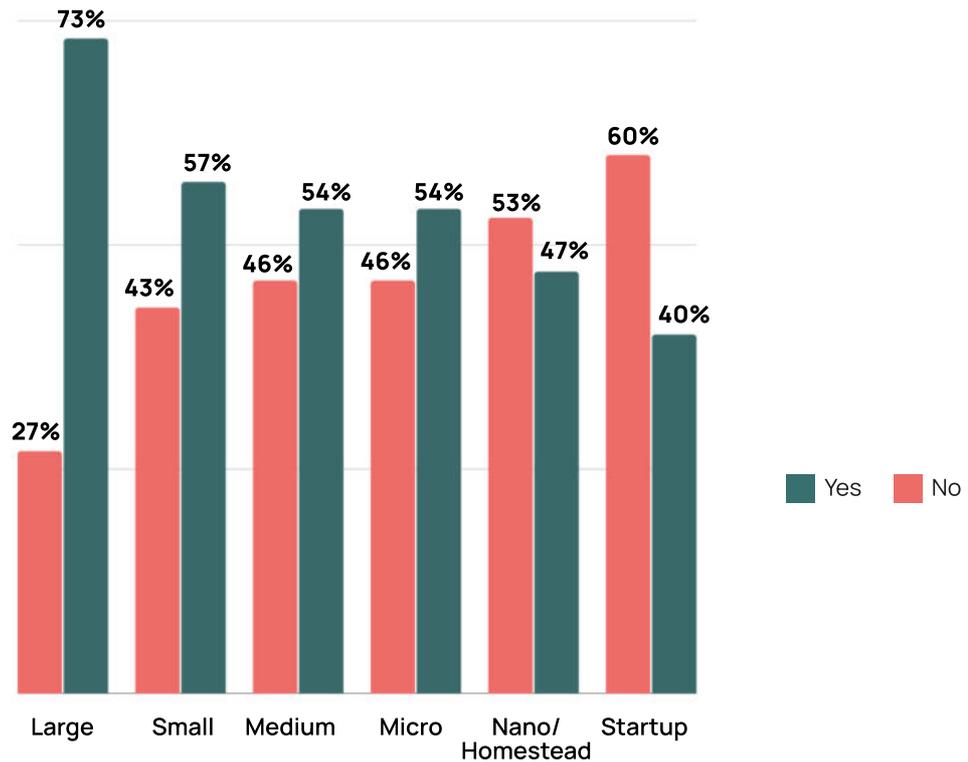


Figure 54: Access to Finance by Enterprise Type

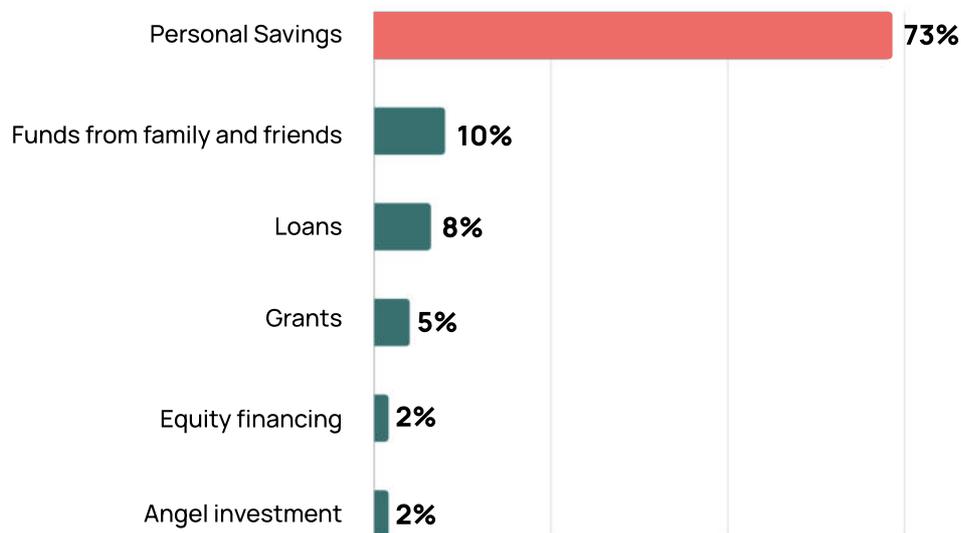


Figure 55: Types of Financing Accessed

Of even greater concern is the fact that majority (73%) of those who “accessed” financing were utilizing their personal savings. This data also aligns with findings from the FATE Institute’s report on “Bridging the Access to Finance Gap for Nigerian Entrepreneurs” (2022) which showed that 74% of NMSMEs surveyed “raised” finance from personal savings. It also aligns with findings from the 2021 NBS/SMEDAN which showed that personal savings was the top source of funding for both NMSMEs in the formal (59%) and informal sectors (56.8%).

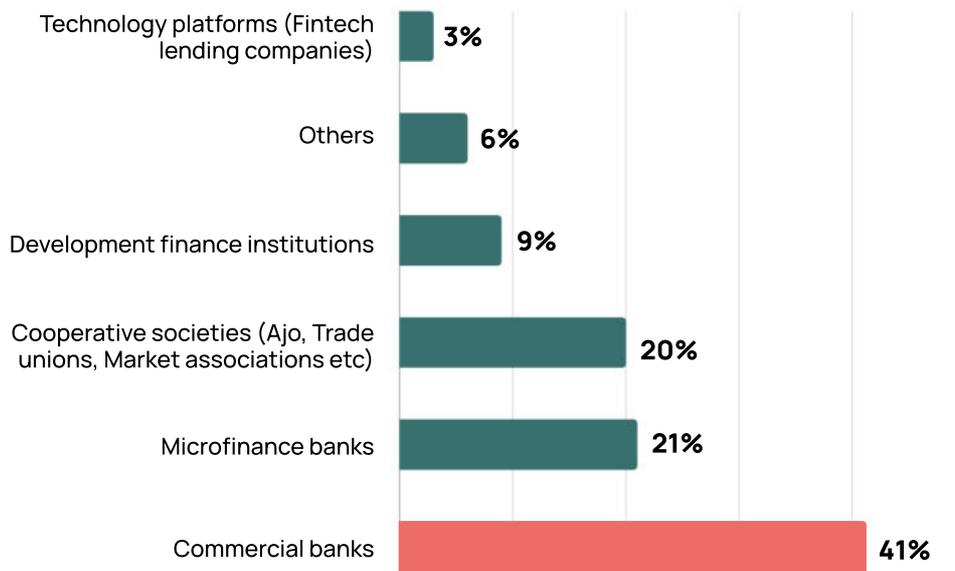


Figure 56: Providers of Financing

The 2021 NBS/SMEDAN MSME Survey report also shows that for 69.6% of NMSMEs in the formal sector, commercial banks were the top Financial institution approached for funding.

