A Historical Review of the Nature, Relevance, and Challenges of Small and Medium Scale Enterprises (SMEs) in Africa

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Abstract
Small and Medium Enterprises (SMEs) are essential to Africa's economic development, accounting for 34% to 70% of GDP and up to 86% of employment. This research analyzes small and medium-sized enterprises (SMEs) in Ghana, South Africa, Ethiopia, Nigeria, and Kenya, with an emphasis on financial inclusion, digital transformation, regulatory challenges, and adaptations following the COVID-19 pandemic. Employing thematic analysis and adhering to PRISMA guidelines, the findings indicate FinTech's contribution to the expansion of SME financing, ongoing bureaucratic obstacles, and cybersecurity threats associated with digital adoption. The study advocates for the alignment of SME policies, investment in AI-driven solutions, and the promotion of sustainability strategies to improve SME growth and resilience within Africa's changing business environment.
libraries and IL in a competency-based environment.

Key words: Information Literacy, School libraries, CBC, Curriculum development, Kenya.

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Introduction
The role and importance of small- and medium-scale enterprises (SMEs) in Africa has received considerable recognition in recent studies. This can be attributed to the fact that SMEs are a dominant force in the economy of most African countries (Sririam and Mersha, 2010). Their activities are noted to be the engine for growth and job creation in Africa (Benzing and Chu, 2009) resulting in a growing interest in the development of SMEs. Understanding the concept, definition, nature, benefits, and challenges of SMEs in the growth of economies is relevant for explaining the development of SMEs in Africa.

Abor and Quartey (2010) were among the earliest

https://dx.doi.org/10.4314/ajmr.v32i1.11

researchers to address this question. Presenting case evidence of South Africa and Ghana, the authors delineated the significant issues related to SME development in these countries. The issues that they touched on included definitions, characteristics, contributions, and general constraints. Their evidence points to the dominance of SMEs in the business ecologies of these two countries and makes significant contributions to the literature. They also noted significant challenges faced by these SMEs in their development. These include regulatory constraints and difficulties accessing capital. Ahmed and Nwankwo (2013) present an overview of entrepreneurship development in Africa. The authors argue that, although some earlier scholars have noted that "Africa is a fragile mess" (Collier, 2006), most countries are making significant strides to improve the business environment. These include political, market, and regulatory reforms aimed at market responsiveness and improving citizens' well-being. At the micro level, several authors have studied several aspects of SME development in Africa. These aspects include, but are not limited to, investment climate constraints (Acheampong, 2019), export promotion programs (Quaye et al., 2017), locational effects (Acheampong and Damoah, 2018), microfinancing and financial relations (Acheampong, 2018a; 2018b), environmental configuration (Masocha, 2019) and many other antecedents to SME development in Africa.

Despite the plethora of studies on SME development in Africa, gaps remain for further inquiry into the nature, characteristics, and relevance of SMEs to development in Africa. The features of SME development have received attention in numerous studies, as noted above. Since Abor and Quartey (2010) and Ahmed and Nwankwo (2013) almost a decade ago, there has been a paucity of studies focusing on the broad issues relating to SME development at the macro level on the continent. In addition, the initial study by Abor and Quartey focused on two-country cases (South Africa and Ghana), while Ahmed and Nwankwo presented a literary overview. This study extends the work of these two seminal pieces and contributes to the SME development literature in Africa. This study extends the number of countries studied. This study extends beyond Ghana and South Africa to include Kenya, Nigeria, and Ethiopia. These countries represent African Lions (Bhorat and Tarp, 2016) that are some of the brightest spots on the African continent. This represents a major departure from Africa's representation as a fragile mess (Collier, 2006) to presenting Africa as the next frontier for growth. Again, the study reflects on definitional issues, nature, benefits to various countries, and challenges that SMEs face in national-level reports.

The following sections present the research methods/approaches, country cases, findings, discussion, and conclusions.

Literature Review

Definition and Role of SMEs

Small and medium-sized firms (SMEs) are crucial to economic development; nevertheless, their definitions differ throughout countries, typically determined by factors such as staff count, annual revenue, and asset valuation (Abor & Quartey, 2010). The National Small Business Amendment Act of 2004 in South Africa categorizes enterprises with less than 200 employees as SMEs, establishing distinct requirements for yearly revenue and asset value based on the industry sector (International Finance Corporation, 2019). In the manufacturing sector, a medium-sized firm employs a maximum of 200 individuals and achieves a revenue of up to R51 million.

Conversely, Ghana, Kenya, and Ethiopia classify SMEs as businesses with a maximum of 100 employees, emphasizing employment size as the criterion for categorizing business scale (Muriithi, 2017). Nigeria employs an alternative methodology; the Central Bank of Nigeria (CBN) classifies SMEs according to asset base and workforce size, designating them as firms with assets ranging from ₦5 million to ₦500 million and a staff count of 11 to 100 workers (Endris & Kassegn, 2022). These definitional discrepancies illustrate varying economic environments and policy priorities, affecting the support and regulation of SMEs in each country.

Notwithstanding these fluctuations, SMEs continually serve as essential contributors to economic progress. Research demonstrates that SMEs constitute a substantial share of GDP and employment in African countries (Kuada, 2022). In South Africa, SMEs account for roughly 34% of GDP and employ between 50% and 60% of the labor force (International Finance Corporation, 2019). In Nigeria, SMEs contribute around 50% of GDP and account for 76% of the labor force (Okoye et al., 2024). These firms not only facilitate economic diversity and innovation but also significantly contribute to employment creation and poverty reduction (Muriithi, 2017).

The absence of a consistent definition for SMEs complicates cross-country comparisons and the development of integrated support programs (Benzing & Chu, 2009). Aligning these criteria could enhance regional collaboration and improve development strategies for the SME sector throughout the continent (Endris & Kassegn, 2022).