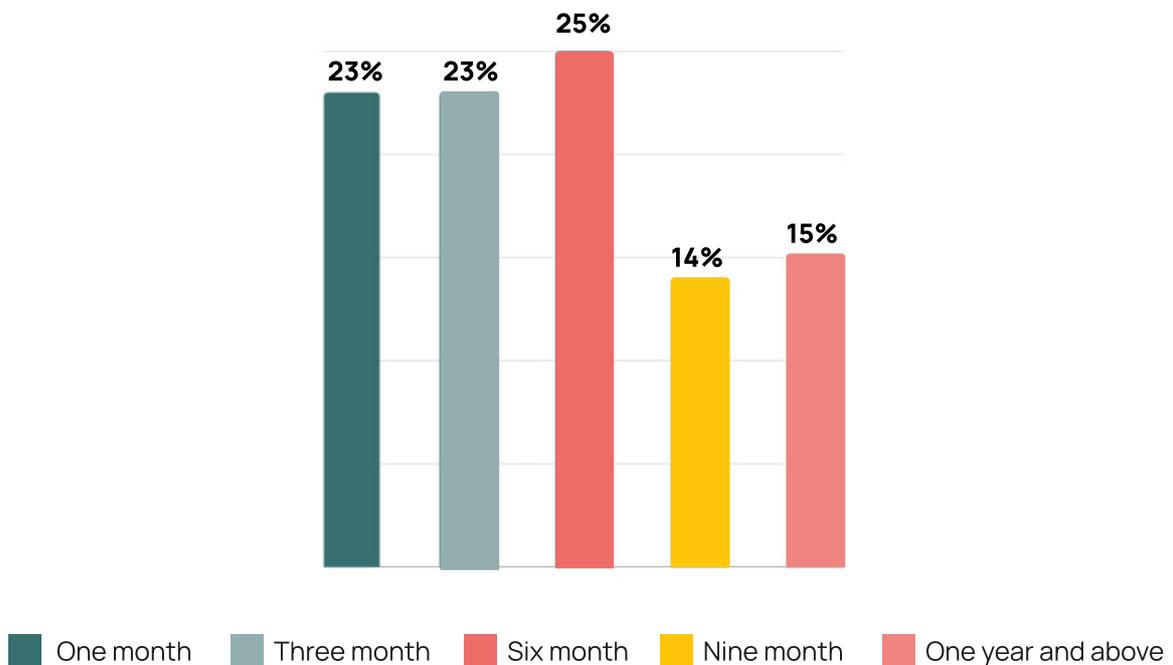


Figure 57: Time taken to Access Funds

23% of people who accessed finance were able to do so within a month of requesting and for over 70% of those who accessed finance, the process took 3 months or more. Access to finance varies widely by states with Niger 5%, FCT 7%, Ebonyi 9%, Kogi 12% and Taraba 18% recording less than 20% access to finance for NMSMEs while states such as Kaduna 85%, Ondo 84%, Kebbi 83%, Katsina 79% and Bayelsa 78% recording over 75% access to finance for NMSMEs.

### • Challenges

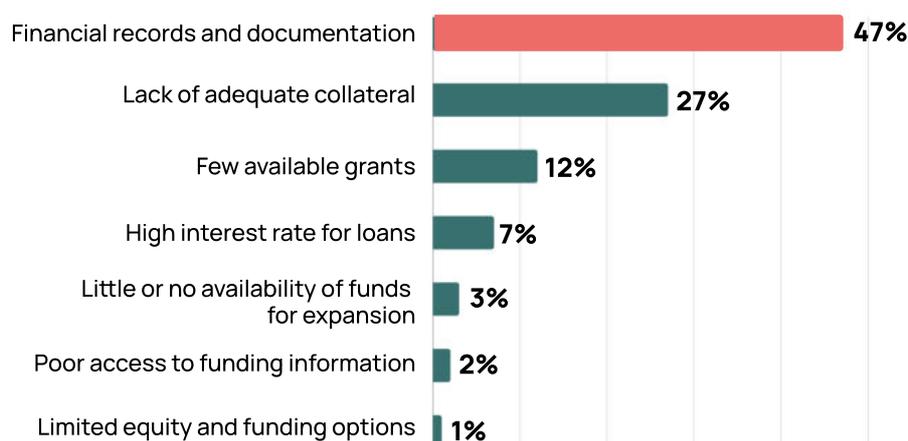


Figure 58: Challenges to Access Finance

The major challenges selected by respondents as inhibiting access to finance include: poor financial records and documentation (47%), collateral requirement (27%) and high interest rates (7%).

Other challenges shown in the survey point to a deeper problem. They show that there are very few financing options that are specifically designed to cater to NMSMEs and the existing traditional financing options are fraught with access barriers such as high interest rates and stringent collateral requirements which most businesses particularly nano and micro businesses are unable to afford.

As noted in the FATE Institute's report on Bridging the Access to Finance Gap for Nigerian Entrepreneurs (2022), the Central Bank of Nigeria (CBN) recently revealed that access to capital was one of the most significant barriers to MSMEs' growth, as only 5% of the MSME operators could obtain funding for business continuity, survival, and expansion. This had undermined the crucial role of MSMEs in economic development and job creation (CBN, 2021).

Despite being one of the popular institutions NMSMEs look to access finance for their businesses, banks are quite reluctant to work with NMSMEs particularly nano and micro businesses because of the risks involved.

Another aspect of the access to finance problem is the dynamics experienced by women-owned NMSMEs who tend to be more constrained in this respect. Often times, acceptable collateral such as land and buildings in Nigeria are registered to the men customarily making it difficult for women to have control over properties and consequently utilize them to access finance for their businesses.

To improve the competitiveness of NMSMEs, these barriers to accessing finance must be strategically and sustainably addressed.

## 5.4 Ability to Connect – 42%

The ability to connect is a unique pillar of competitiveness because it links the static and the dynamic part of competitiveness, and focuses on collecting, processing, communicating information and knowledge. It encompasses two (2) pillars – Technology Adoption and Access to Market.

### 5.4.1 Technology Adoption

Technology is often considered a strong business enabler. The survey showed that 71% of the businesses indicated that they use at least one form of technology. The use of technology is almost evenly distributed among nano enterprises (28%), micro enterprises (25%), and medium enterprises (25%). Across the states, the use of technology varies, getting as high as 97% in Kaduna State and as low as 19% in Ebonyi State.

Technology adoption within Nigeria's entrepreneurship ecosystem has consistently been on the rise in the last couple of years particularly since the covid-19 pandemic which saw a number of businesses pivoting, innovating and adopting technology. The FATE Institute's State of Entrepreneurship reports for 2021 and 2022 show that technology adoption consistently ranked second on the entrepreneurial index right after perception of opportunities for two years in a row.

**“.....71% of the businesses surveyed indicated that they use at least one form of technology”**

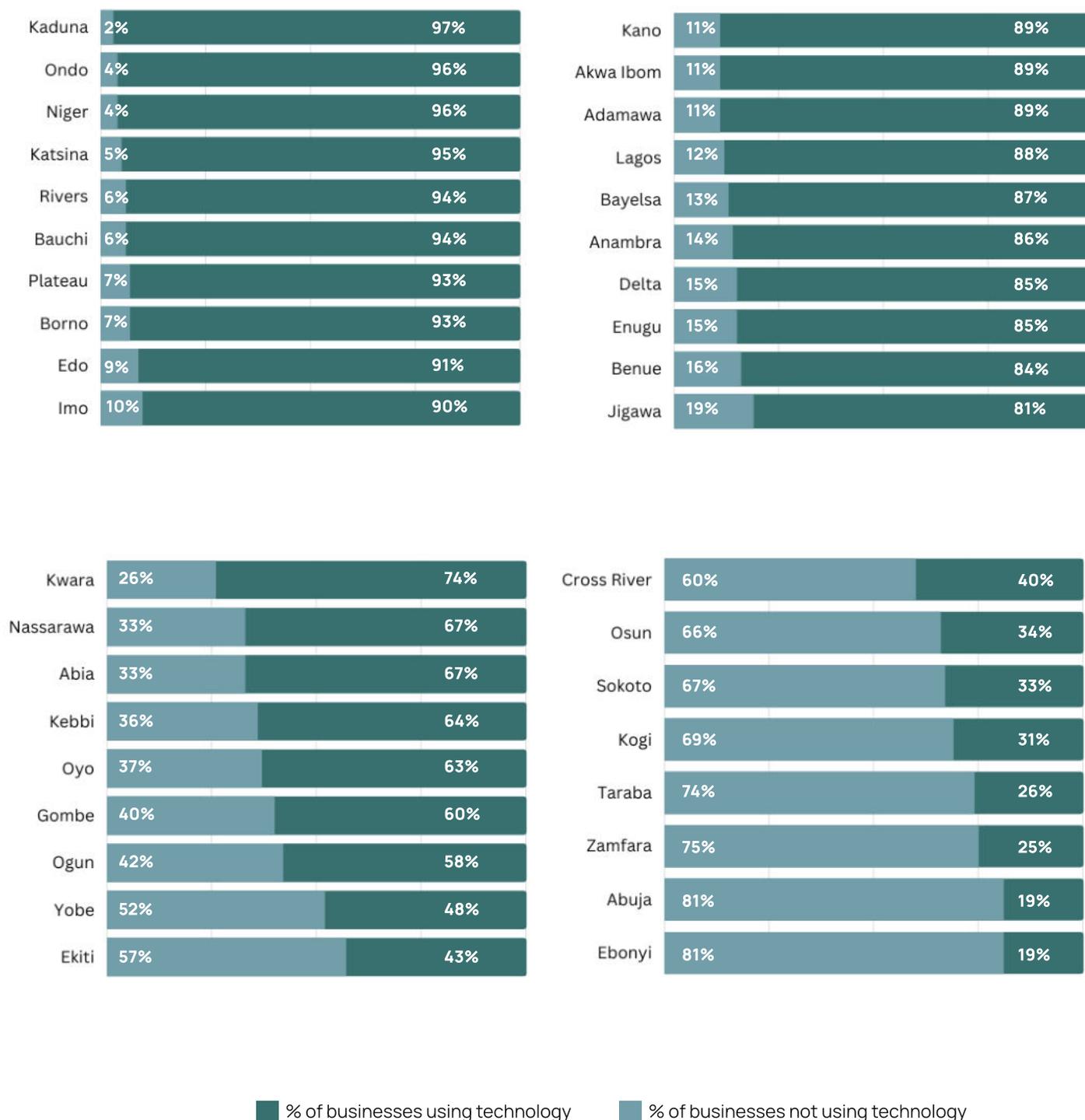


Figure 59: Use of Technology by Businesses across States

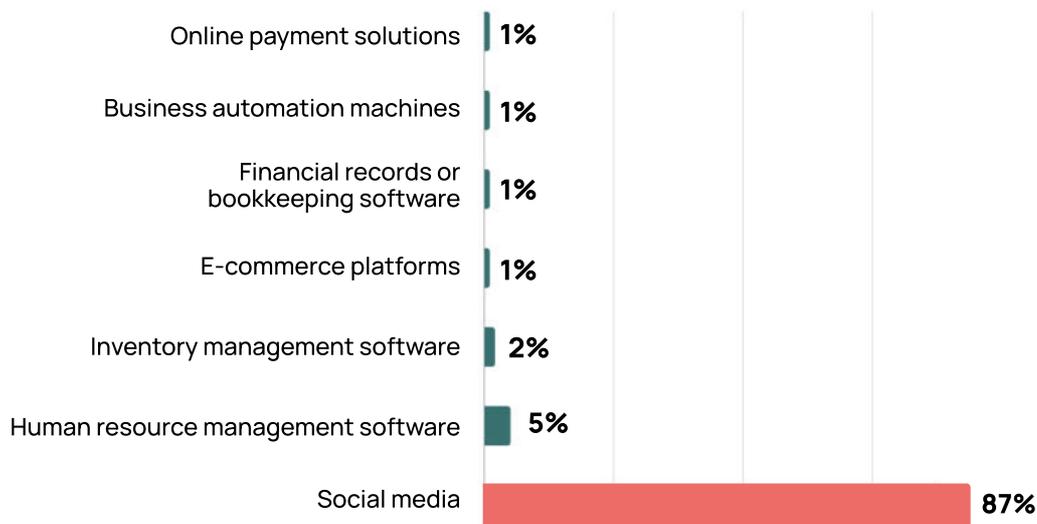


Figure 60: Types of Technology Used

While the survey shows a high number of businesses adopting technology (71%), drilling down to find out what type of technology is being adopted shows some insight. The survey showed that 87% of businesses adopting technology use social media comprising Facebook, Instagram, WhatsApp, Twitter, LinkedIn, Telegram, YouTube, Tiktok etc.

Since the covid-19 pandemic, we have seen an increase in businesses adopting social media as a business tool to drive sales, communication, conversions, and business visibility. For example, it is now common to see young entrepreneurs start and operate nano and micro businesses on Instagram whilst linking to WhatsApp to ease and facilitate sales.

Even in rural areas, we are seeing businesses take to WhatsApp to communicate with customers, streamlining the order to pay process through the exchange of pictures, information on availability, decisions, payment details and delivery instructions.

With regards to payment, we are seeing that in some cases, NMSMEs, having built a circle of trust, accept payments of behalf of one another in open market clusters, an analogue but effective alternative to the use of payment technology that is often unreliable in rural areas.

Other technology such as HR management software (5%), Inventory management (2%), e-commerce platforms (1%), financial systems (1%) and business automation software (1%) are only used by a small proportion of businesses.

Respondents noted that technology adoption has had positive impact on their businesses, chief of which is access to opportunities to sell within Nigeria (76%).

**“More NMSMEs are able to gain access to new opportunities to sell their products within Nigeria (65%) than are able to access new opportunities outside of Nigeria (28%).”**

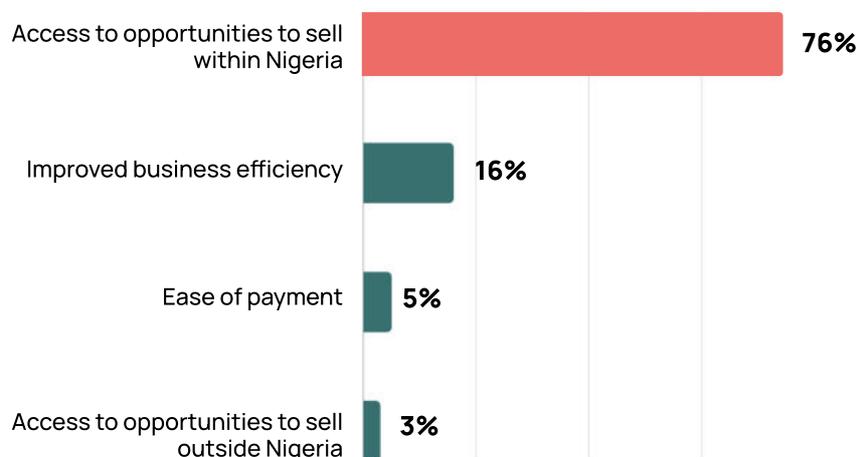


Figure 61: Impact of Technology on Businesses

#### • Challenges

Businesses who do not use technology cite cost as the major hindrance to their use of technology and this is broken down into cost of data, software, applications (72%) and cost of acquiring technology tools e.g. phones, laptops (9%).

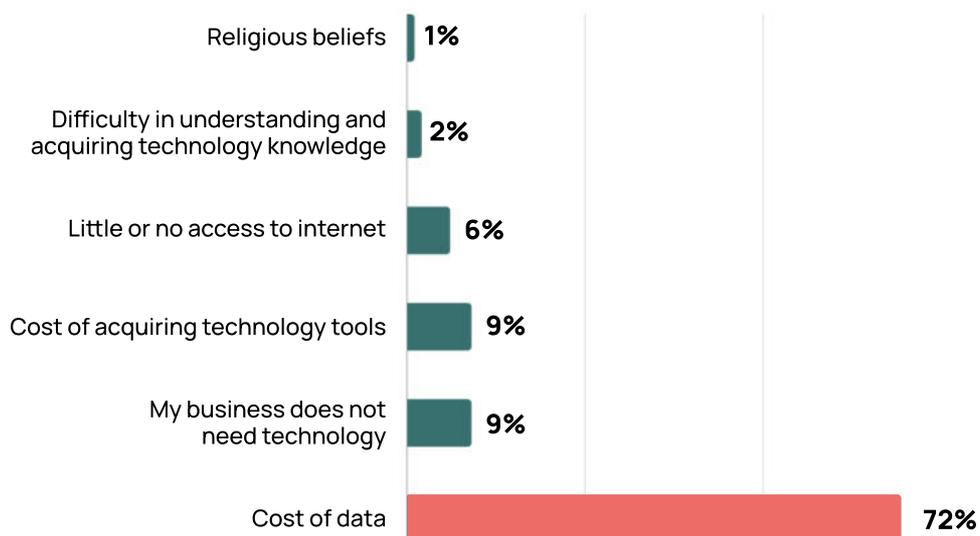


Figure 62: Factors that Prevent the use of Technology

It is quite interesting to note that only 9% of non-users list the acquisition of typically expensive hardware as expensive in comparison with those who consider data or app purchases to be the prohibitive factor. This suggests the widespread ownership of devices, a plausible position given the consistent growth in broadband penetration as reported by the Nigerian Communication Commission (NCC). In 2022, broadband penetration grew from 40.9% in February to 44.5% in July of the same year<sup>22</sup>.