Emerging Trends in SME Development

Financial Technology and Economic Inclusion

The advent of financial technology (FinTech) has significantly enhanced financial inclusion for SMEs, especially in Africa, where conventional banking systems frequently exclude small enterprises due to rigorous collateral demands and elevated borrowing rates. FinTech developments, including mobile banking, digital payment systems, and alternative lending platforms, have markedly enhanced SME access to credit (Kuada, 2022). Services like mobile money (e.g., M-Pesa in Kenya) and peer-to-peer (P2P) lending platforms facilitate SMEs in obtaining microloans and executing transactions independent of traditional banking systems. Furthermore, blockchain technology and decentralized finance (DeFi) solutions are increasingly offering transparent, cost-effective funding alternatives for SMEs, hence diminishing dependence on conventional financial institutions (Endris & Kassegn, 2022).

Post-COVID Rehabilitation and Digital Transformation

The COVID-19 epidemic significantly affected SMEs, compelling them to transition to e-commerce, digital marketing, and remote work solutions to endure lockdowns and movement restrictions (Ekechi et al., 2024). A multitude of small enterprises embraced online sales models and utilized platforms like social media commerce, digital supply chains, and cloud-based management systems to maintain operations. Nonetheless, despite these adjustments, numerous SMEs persist in facing challenges related to digital literacy deficiencies, insufficient internet infrastructure, and cybersecurity threats, which impede their complete assimilation into the digital economy (Muriithi, 2017).

Cybersecurity Threats and Artificial Intelligence

The growing dependence on AI-driven automation, data analytics, and cloud computing renders SMEs vulnerable to cybersecurity risks, including phishing, data breaches, and ransomware attacks (Okoye et al., 2024). Although artificial intelligence presents SMEs with opportunities for improved customer insights, operational efficiency, and predictive analytics, many lack the resources necessary to establish robust cybersecurity measures, train personnel, and protect sensitive business information (International Finance Corporation, 2019).

Notwithstanding these improvements, conventional impediments—elevated taxation, bureaucratic licensing, and a deficiency of skilled labor—endure in the SME sector, hindering several enterprises from growing or formalizing their operations (Benzing & Chu, 2009). Mitigating these hurdles necessitates proactive governmental regulations, investment in digital infrastructure, and enhanced financial literacy initiatives to enable SMEs to fully leverage the advantages of digital transformation.

Research Methods

Data

This study's data is sourced from 26 national reports on SME-related economic indicators in Ghana, South Africa, Ethiopia, Nigeria, and Kenya from 2003 to 2024. The reports encompass government publications, employment surveys, financial access assessments, industrial firm establishment surveys, and SME policy documents. In Ghana, primary sources are the Ghana Statistical Service's Integrated Business Establishment Survey (IBES) and the Ghana Enterprises Agency (GEA) Annual Reports, which offer insights into the SME sector's contributions to GDP, employment data, and financing patterns. In South Africa, the Small Enterprise Development Agency (SEDA) and the Bureau of Economic Research (BER) provide sectoral studies, identify SME financing deficiencies, and assess regulatory effects.

Data for Nigeria is obtained from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS), which monitor employment trends, SME survival rates, and financial inclusion efforts. The Kenya National Bureau of Statistics (KNBS) SME Basic Report delineates spatial business dispersion, trends in digital transformation, and accessibility of finance for SMEs. Ethiopia's National Bank Reports and Labour Force Surveys provide data on SME employment, sectoral contributions, and barriers to company sustainability. These reports offer extensive, government-verified data for analyzing SME growth trends, economic effects, and structural obstacles in the five chosen nations.

Analytical Approach

Thematic analysis was employed to examine the information in the reports according to the methodology proposed by Nowell et al. (2017). Thematic analysis, as described by Braun and Clarke (2006), was chosen for its theoretical flexibility, facilitating the identification of both predefined and emergent themes from the national reports. This method was considered suitable due to the complex and multi-dimensional aspects of SME development in various African economies. The analytical process employed a systematic approach, utilizing the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework to guarantee transparency, reproducibility, and rigor in data selection, coding, and interpretation. The methodology was executed in five primary phases:

- The study identified 32 national reports relevant to SME policies, economic indicators, and sectoral performance in Ghana, South Africa, Ethiopia, Nigeria, and Kenya. Reports were evaluated for credibility, recency (2003–2024), and policy relevance, adhering to PRISMA inclusion/exclusion criteria to exclude outdated, non-governmental, or anecdotal reports.

- Familiarization with Data: Each report was meticulously analyzed to achieve a comprehensive understanding of recurring themes in SMEs, including financial inclusion, regulatory challenges, sectoral contributions, and technological adoption (Nowell et al., 2017).

- Coding and Theme Development: The reports were coded using a deductive-inductive approach. The reference framework was initially based on SME-related themes from Abor and Quartey (2010). Multiple reports revealed common themes, and new patterns such as post-COVID recovery, digital transformation, and cybersecurity risks were inductively integrated to represent emerging realities (Braun & Clarke, 2006).

- Themes were reviewed and refined through cross-verification across various reports to ensure internal consistency and alignment with the existing literature. In cases of inconsistencies, further verification was conducted via iterative reading and validation against secondary literature (Nowell et al., 2017).

- The final stage involved synthesizing themes into summarized country cases, systematically comparing SME definitions, challenges, contributions, and policy interventions across Ghana, South Africa, Ethiopia, Nigeria, and Kenya. Significant similarities were identified between the national reports and the findings of Abor & Quartey (2010), thereby reinforcing the validity of the coded themes and the robustness of the thematic analysis methodology.