## 5.4.2 Access to Market

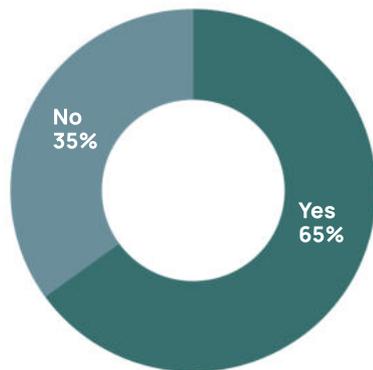


Figure 63: Access to New Opportunities to Sell Products Within Nigeria

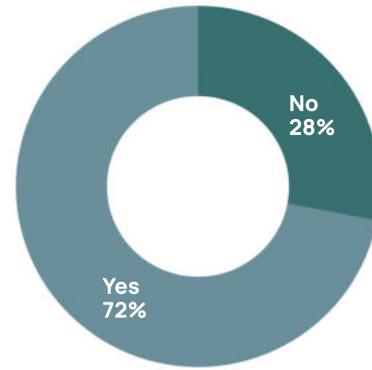


Figure 64: Access to New Opportunities to Sell Products Outside of Nigeria

More NMSMEs are able to gain access to new opportunities to sell their products within Nigeria (65%) than are able to access new opportunities outside of Nigeria (28%).

### Access to Local Markets

The different business enterprise types indicated that they were able to access new local markets.

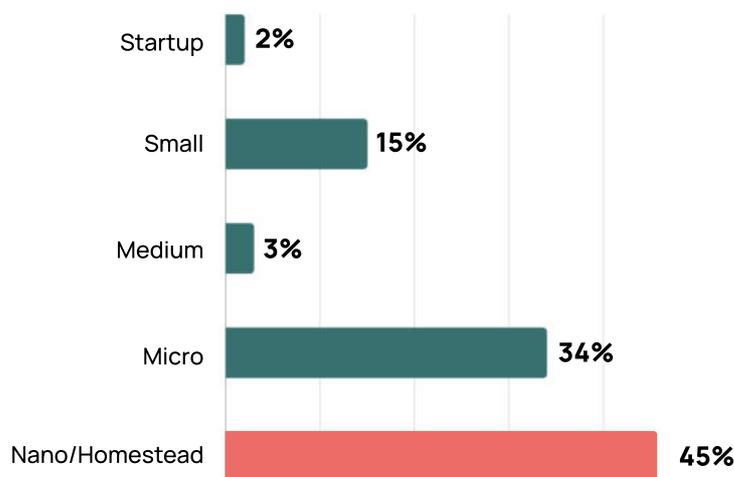


Figure 65: Access to New Opportunities Within Nigeria by Enterprise Type

<sup>22</sup>(Nigerian Communications Commission, 2022)

The key factors that enabled this access include business/trade groups - which were the most mentioned enablers (97%); social media – which accounted for 55% of the responses; government sponsored fairs/exhibits, access to malls/ stores/ supermarkets, and private sector sponsored fairs/exhibitions trailing behind at 5%, 3% and 3% respectively.

The high percentage of respondents that consider business/trade groups to be the biggest enabler in their access to market opportunities emphasizes the need to support business/trade groups as enablers of competitiveness and access to market support.

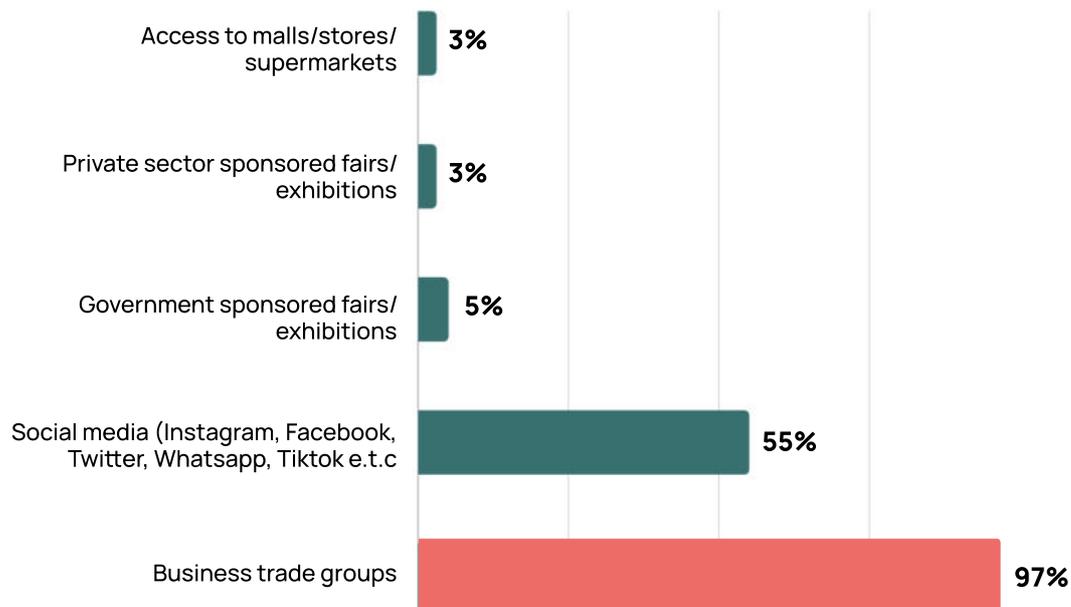


Figure 66: Enablers for accessing new opportunities within Nigeria

#### • Local Market Access Challenges

Unsurprisingly, poor access to finance is the predominant inhibitor to accessing new local market opportunities followed by poor business support, unstable market prices, multiple taxation, and insecurity.

Other challenges included poor access to infrastructure, product standardization and packaging, supply chain constraints, unstable government policies and regulations.

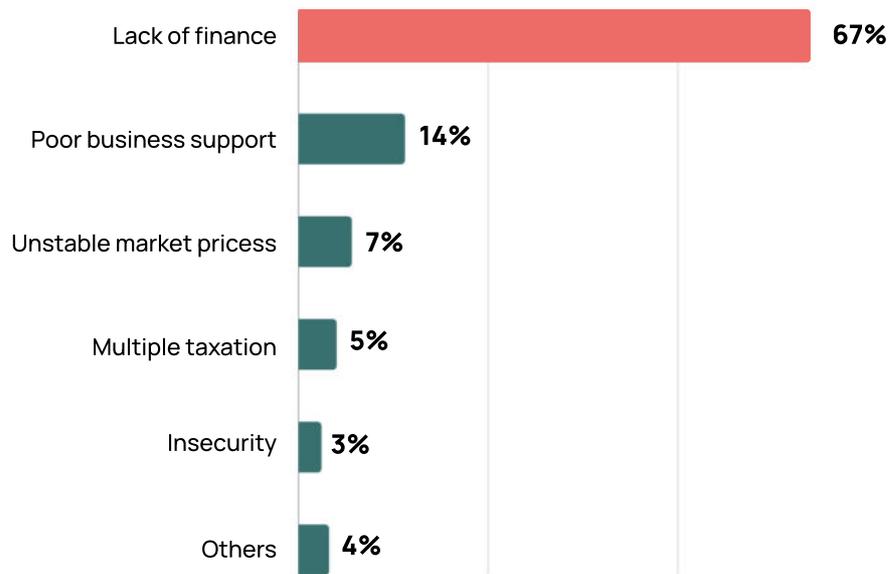


Figure 67: Challenges Accessing New Opportunities in Nigeria

### Access to International Markets

56% of respondents believe that they do not have the ability to compete with similar businesses outside the country as against the 44% who believe that they can compete in foreign markets. NMSMEs may not attempt to access markets that they do not believe that they can compete in. This explains why very few NMSMEs have attempted to compete outside of Nigeria.

The most frequently cited enabler, for respondents who have been able to access foreign market opportunities is social media (82%). Government Initiatives (10%), Private sector-sponsored fairs/exhibitions (5%) and Technology enabled payment solutions (3%) trailed behind.

Other cited enablers included referrals, marketing and private-sector export groups.

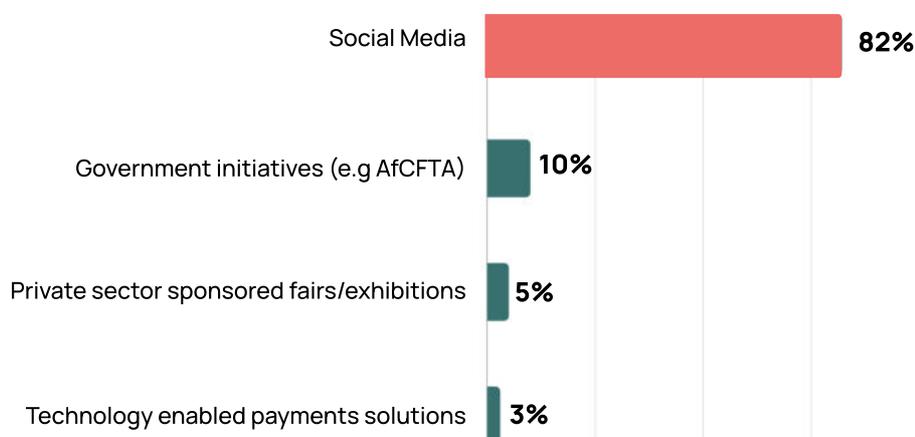


Figure 68: Enablers for Accessing Foreign Markets

• **Challenges Accessing Foreign Markets**

Respondents considered the challenges inhibiting their ability to access foreign markets, to be product standardisation and packaging (58%), access to information (18%), regulatory issues (10%), bureaucratic bottlenecks and documentation & international licensing challenges.

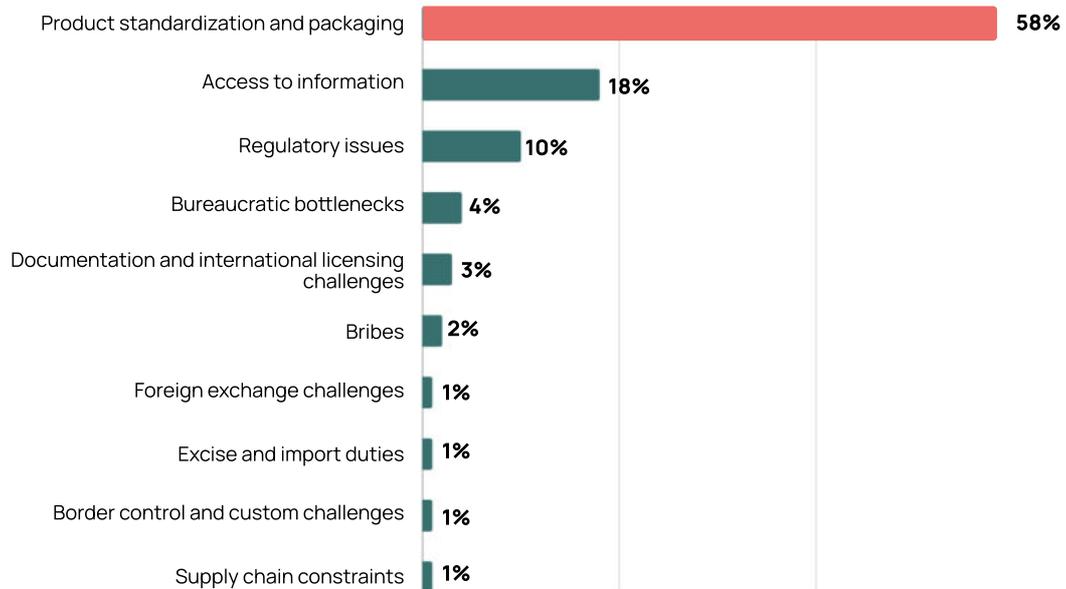


Figure 69: Challenges Accessing Foreign Markets

However, a more fundamental problem might be the desire to compete internationally fuelled by knowledge and information, all of which seem to be sorely lacking amongst NMSMEs.

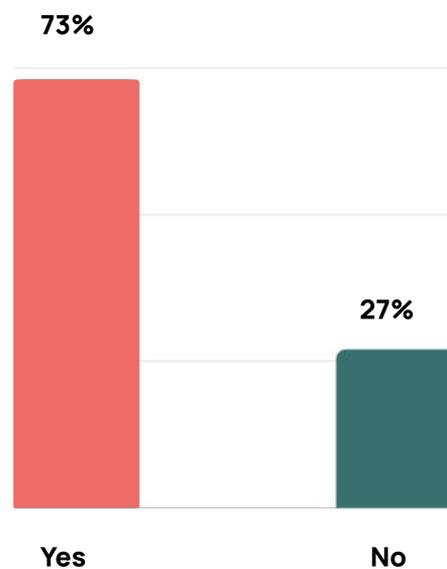


Figure 70: Do you think your business can compete outside Nigeria?

The chart above suggests that businesses may not consider opportunities outside Nigeria due to a perceived inability to compete successfully outside Nigeria as well as the lack of resources to do so.

## Access to Regional Markets

The African Continental Free Trade Agreement (AfCFTA) represents a major opportunity for African countries to boost growth, reduce poverty and broaden economic inclusion. It was established in 2018 with the mandate to advance trade in value-added production across all sectors of the African economy.

For NMSMEs in Nigeria however, there seems to be a general lack of understanding and awareness of AfCFTA, what it means and the opportunities it presents.

82% of respondents admitted to a lack of awareness of the Agreement.

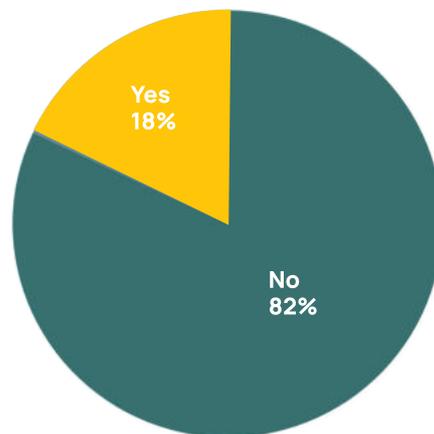


Figure 71: Are you aware of Africa Continental Free Trade Agreement?

Of the 18% who expressed an awareness of the Agreement, 58% confirmed that they were able to leverage various opportunities afforded by the Agreement.

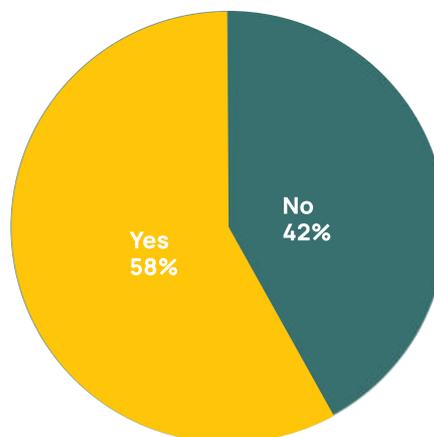


Figure 72: Have you been able to leverage the opportunities of the AfCFTA

The low awareness and utilization of AfCFTA might be a result of poor information on the benefits of the program for NMSMEs as well as poor domestication of the Agreement.

For respondents who were aware and had utilised the AfCFTA Agreement in one form or another, the major challenge hindering access to AfCFTA is poor/lack of awareness (64%). The other issues mentioned were payment issues (15%), defaulting on the agreement by the government (7%), excise and import duties (4%), product restrictions (4%), poor infrastructure (2%) and high cost of transportation (2%).