Table 1a: National Reports on SMEs

Countries	Reports					
Nigeria	2013 SME survey Report	SMEDF Guidelines 2014	2017 SMEs report	Q3 2018 Employment Report by State	Selected Banking Sector Data 2020	PriceWaterhouseCoopers MSME Survey Report (2024)
Ghana	2015 IBES final report	Regional Spatial Business Report 2014	ITC SME Report 2016	National Employment Report 2015	LFS Report 2015	IBES comprehensive sectoral report 2015
	Ghana Country Economic Memorandum: Ghana Rising - Accelerating Economic Transformation and Creating Jobs (2021)					
South Africa	Quarterly Employment Statistics Q1 2019	Tourism Sector Report 2019	Manufacturing Preliminary Report 2019	Construction Report by Local Government 2018	SEDA Annual Report 2017	SME Sector Report 2016
	The Economic Development in Africa Report 2024					

Table 1b: National Reports on SMEs

Countries	**Reports**					
Kenya	2016 SME-Basic Report	2017 Census of Business Establishments Report	Economic Survey 2019	Financial Access Report 2019	The World Bank's "Sourcing2Equal Kenya" report 2022	
Ethiopia	2015 Commercial Farming Report	2016 National Statistical Report country level	Informal SEC 2003 Report	NLFS Analytical Report for Labor Force 2013	NLFS Latest Findings 2013	SME Finance in Ethiopia: Addressing the Missing Middle Challenge (2012)
	Barriers to Finance for Agri-SMEs in Ethiopia (2022) GIZ Report					

Findings: Country Cases

Country Case 1: Ethiopia

Definition

The 2011 National Micro and Small Enterprises (MSE) Development Strategy defines a micro-enterprise as an enterprise consisting of at most five employees (or with a paid-up capital/total asset of at most US$ 6000 for industry and US$3000 for service), while an enterprise with 6-30 employees (or with a paid-up capital/total asset of US$90,000 for industry and US$30,000 for service) forms a small enterprise. An enterprise with 31-100 employees forms a medium-sized enterprise.

Nature

There are approximately 800,000 Small and Medium Enterprises across Ethiopia. The SMEs sector is dominated by males (84%) with 16% female entrepreneurs. A third of the owners have a university education, with about 58% of them having primary, secondary, or Technical and Vocational Education and Training (TVET). Some of the significant characteristics include the following.

- The businesses are mostly managed by owners.
- The majority (approximately 91%) of the entrepreneurs obtain their start-up capital through personal savings or with help from the family.

- Most SMEs focus on the domestic market.
- Most businesses are formally registered and properly licensed.
- SMEs are excluded from the main banking sector credit facilities.
- The majority (approximately 87%) of entrepreneurs had experience with related firms (as apprentices).
- The activities of micro-enterprises and small and medium manufacturing industries are assisted and coordinated by the Federal Urban Job Creation and Food Security Agency (FUJCFSA) and Small and Medium Manufacturing Industry Development Agency (SMMIDA), respectively.

Benefits

- In Ethiopia, small businesses offer large employment opportunities to citizens. For instance, the 2018/19 National Bank of Ethiopia report showed that 110,253 new micro and small businesses were created between 2018 and 2019. The total number of people employed by these enterprises is 882,098. Furthermore, the 2019/20 National Bank of Ethiopia report showed that 111,547 new micro and small businesses were created between 2019 and 2020. The total number of employees in 2019/20 was 1,569,163.
- Small businesses also make significant contributions to the GDP growth in Ethiopia. The 2015/16 National Bank of Ethiopia report shows that the SMEs contributed approximately 16% of Ethiopia's GDP.
- In terms of industrial contribution, over 333,000 people were engaged in all manufacturing industries surveyed in 2015/16. The total number of people employed by various manufacturing industries was reported to be more than 329,000 in 2015/16. The number of female employees has increased from approximately 53,000 to over 83,000. About 22% of the female workforce was employed by the textile industry, more than 21% by the food and beverage industry, and 12% by the rubber and plastic industry in 2015/16.

Challenges

Productivity and efficiency of SMEs in Ethiopia are usually constrained by a host of challenges. The 2017 ADA asbl report found that the main challenge encountered by the majority (89%) of respondents in setting-up and operating their business is limited access to finance due to inadequate collateral security.

- The report also finds that inefficient delivery services and appropriate working premises remain a challenge for SMEs in Ethiopia.
- In addition, the 2003 report on an Urban Informal Sector Sample Survey identified the following challenges specific to the informal sector.
    - Difficulty in starting an operation. The report found that factors such as lack of sufficient capital, inadequate skill, infrastructural challenges, access to raw materials, and limitations of government regulations negatively impact the growth and smooth operations of SMEs in

Ethiopia. For instance, among the manufacturing industries, more than 18% of them reported that shortage of electricity and water supply remains the major reason for not being fully operational throughout the year. In addition, about 24% of them reported shortage in supply of raw materials as a first problem for not being operational throughout the 2015/16 reference year.

- Difficulty sustaining operations. 27% of them are faced with insufficient working capital, 29.75% of them are faced a lack of adequate demand and limited market for products.
- Another challenge is health problems among business operators.

Country Case 2: Ghana

Definition

The Ghana Enterprises Authority (GEA) (formerly the National Board for Small Scale Industries (NBSSI)) defines small enterprises as enterprises that comprise less than 100 employees or have a fixed asset (excluding housing and land) of less than US$100,000. NBSSI also classifies enterprises as follows: micro-enterprises have at most five employees, small enterprises have between 6-29 employees; medium enterprises have between 30-99 employees while large enterprises have more than 100 employees. These classifications are consistent with the Ghana Statistical Service (GSS) classification used in Integrated Business Establishment Surveys in 2018.