- **Challenges Accessing AfTCTA**

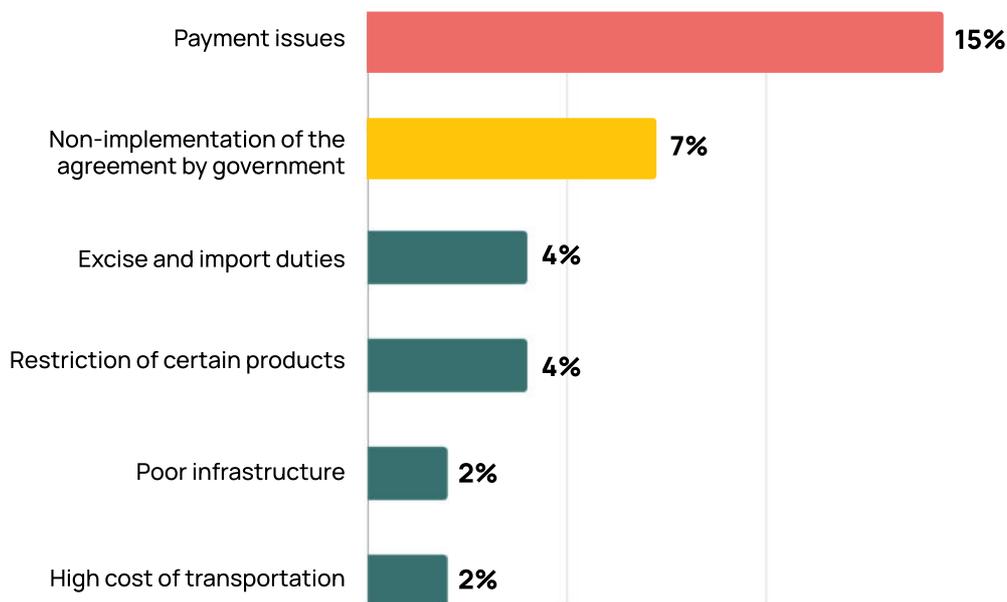


Figure 73: Challenges Accessing AfCFTA

In general, the most critical barrier to foreign and regional markets is access to information. Majority of NMSMEs have not considered competing outside of Nigeria and a vast proportion of those who have considered it do not have enough information to access these markets.

- **Battleground Nigeria**

AfCFTA provides a unique opportunity for Nigerian NMSMEs to access foreign markets, but on the flip side, also presents risk to Nigeria's marginally competitive NMSMEs'. If our NMSMEs' competitiveness does not improve, the country could be negatively impacted by the influx of foreign firms and products as a result of the AfCFTA.

To reap the benefits of AfCFTA, substantial effort needs to be invested in effecting the recommendations highlighted later in this report, to create an enabling environment for our NMSMEs to thrive and be more competitive.



## 6. KEY OPPORTUNITIES

### 6.1 Opportunities

Opportunities often result from the challenges inherent in any situation and the case is not different for Nigeria's NMSME sector. We have identified a few opportunities to influence change and enable competitiveness for Nigeria's Nano, Micro, Small and Medium Enterprises:

#### 6.1 Quick Wins

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- **Collaboration**

Drive collaboration across public, private and development sectors. Collaborative efforts can help address gaps around business support, access to finance and access to markets.

- **Access to Markets**

Technology has been identified as an enabling driver of access to markets particularly post-pandemic. Investing in technology infrastructure in the immediate to short-term will go a long way to improve access to markets.

Looking at accessing markets within Africa, the AfCFTA initiative has strong potential to facilitate trade and give Nigerian NMSMEs a platform to access new markets. To reap the benefits of the initiative, deliberate steps need to be taken domesticate the agreement, publicize the initiative and provide support on how to take advantage of the program. NMSMEs will also need holistic support to ensure they are competitive and ready to leverage the agreement.

- **Access to Finance**

While there have been a number of funding programs introduced for NMSMEs, there is still a huge gap that requires an intentional, inclusive and gender-lens approach in policy, program and financial product design. Effective monitoring and evaluation will also help improve the effectiveness of the programs.

- **Adapting our Local Cultural Competitive Advantages**

The FATE Institute's Mapping Study of Nigeria's Entrepreneurship Ecosystem report notes that culture is a strong influencer of entrepreneurship growth and advocates for the incorporation of key lessons from local entrepreneurship approaches such as the "apprenticeship system" prevalent in South-Eastern Nigeria. The Mapping Study report which looked closely at the apprenticeship system, recommends adapting its job shadowing and practical hands-on learning approach as well as its in-built mentorship component. This could be adapted to upskill NMSMEs particularly those at the nano and micro level.

Another example of a local approach that has grown to become a part of our culture and can be adapted on a larger scale is the "Cooperative Society" funding model. The 2022 FATE Institute report on "Bridging the Access to Finance Gap for Nigerian Entrepreneurs" showed that among the institutions of finance, cooperative societies (43.1%) was ranked high by entrepreneurs that were able to raise finance.

## 6.1.2 Medium to Long Term

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- **Policy Design and Implementation**

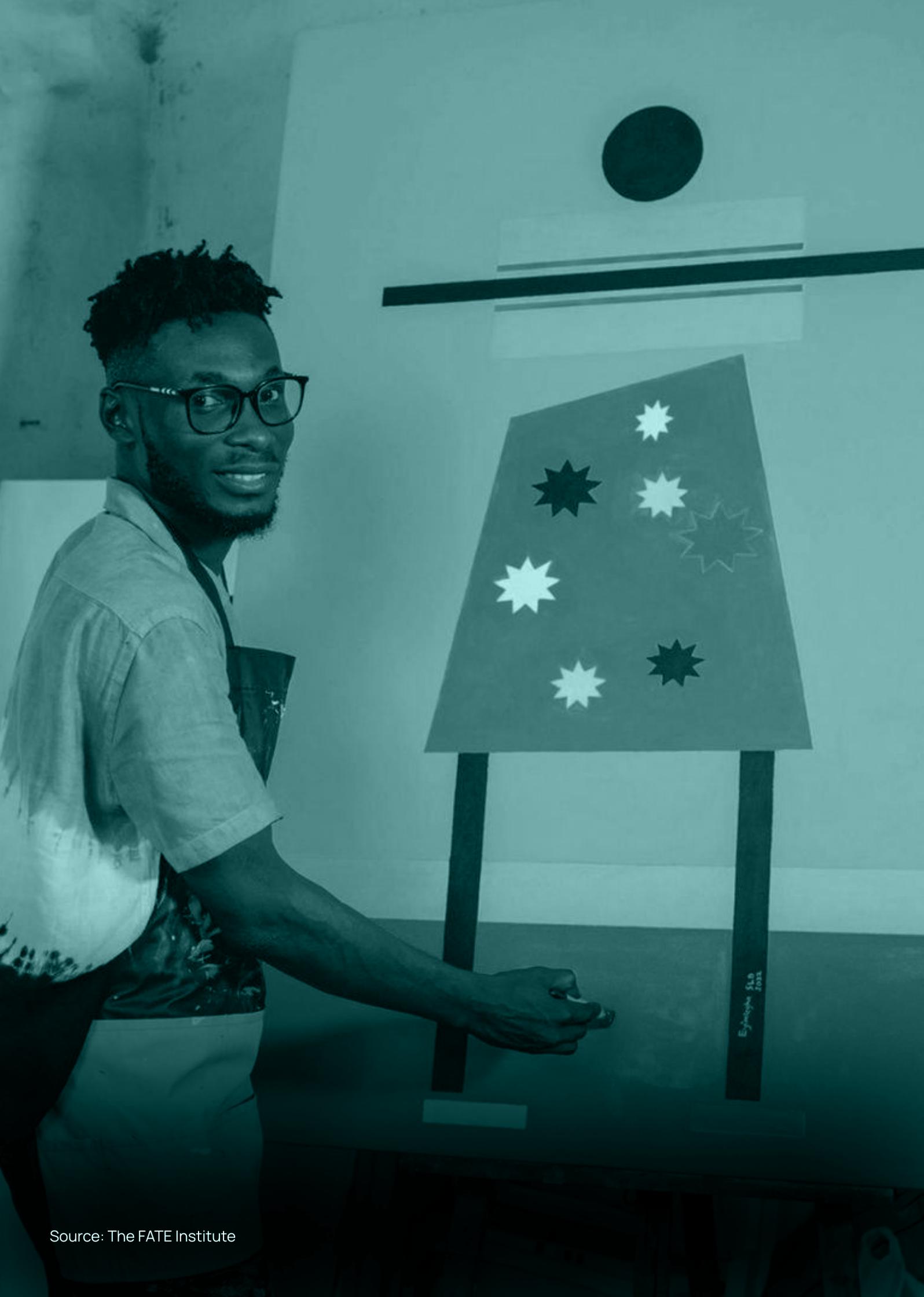
The sustainable approach to instituting endemic change is through policy design and implementation. In the medium to long term, it is critical to implement and enforce policies that address key gaps mitigating MSME competitiveness such as in the areas of funding, business registration, taxation, access to markets etc.