Nature

In 2016, the International Trade Centre released a report on the competitiveness of Ghana's SME sector. 85% of Ghanaian ventures are SMEs hence, are considered the driving force of the economy. enterprises in Ghana. Some of the major characteristics of this sector are:

- SMEs in Ghana are male dominated (62%); women own approximately 38% of the SMEs (38.7% for small, 38.0% for medium).
- The proportion of full-time and part-time male employees was 72% and 28%, respectively, while the proportion of full-time and part-time female employees was 68% and 32%, respectively. SMEs in Ghana mostly adopt labor-intensive operations.
- Another interesting characteristic is that approximately 90% of enterprises adhere to local standards and certifications.
- Only 30% of small businesses, but a much higher (76%) of medium scale businesses advertised the products.
- On ownership, Most of the SMEs are managed by owners, while predominant legal form sole-proprietorship (51%). Out Of the total establishments in Ghana, the majority are privately owned (92% for small scale and 79% for medium scale).
- Most businesses are produced in local markets. However, medium scale businesses are more likely to export products (71%) compared to are small-scale businesses.

- SMEs in Ghana mostly engage in trading, agriculture, and manufacturing.
- Most SMEs are not properly represented in banking sector credit facilities. Most of them also do not access loans from microfinance institutions, preferring to rely on capital from personal savings, family, and friends.
- The Association of Ghana Industry (AGI) initiated amendments and led policy initiatives that promoted the interest of SMEs in Ghana as an industry pressure group.
- The development of SMEs in Ghana is the responsibility of the Ghana Enterprises Authority of the Ministry of Trade and Industry 434.

Benefits

SMEs are key contributors to employment, revenue, and GDP growth in Ghana. 85% of businesses in Ghana are SMEs and their contribution to Ghana's GDP is 70% according to a 2016 SME Competitiveness Survey. In terms of revenue, the report shows that the average annual revenue for small firms in Ghana is $26,000 (GHS 102,000), which increases to $1,022,000 (GHS 4,037,000) for medium firms. SMEs are key contributors to employment opportunities in Ghana. The 2018 GSS IBES II Comprehensive Sectoral Report shows the following:

- The small-sized and micro-sized establishments engage 71.4% of the total workforce.
- The SMEs contribute to 35.6% of employment in the Institutional Agricultural sector, 38.7% of crop and animal production, 72.1% of fishing and aquaculture production, and 61.8% of employment, and 10.9% of wages in the industry sector.
- In the Manufacturing sub-sector, small-sized businesses contributed GH¢4.9 billion, while medium-sized firms contributed GH¢4.5 billion to the total proceeds from sales and receipts.

Challenges

Regulatory constraints are a major source of concern for SMEs. Excessive costs incurred during start-up firms, licensing, registration, and the sorting of legal claims, and the bureaucratic nature of business registration impose extra burdens on SMEs. This limits SMEs from operating at full capacity. Moreover, SMEs in Ghana face an insufficient supply of skilled workers. This affects the ability of businesses to specialize in their operations and increases the cost of production and management complexities. In addition, entrepreneurial and managerial deficiencies are major limitations to the growth of SMEs in Ghana. The SME Competitiveness Report identifies other challenges.

- Lack of unique products. Most firms are engaged in the production of common products. This negatively impacts Ghanaian SMEs' competitive advantage and market strength, making them susceptible to market shocks and uncertainties.
- Insufficient access to electricity is another impediment to the growth of Ghanaian SMEs. The cost and lack of access to electricity affect productivity

and increase the cost of production among SMEs, making their products less competitive in both the domestic and international markets. Thus, this hinders firm growth.

- High interest rates. The report shows that most SMEs do not have access to loans from banks and micro-finance institutions to expand their working capital and scale of operations because of the high interest rate on loans. This partly reduces production capacity.

- Limited market and Internationally Recognized certifications: Even Although the survey finds that approximately 90% of all enterprises adhere to the domestic certifications or standards, most SMEs in Ghana do not adhere to internationally recognized certifications or standards. This limits the ability to export their products to a larger international market and potentially higher profit margins.

- Lack of Access to Appropriate Technology: Inadequate access to ICT and technologies and lack of knowledge of techniques impedes the expansion of SMEs. Technical knowledge, productivity, innovation, and competition among SMEs are inhibited.

- Insufficient Product Advertisement: In contrast to 76% of medium-sized enterprises, only 30% of small-scale businesses engage in any form of product advertisement. Thus, a firm's ability to increase customer numbers and control the market environment is limited.

Country Case 3: Kenya

Definition

The Kenya National Bureau of Statistics (KNBS) 2016 Micro, Small, and Medium Establishments (SMEs) Basic Report defines SMEs as businesses that engage with one to 99 employees. These are further categorized as Micro Enterprises (1-9 employees), Small Enterprises (10-49 employees), and Medium Enterprises (50-99 employees). The 2016 SMEs basic report defined employees as partly, fully, or unpaid workers in a business.

Nature

The Kenya National Bureau of Statistics (KNBS) reports that there are about 1.56 million licensed SMEs and 5.85 million unlicensed household businesses. Microsized enterprises constitute 92.2% of all licensed enterprises. Businesses operate both in the formal and informal sectors of the economy, especially in the services sector. Other characteristics include the following.

- Approximately 50% of the licensed enterprises have male as owners, and 31.4% have female owners. Regarding unlicensed enterprises, 60.7% were female owned. 16.5% licensed and 6.4% unlicensed enterprises are owned by male-female partners, respectively. Women business owners mostly engage in microbusiness.

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- Regarding the sources of start-up capital, the majority (71.9 %) of businesses revealed that start-up capital was generated from personal/family resources, while 4.2 percent of business owners obtained their start-up capital from loans from family and friends. In addition, banking institutions finance 5.6% of SMEs, while the government caters to the 0.1% of all SMEs.