- **Access to Finance**

Access to finance for Nigerian NMSMEs has been a lingering problem. In the medium to long term, it is important to design and implement funding programs that address the varying dynamics of the businesses in need finance such as women-led and youth-led businesses. There is also the need to also rethink the access to finance structure which is heavily reliant on commercial banks which are not designed to fund the high risk NMSME sector. For the NMSME segment to be adequately funded, financing programs should to be designed to suit NMSME peculiar needs.

- **Innovation Fostering**

We need a culture and business environment that encourages innovation and enables thinking outside of the box to develop home grown solutions to the challenges in Nigeria. An enabling business environment will also encourage the concept of “failing forward” which is essential to the discovery of new business ideas and solutions. Cross-pollination of ideas and strategies across sectors will also enable innovation and will drive growth and competitiveness. For example, we are seeing the rise of healthtech, edutech, agritech as a result of the innovation deployed in fintech.



## 7. LIMITATIONS OF THE STUDY

Some of the limitations of the study are indicated below and can be used to improve future research around NMSME Competitiveness.

**Knowledge of Respondents:** While a lot of the businesses surveyed were led by educated entrepreneurs, some of the entrepreneurs did not fully understand the questions asked in the research. For instance, there were instances where respondents did not seem to know how to classify their businesses either as a Nano, Micro, Small or Medium Enterprise despite a definition being provided for each business category.

**Self-Reported Data:** Our assessment and analysis relied on data that was based on the estimation of respondents e.g., historical business growth, performance, competitiveness, access to market, etc. These were subject to the respondents' memory and biases and was difficult to independently verify.

**Range of Data Collected:** While the data collected on specific indicators such as Energy and Infrastructure was sufficient to assess the impact of that indicator on NMSMEs, it was not sufficient for assessing the state of energy and infrastructure in each state.



## 8. RECOMMENDATIONS

### 8.1.1 Improving Ability to Compete

- **Regulatory Climate**

When NMSMEs are unregistered, it is difficult to offer them the support they require to access finance, access markets and sometimes, even access information.

**There is an urgent need to advocate for policies that ease the cost & burden of business registration, streamline, and simplify the product certification landscape and incentivize compliance.**

The CAC has made significant strides in simplifying and digitizing the business registration process, however, NMSMEs still consider the process to be difficult to understand and navigate with several business owners still feeling the need to pay a lawyer or agent to facilitate the process – negating the essence of the digitization drive undertaken by the CAC.

**This could be improved through the use of creative communication such as was adopted by the CAC in the past (2019). Leveraging social media, traditional media, associations, financial institutions and business associations; NMSMEs can be told and shown the benefits of business registration and convinced that the process can be easily completed.**

The CAC undertook a business incentives strategy in 2019 where the cost of registration was reduced in half. Although the impact of this strategy on uptake in business registration is not publicly available, it is likely that the widely publicized program drove an increase in the number of business registrations. This strategy may be re-adopted. For NMSMEs to grow, remain in business, and be competitive, the challenge of multiple taxes and levies must be addressed head on

**We recommend a unified and formalized system of tax and levy collection that is eventually credited to the business' bottom line – similar to the withholding tax system.**

Though informally structured, the informal tax and levy collection system is an effective one that very few businesses escape. Because they are unregulated, they have become a major problem to businesses. Centrally regulating levies and taxes could control the amount that businesses pay, ensure that the paid levies are recognized across local-government or state lines, and that the government benefits from the effective collection system.

**The single most effective change for the regulatory climate would be a re-orientation of regulatory agencies and arms of government that interact with NMSMEs to see and treat NMSMEs as the important engines of growth that they are; providing adequate support rather than constituting bottlenecks to NMSMEs.**

- **Access to Infrastructure**

The absence of reliable and good power and infrastructure significantly impacts on cost of operation for many NMSMEs and reduces their competitiveness. **Initiatives that ease access to basic infrastructure for NMSMEs would strongly improve the performance of NMSMEs.**

NMSMEs villages are an initiative that could improve access to infrastructure. This would be a cluster of NMSMEs that are given access to competitiveness enhancing support – power, transportation, technology, training, business support, etc. This could be within industrial parks, in partnership with co-working locations or other creative solutions.

- **Local & International Competitiveness**

The major barriers preventing NMSMEs from competing well locally and internationally can be solved through the provision of information. This can be solved through the use of creative communication, trainings and micro courses that focus on the education of entrepreneurs.

**Collaboration with Government on support initiatives such as SMEDAN's dedicated NMSME support desk would help entrepreneurs readily access support and guidance and get answers to questions that they may have regarding topical areas such as registration, certification, taxes, financing options export readiness, AfCFTA, etc.**

---

## 8.1.2 Improving Ability to Change

- **Business Training & Support**

The major barrier to acquiring business support is a combination of cost and access to information. The proposed support desk and creative information dissemination (including micro and self-paced courses) through social media, traditional media, and associations could serve to improve this process.

In addition to entrepreneurship education, **NMSMEs could be provided with access to a curated list of partner organisations willing to provide or volunteer subsidized business support services to NMSMEs.**

- **Innovation**

Initiatives that foster collaboration across sectors could drive innovation at a sectoral level. For instance, hosting a hackathon to create an avenue for local tech talent or students to develop affordable and efficient technology tools that can be used to improve NMSME processes/activities.

In addition, sponsoring research and innovative programs aimed at promoting the development of home-grown solutions for NMSMEs could improve the adoption of innovate practices and improve competitiveness e.g., developing affordable & efficient software, low data-consuming digital products, micro courses delivered in local languages or low-tech applications.

- **Access to Finance**

Improving access to financing for NMSMEs requires a multi-pronged approach that focuses on the environmental barriers and the enterprise level barriers. **The operating environment barriers are those that are external to the businesses and the NMSME has no control over.** These include high cost of credit, requests for collaterals, and the dearth of NMSME friendly financing solutions. It is important to **promote and incentivize the adoption of previously deployed programs such as the collateral registry.**

Communication is critical to the success of any of the programs. Where information fails to reach the intended recipients, programs will not be impactful. Over the medium to long term, it is necessary to facilitate and simplify the process of raising funds through policies that enable the creation of NMSME friendly credit solutions and pave the path for alternate financing sources such as equity, convertibles, etc.

**Enterprise level solutions tackle the major challenge in acquiring finance identified by NMSMEs i.e. financial records & book-keeping.** This challenge can be mitigated through the creation of simplified or low tech record keeping methods that business owners (especially uneducated/ rural business owners) can use to record and track their finances.

Organising finance schemes that supports NMSMEs that truly need finance, by providing finance readiness support (e.g. book keeping clinics) and matching NMSMEs with finance offerings that provide reasonable interest rates and are NMSME friendly might be a game changing initiative for NMSMEs.

### 8.1.3 Improving Ability to Connect

- **Technology Adoption**

AfCFTA provides a unique opportunity for Nigerian NMSMEs to access foreign markets, but on the flip side, also poses risks to Nigeria's marginally competitive NMSMEs'. It is important that an enabling environment is created to facilitate access to the regional free trade markets that the Agreement opens up through the use of technology.