- Most SMEs are managed by owners. SMEs are mostly owned by sole proprietorships. 78.9% Of micro businesses, 37.6% of small enterprises and 26.2 % of medium- sized enterprises were owned by sole proprietors. In licensed SMEs, 30.3% of business owners have attained secondary (O' level) education, while 9.8% of business owners/operators have attained university education. Only 7.8, 1.9 and 5.2% of operators of licensed micro-, small-, and medium-sized enterprises, respectively, do have any form of educational attainment. More than 50% of all business owners' training was self-sponsored.

- About 76.7% of businesses do not receive any technological advice.

- Most businesses are produced in local markets. 56.5% Of SMEs do not market their products through advertising.

- Most SMEs employ labor-intensive production techniques.

- The Department of Micro and Small Enterprise Development (DMSED) is a governmental agency that was established in 1992 to design and implement strategies for the development of SMEs in Kenya.

- The KNBS report on the 2017 Census of Establishments shows that retail trade, except for motor vehicles and motorcycles, had the largest number of establishments (36,917), followed by food and beverage service activities (6,600).

Benefits

- According to the KNBS 2016 SMEs Basic Report, SMEs make a greater contribution to revenue generation in Kenya. For Instance, in 2016, SMEs due to gross turnover generated KSh 706.0 billion while unlicensed enterprises generated KSh 78.2 billion.

- The SMEs sector also contributes significantly to Kenya's GDP. For instance, the returns of SMEs are valued at KSh 3,371.7 billion as compared to KSh 9,971.4 produced nationally constituting 33.8%. Regarding Kenya's gross value in 2016, the contribution of SMEs was approximately KSh 1,780.0 billion in comparison to the whole economy's share of KSh 5,668.2 billion Manufacturing ranks the highest contributor to GDP (24.3 % of the SME's total value). Wholesale and retail trade contributed 22.8% to gross value; 15.4 and 7.3% were also contributed by transport, storage, and education services, respectively. while 10.4% of the SME's gross total value was contributed by businesses without licenses.

- The SMEs offer the highest number of employment opportunities in Kenya. SMEs employ 14.9 million employees: a larger proportion of employment opportunities thus 8.6 million (57.8%) are provided by unlicensed businesses whiles 6.3 million employees are recruited by licensed establishments.

Challenges

According to the KNBS 2016 SMEs Basic Report, the main challenges faced by SMEs in Kenya often emanate from cumbersome and expensive regulatory environments, as well as interference from authorities. SMEs also face issues with higher taxation and bureaucratic registration processes. These constraints tend to impede the growth of SMEs in Kenya. Other challenges include the following.

- Lack of product advertisements. The 2016 SME report shows that a lack of advertisements affects the demand and potential profit margins of SMEs. Most SMEs do not promote their products or services. 58.3%, 35.6%, and 33.5% of licensed businesses representing micro-, small-, and medium sized enterprises, respectively, do not promote their products and services. 83.6% Of unlicensed businesses do not prioritize advertisements, and the remaining 10.2% depended on quality products and customer satisfaction.
- Kenyan SMEs also experience problems in generating resources to finance their entrepreneurial activities. The inability of entrepreneurs to present valuable collateral to financial institutions in exchange for credit facilities results in their rejection.
- SMEs in Kenya face infrastructural challenges, such as inaccessible electricity, water, internet, transportation, and communication systems, which limit their survival.

Country Case 4: Nigeria

Definition

The 2013 Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS) Collaborative Survey Report use the number of employees and total assets (excluding land and buildings as a criterion to define SMEs). The classifications are as follows: micro enterprises are those enterprises whose total assets are less than 10 Million Naira with a workforce not exceeding 10 employees; small enterprises are those whose total assets (excluding land and building) are above 10 Million Naira but not exceeding 100 Million Naira with a total number of employees of more than 10 but at most 49, while medium enterprises possess total assets (excluding land and building) ranging from 100 million naira to 1 billion naira with a total number of employees between 50 and 199. The report indicates that in the case of dissension regarding the classification of employment and total assets, for instance, if a firm's resources are valued at 60 million naira but employs only nine workers, 60 million naira but employs nine persons), classification by employment is applicable in this scenario. Enterprises with more than 200 employees were considered large. The total assets of micro enterprises comprise a maximum of ten employees and less than 10 million naira; small enterprises have total assets ranging between 10 million naira and 100 million naira and total number of employees between figures,10 and 49, while medium enterprises own total assets above 100 million naira but below 1 billion naira with a total number of employees between 50 and 199.

Nature

The Nigerian SME sector has the following characteristics:

- Microenterprises dominate the SMEs sector in Nigeria. The five (5) major economic sectors that SMEs in Nigeria engage in are Wholesale/Retail trade , Agriculture , Other Services , Manufacturing, Accommodation and Food Services, representing 42.3, 20.9, 13.1, 9.0 and 5.7%, respectively. These constitute approximately 91.0% of the economic activities of all SMEs.

- The start-up capital of 68.35% of micro-enterprises was less than 5000 Naira, while that of small and medium enterprises was less than 10 million naira.

- Male ownership of SMEs was predominant in Nigeria (51.3%). Males were dominant in agriculture (84.9%), while the catering industry and accommodation (86.8%), manufacturing (68.7%), and wholesale/retail trade (64.5%) were female dominated 43.2 % of micro enterprises, and 22.75% of SMEs were owned by female entrepreneurs.

- The managerial capacity is generally low. More than 70% of the entrepreneurs do not have any form of a patent rights. A significant number of SMEs are not protected by insurance. Most SMEs operate below their optimum capacities. Most SMEs operate without a business plan, and most do not belong to any business membership association.

- 51% of employees in the SMEs sector do not have any form of formal education.

- In 2003, The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was founded to promote the development of the micro, small, and medium enterprise (SMEs) sector in Nigeria.

Benefits

- The economic activities of SMEs significantly contribute to revenue generation and GDP growth in Nigeria. The 2013 SMEDAN and NBS Collaborative Survey report showed that SMEs' contribution to nominal GDP was 48.47% in 2013. More recently, the NBS 2017 National Survey of SMEs showed that export contribution increased marginally to 7.64% (from 7.27% in 2013). The activities of SMEs contributed to 49.78% of GDP in 2017.

- The SMEs also offer the highest number of employment opportunities. In 2013, the total number of SMEs in 2013 was 37,067,416 (Micro enterprises-36,994,578, Small enterprises- 68,168, and medium enterprises-4,670). As of December 2013, the SME sector had a total number 59,741,211 employees. (or 84.02% of the total labor force of Nigeria). More recently, the 2017 National Survey of SMEs report shows that the total number of SMEs as of December 2017 stood at 41,543,028(micro-enterprises- 41, 469,947 (or 99.8%), and SMEs: 73,081 (or 0.2%)). The total employment contribution of SMEs in Nigeria was 59,647,954 persons as of December 2017 (86.3 % of the national workforce).

Challenges

The SMEDAN and NBS Collaborative Survey report identified the following challenges faced by SMEs in their operations in Nigeria:

- Inadequate finance or credit facilities. This hinders their ability to expand their working capital and scale of operations.

- SMEs do not have access to good infrastructure, such as roads, electricity, and the infrastructure needed to effectively use information and resources. This affects the efficiency of the SMEs in Nigeria.

- Inconsistency in Government Policy Inconsistent government policies targeted at SMEs limit the room for enterprises to have access to sustained support and guidance and further limit investment in the SMEs sector. This worsens corruption and regulatory burdens and further affects the productivity of SMEs in Nigeria.

- Most SMEs rely on obsolete technologies during their operations. This is because they lack access to innovation and technology and adequate knowledge on the adaptation of foreign technology.

- Lack of business development services. Nigeria's entrepreneurial environment lacks effective strategies to stabilize inflation and exchange rates, lessen harsh entry requirements, and promote productivity. Hence, most SMEs cannot operate at full capacity.

- Lack of market access. Nigeria's entrepreneurial climate is characterized by inappropriate rules and regulations that discourage fair competition and reduce the market strength of enterprises involved in domestic and export markets.

- SMEs operations are characterized by high and multiple tax burdens. This tends to reduce the efficiency of SME production and operations in Nigeria.

Country Case 5: South Africa

Definition

The South African National Small Business Act 102 of 1996 defines enterprises based on their number of workers. as follows: micro-sized enterprises are enterprises with at most five workers; very small-sized enterprises have at most 10 workers (or 20 workers for mining and quarrying, manufacturing, construction, gas, water, and electricity sectors); small-sized enterprises have at most 50 workers; and medium-sized enterprises have at most 100 workers (or 200 workers for mining and quarrying, manufacturing, construction, gas, water, and electricity sectors).

In terms of total annual turnover, the South African National Small Business Act 102 of 1996 defines enterprises as follows: micro-sized enterprises have less than R 0.15 million; very small-sized enterprises have less than R0.4 million to R5 million depending on the industry; small-sized enterprises have less than R2 million to R25 million, depending on the industry, and medium-sized enterprises have less than R4 million to R50 million, depending on the industry. Also, in terms of Gross Assets (excluding fixed property), the South African National Small Business Act 102 of 1996 defines enterprises as follows: micro-sized enterprises have less than R 0.10 million; very small-sized enterprises have less than R0.2 million R1.8 million depending on the industry; small-sized enterprises have less than R2 million to R4.5 million depending on the industry; and medium-sized enterprises have at most R2 million to R18 million, depending on the industry.

Depending on the industry, very small-scale enterprises do not exceed R0.4 million to R5 million, small-scale enterprises possess less than R2 million to R25 million, and medium-scale enterprises have less than R4 million to R50 million. In addition, in terms of Gross Assets (excluding fixed property), the South African National Small Business Act 102 of 1996 defines enterprises as follows: microscale enterprises have assets valued below R 0.10 million; Depending on the industry, very small-scale enterprises have assets worth less than R0.2 million to R1.8 million; small-scale enterprises have less than R2 million to R4.5 million and medium-scale enterprises have at most R2 million to R18 million depending on the industry.

Nature

The Bureau of Economic Research (BER) 2016 report for Small, Micro and Medium Enterprise Sector (SMME) in South Africa indicated as follows:

- The majority (69%) of employers operate in the formal SMME sector of the economy. Small formal business employment is at least 5.8 million.
- Most SMMEs engage in trading. Retail, construction, and business services are the dominant sectors in South Africa within which SMMEs operate.
- The majority (71%) of SMMEs are owned by blacks, whiles the whites own 20%. Women own 24% of formal small enterprises and 40% of informal small enterprises.
- Most SMMEs employ labor-intensive methods of production.
- The majority (60%) of SMME owners had secondary education, 19% had tertiary education, and 4% had no form of formal education.
- The start-up capital for most SMMEs is personal savings and family support.
- Products are mostly sold in the domestic market.
- In 2016, there were 690 000 formal small businesses and 1.6 million informal small businesses in South Africa.
- The Small Enterprise Development Agency (SEDA) is an agency of the Department of Small Business Development established in December 2004 to promote entrepreneurship and develop small enterprises in South Africa through the implementation of small business strategies by the government.