Enabling structures would include communication, sensitization, and education; support for export processes; clear and simplified export guidelines; and simplified certification processes.

- **Access to Market**

Majority of the key challenges affecting access to markets (local and international) are closely related to other indicators e.g. access to finance, registrations & certifications, etc. The remaining barriers can be summarized as product standardization and poor understanding of the opportunities that exist and the means of accessing them.

Hence, to improve the ability of NMSMEs to effectively access local and international markets, a mindset shift needs to occur through:

- **Education:** NMSMEs need to be educated on how they can prepare to compete - product standardization, production, packaging, testing, quality control, etc., and how to access those markets - export process, certifications, identifying demand, documentation, payment collection.
- **Empowerment:** NMSMEs need to be empowered with channels for identifying and communicating with potential markets. Where possible, business groups could be designed to work together to create economies of scale and access new markets together thereby improving cost and process efficiency and repeating the shared benefit of the created success.

## 9. CONCLUSION

### **Nigerians are enterprising and resilient**

NMSMEs are the lifeblood of Nigeria's economy, constituting 39.6 million businesses and contributing 49.7% to GDP despite the difficult operating environment and the numerous hurdles businesses need to scale to successfully operate.

### **In spite of the difficult terrain and business environment, Nigeria's NMSMEs are moderately competitive at 47%**

This competitiveness is driven by the ability of our NMSMEs to compete, to change and to connect. All three abilities are low to moderate for Nigeria's business ecosystem and if NMSMEs will hit the target of contributing 70% of Nigeria's GDP, these abilities and the competitiveness of the ecosystem must be strengthened.

### **With dedicated effort, we can further improve our areas of strength**

NMSMEs' borderline uncompetitiveness shows some areas of strength such as our ability to compete which is boosted by business growth (66%) and highly educated entrepreneurs (67%). Other areas with moderate performance include our ability to change with good business support (48%) and our ability to connect which is driven by promising technology adoption (56%).

### **However, we cannot afford to ignore the critical challenges that threaten the competitiveness of our NMSMEs**

The business environment does little to support entrepreneurs and is filled with challenges that weaken the sector's competitiveness. Key areas such as difficult regulatory climate, unreliable energy and infrastructure and poor access to finance and markets limit competitiveness. These challenges must be addressed urgently.

### **Key Stakeholders across public, private and development sectors can take recommended steps to improve competitiveness**

Several recommendations have been identified that will improve competitiveness by easing access to information for businesses, improving financing options and easing access to international markets. Key ecosystem players can work collaboratively to address some of these gaps.

### **Improved competitiveness benefits businesses, their local communities, the government and Nigerians as a whole**

More competitive businesses grow wealth, employ more people, and pay more taxes. Fixing the multiple taxation system that is riddled with numerous informal taxes and levies will improve the efficiency of the formal tax collection system and improve revenue. Inevitably, every Nigerian wins when our NMSMEs win.



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## 11. TABLE OF ABBREVIATIONS

<b>AFCFTA</b>	African Continental Free Trade Agreement
<b>BRICS</b>	Brazil, Russia, India, China, and South Africa.
<b>CAC</b>	Corporate Affairs Commission
<b>FCT</b>	Federal Capital Territory
<b>FDI</b>	Foreign Direct Investment
<b>FIRS</b>	Federal Inland Revenue Service
<b>FMCG</b>	Fast Moving Consumer Goods
<b>GDP</b>	Gross Domestic Product
<b>GII</b>	Global Innovation Index
<b>ITC</b>	International Trade Centre
<b>NAFDAC</b>	National Agency for Food and Drug Administration and Control
<b>NBA</b>	Nigerian Bar Association
<b>NMSME</b>	Nano, Micro, Small and Medium Scale Enterprise
<b>NCC</b>	Nigerian Communication Commission
<b>PEBEC</b>	Presidential Enabling Business Environment Council
<b>SMEDAN</b>	Small and Medium Enterprises Development Agency of Nigeria
<b>SON</b>	Standards Organisation of Nigeria
<b>SSA</b>	Sub-Saharan Africa
<b>TIN</b>	Tax Identification Number
<b>UNCTAD</b>	United Nations Conference on Trade and Development

## 12. METHODOLOGY NOTES

The computation of the Competitiveness Index is based on the summation of the weighted average of the 3 pillars of NMSME Competitiveness used in this report – ability to compete, ability to change and ability to connect. Each of the pillars were allotted specific weightings based on their level of importance.

For each pillar, the aggregated measure is computed using the summation of the weighted average of the indicators under that pillar. The indicators were calculated by taking the mean of their components.

The competitiveness index was calculated nationally, by enterprise and by states. The National Competitiveness Index is the weighted average of the national scores of the 3 pillars calculated using their components. The Competitiveness Index by Enterprise Type is the weighted average of the 3 pillars measured for nano, micro, small and medium enterprises. The Competitiveness Index by State is the weighted average of the 3 pillars measured across NMSMEs in each of the 36 states and FCT.

The computation process is shown below

- **Step 1: Compute the Indicators**

This is done by first identifying the score of each of the components within each indicator and then taking the average (mean) of all those components to form the indicator score.

- **Step 2: Pillars**

The pillars are calculated by taking a weighted average of all the indicators that make up each pillar.

- **Step 3: Competitiveness Index (CI)**

The CI is calculated by taking the weighted average of the three (3) pillars.

Pillars	Indicators	Components of Indicators	Pillars	Indicator	2022 notes
			<b>Weightings</b>		
<b>Ability to Compete</b>			<b>50%</b>		
	Regulatory Climate	<ul style="list-style-type: none"> <li>• Duration for business registration</li> <li>• Duration for certification registration</li> <li>• Duration for tax registration</li> <li>• Ease of tax payment</li> </ul>		<b>13%</b>	Survey Findings
	Energy, Infrastructure and Security	PEBEC's Ease of doing business subnational baseline survey ranking for transport, security, and electricity		<b>15%</b>	Ease of Doing Business Subnational Baseline Survey

Pillars	Indicators	Components of Indicators	Pillars	Indicator	2022 notes
			<b>Weightings</b>		
<b>Ability to Compete</b>			<b>50%</b>		
	Business Growth	Percentage of businesses that grew in the last 1 year		<b>5%</b>	Survey Findings
	Level of Education	<ul style="list-style-type: none"> <li>• Measure of formal education (weight 33%)</li> <li>• % that received business training (weight 67%)</li> </ul>		<b>5%</b>	Survey Findings
	Perception of Competitiveness	<ul style="list-style-type: none"> <li>• Perception of competitiveness within Nigeria</li> <li>• Perception of international competitiveness</li> </ul>		<b>12%</b>	Survey Findings
<b>Ability to Change</b>			<b>30%</b>		
	Innovation	<ul style="list-style-type: none"> <li>• Share of businesses that introduced new processes to their business in the last one year</li> <li>• Type of technology (excluding social media)</li> </ul>		<b>10%</b>	Survey Findings
	Financial Solution	<ul style="list-style-type: none"> <li>• Percentage of business with access to financing</li> <li>• Time taken to access finance</li> <li>• Type of funding accessed</li> </ul>		<b>8%</b>	Survey Findings
	Business Support	<ul style="list-style-type: none"> <li>• Percentage of entrepreneurs that received business support</li> <li>• Weighted impact of the support</li> </ul>		<b>12%</b>	Survey Findings

Pillars	Indicators	Components of Indicators	Pillars	Indicator	2022 notes
			<b>Weightings</b>		
<b>Ability to Connect</b>			<b>20%</b>		
	Technology Adoption	Percentage of businesses using technology (social media)		<b>10%</b>	Survey Findings
	Access to Market	<ul style="list-style-type: none"> <li>Percentage of businesses that accessed new opportunities to sell their products/ services in and outside Nigeria</li> <li>Percentage of business that are aware of AfCFTA</li> <li>Percentage of businesses that accessed new opportunities to sell their products/ services in Nigeria</li> <li>Percentage of businesses that accessed new opportunities to sell their products/ services outside Nigeria</li> </ul>		<b>10%</b>	Survey Findings

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