Benefits

- SMMEs are key drivers of employment and innovation in South Africa. According to the 2017 Real Economy Bulletin, SMMEs were the largest source of employment in South Africa. Small businesses offer 55% of formal job opportunities in South Africa compared to 45% of large enterprises.
- There are at least 710 000 small business owners who employ a minimum of 4.3 million workers. More recently, the 2018 SEDA Annual Report pegged the total number of SMMEs in South Africa to 2.15 million, with 7.33 million workers.
- SMMEs also play a vital role in GDP growth and economic development in South Africa. For instance, the 2018 SEDA Annual Report shows that SMMEs contributed 42% to the GDP of South Africa in 2018.

Challenges

The 2016 BER SMMEs of South Africa report identifies key constraints to the successful operations of SMMEs in South Africa. The challenges include, but are not limited to,

- Lack of access to credit facilities. Most South African banks and financial institutions are less likely to provide loans to SMMEs in order to support their activities. This can be attributed to a lack of collateral security, a financially accepted business plan, poor market research, and a lack of potential markets for products. This has often resulted in the collapse and failure of most SMMEs in South Africa.

- SMMEs face challenges in terms of utility, land, and communication infrastructure. This infrastructure gap increases the cost of production and impedes the growth of enterprises in South Africa.

- Most SMMEs are unable to employ workers to expand their scale of operations because of regulatory obstacles associated with employment, such as high minimum wages and challenges associated with laying off unproductive workers. This impedes the growth of small enterprises.

- The lack of skilled employees in SMME activities in South Africa also impedes the growth of enterprises in the country.

- Bureaucratic nature of government regulation. The SMMEs in South Africa also face challenges, such as delays in obtaining operation permits due to a lack of coordination among governmental institutions. This has also impeded the operation of SMMEs in South Africa.

- Lack of market access. Most SMMEs, especially smaller-sized enterprises and those in rural areas, cannot have a collective larger influence on the product market because of their remote location. This limited the growth of rural SMMEs in South Africa.

Discussion of Country Cases

In this section, country cases are discussed along with the definitions, nature, benefits, and challenges of the SME sector in the selected African countries. Specifically, this study's findings highlight essential characteristics, significance, and challenges faced by SMEs in Africa. This analysis evaluates the results by exploring SME definitions in various countries, financial inclusion, adaptation following COVID-19, digital transformation, regulatory challenges, and issues related to long-term sustainability.

Variations in Definitions and Their Policy Implications

This study observes significant variation in the definitions of SMEs across African economies. Countries classify SMEs according to employment size, revenue thresholds, asset valuation, and legal frameworks (SMEDAN, 2013; KNBS, 2017). In South Africa, SMEs are defined by the National Small Business Amendment Act (2004), which limits medium-sized enterprises to 200 employees (International Finance Corporation, 2019). Ghana, Kenya, and Ethiopia establish a threshold of 100 employees, whereas Nigeria employs an asset-based valuation approach (Abor & Quartey, 2010). Although these definitions correspond with economic scales and regulatory policies, they present challenges for cross-country comparisons of SMEs. Larger employment caps in South Africa and Nigeria indicate that government support structures accommodate a broader spectrum of businesses, which may limit funding access for micro-enterprises (Benzing & Chu, 2009). In contrast, Ghana's lower SME threshold corresponds with its policy emphasis on micro-entrepreneurship (GSS, 2018). The potential benefits of harmonizing SME definitions across African regional economic blocs, such as ECOWAS and SADC, to enhance trade, investment, and policy coordination (Kuada, 2022).

Financial Inclusion and Digital Transformation

The study also highlights the significant role of FinTech in promoting financial inclusion for SMEs. African SMEs have historically faced challenges in accessing credit, primarily due to stringent collateral requirements and inflexible banking frameworks (Endris & Kassegn, 2022). The emergence of mobile banking, alternative lending platforms, and blockchain finance has markedly enhanced access to microloans and digital payments (Kuada, 2022). The study demonstrates that SMEs in Kenya and Ghana have significantly benefited from mobile money platforms such as M-Pesa and MoMo Pay, facilitating efficient business transactions, access to loans, and integration within supply chains (Ekechi et al., 2024). The study identifies financial literacy gaps and regulatory inconsistencies that hinder broader FinTech adoption.

Adaptation and Resilience of Businesses Post-COVID

The COVID-19 pandemic compelled SMEs to swiftly transition to e-commerce, digital platforms, and remote business models (Muriithi, 2017). This study indicates that SMEs in South Africa, Kenya, and Nigeria exhibited enhanced digital adaptability by utilizing platforms like Jumia, Shopify, and Facebook Marketplace to maintain business operations (International Finance Corporation, 2019). The study indicates that, despite these innovations, numerous SMEs faced challenges in digital migration attributed to inadequate internet infrastructure, deficiencies in digital skills, and elevated operational costs (SMEDAN, 2023). South Africa implemented the SME Debt Relief Fund, whereas Nigeria offered conditional grant schemes (Atlantic Council, 2025). Future research must concentrate on long-term post-pandemic recovery strategies, especially in enhancing SME resilience to future economic shocks.

Cybersecurity Risks Associated with AI Integration

As small and medium-sized enterprises adopt AI-driven automation, cloud computing, and digital transactions, they simultaneously become targets for cyber threats (Okoye et al., 2024). This study emphasizes the increasing risks faced by SMEs regarding phishing scams, ransomware attacks, and data breaches, especially in Nigeria and Kenya, where incidents of cybercrime have escalated since 2020 (Kuada, 2022). The results demonstrate that a majority of SMEs do not possess robust cybersecurity frameworks, rendering them susceptible to financial fraud and operational disruptions (Ekechi et al., 2024). AI-powered fraud detection, automated financial management, and AI-driven marketing tools are becoming significant factors in the scalability of SMEs (Okoye et al., 2024). Future research should investigate the integration of AI in African SMEs while ensuring data security is maintained.

Regulatory and Institutional Limitations

Small and medium-sized enterprises in Ghana, Ethiopia, and Nigeria identify high taxation, bureaucratic licensing, and complex regulatory compliance as significant barriers to growth (Endris & Kassegn, 2022). The research indicates that government agencies such as SMEDAN (Nigeria), SEDA (South Africa), and GEA (Ghana) have implemented SME support schemes; however, their effectiveness is compromised by administrative bottlenecks (SMEDAN, 2023). In Nigeria and Ethiopia, numerous SMEs opt to remain informal to evade substantial tax liabilities and costs associated with bribery (Atlantic Council, 2025). Enhancing institutional transparency and minimizing regulatory obstacles must be prioritized in policy development.

Sustainability and Growth Potential of SMEs in the Long Term

This study affirms the significant contribution of SMEs to job creation and GDP growth; however, the long-term sustainability is still in question. The results indicate that numerous SMEs exhibit deficiencies in succession planning, encounter significant employee turnover, and confront restricted opportunities for expansion (GSS, 2018). Small and medium enterprises (SMEs) in Kenya and Ghana are increasingly implementing circular economy models by utilizing recyclable materials, renewable energy solutions, and sustainable supply chains (International Finance Corporation, 2019). Future research should evaluate the impact of environmental sustainability on the competitiveness of SMEs in global markets.

Table 2a: Summary of Country Cases

	Ethiopia	**Ghana**	**Kenya**
Definition	-Micro enterprises; less than 6 employees. -Small enterprises; 6 to 30 employees. -Medium-enterprise -31 to 100 employees.	-Micro- enterprises;1 to 5 employees. -Small enterprises; 6 to 29 employees. -Medium enterprises-30 to 100 employees.	Micro-enterprises; 1 to 9 employees; -Small enterprises; 10 to 49 employees; -Medium enterprises-50 to 99 employees
Nature	-Male-dominated (84%). -Mostly personal or family sources of start-up capital. -Products are mostly sold in the domestic market. -Mostly managed by owners -Mostly labour-intensive form of production	Male-dominated (62%). -Mostly personal or family sources of start-up capital. -Products are mostly sold in the domestic market. -Mostly managed by owners -Mostly labour-intensive and most businesses engage in trading, manufacturing and agricultural activities.	-Male-dominated -Mostly personal /family fund as start-up capital (71.9%). - Products are mostly sold in the domestic market. -Dominant form of business is sole-proprietorship. -Mostly labour-intensive -Service sector activities dominate. -Mostly engage in retail trading, motor trading, food and services.
Role in Economic Development	-Provides employment opportunities. -Contributes to the GDP growth of Ethiopia. -Source of revenue generation.	-Employs 71.4% of the total workforce - Contributes to 70% of GDP. -Forms 85% of businesses in Ghana. -Source of revenue generation	-Provides employment opportunities (14.9% in 2016). -Contributes to GDP growth of Kenya (33.8% in 2016). -Source of revenue generation.
Peculiar Challenges	-Limited access to finance -Limited market for products. -Health challenges -Insufficient supply of raw materials. -insufficient skilled labour.	-Lack of unique products. -Infrastructural constraints -Technological constraints -Lack of advertisement and market for products -Insufficient skilled labour -Regulatory constraints -High interest rate on loans	-Expensive regulatory climate -Higher taxation -Lack of access to finance -Infrastructural constraints

*Summary based on reports

Table 2b: Summary of Country Cases

	Nigeria	**South Africa**
Definition	Micro-enterprises; less than 10 employees; -Small enterprises;10 to 49 employees; -Medium enterprises-50 to 199 employees	Micro-enterprises; at most 2 employees; -Small enterprises;5 to 50 employees; -Medium enterprises-less than 200 employees
Nature	-Male-dominated (51.3%) -Mostly personal/family fund as start-up capital -Products are mostly sold in the domestic market. -Mostly labour-intensive. -Dominant economic activities are agriculture, accommodation, manufacturing, and trading	-Dominated by blacks (69%). -Mostly personal/family fund as start-up capital. -Products are mostly sold in the domestic market. -Mostly managed by owners -Mostly labour-intensive. - Most SMMEs engage in trading activities
Role in Economic Development	-Provides employment opportunities (86.3% of the total labour force in 2017). - Contributes to GDP growth of Nigeria (49.78% in 2017). -Source of revenue generation.	-Provides employment opportunities (55% of the total labour force). - Contributes to GDP growth of South Africa (42 % of GDP in 2018). -Source of revenue generation.
Peculiar Challenges	-Inability to access finance or credit facilities -lack of stable government plans -Obsolete technology - (business development services). -inaccessible market -Multiple taxations	-Lack of access to credit facilities -Inadequate infrastructural facilities -Discouraging labour laws -Lack of access to market -Lack of skilled employees

*Summary based on reports

Conclusion and Future Research Directions

Small and medium-sized enterprises (SMEs) are essential to Africa's economic development; however, they face significant structural, financial, technological, and regulatory obstacles that hinder their growth and competitive ability. This study enhances the current literature on SMEs by pinpointing significant policy gaps, technological opportunities, and trends in financial inclusion that necessitate additional investigation. In the future, collaboration among government agencies, private sector stakeholders, and international financial institutions is essential to minimize bureaucratic barriers, enhance digital infrastructure, and establish inclusive financial systems, thereby promoting the growth and sustainability of SMEs. Effective leveraging of policy reforms and technological advancements could enable Africa's SME sector to attain global competitiveness and foster inclusive economic development in the forthcoming decades.

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