

Table of Contents

Table of Contents	2
Foreword	3
Introduction	5
Overview of Nigerian Economy	7
Headline Survey Findings	9
Section 1: Business Demographics	12
Section 2: Business Environment	19
Section 3: Financial Structure	33
Section 4: Cost Structure and Challenges	47
Section 5: Future Outlook	51
Conclusion	60



Foreword



Ayo Bankole Akintujoye

CEO Caladium Consulting & Fedacash, Co-founder and Convener Caladium Lagos SME Bootcamp & SME community

In my 15 years of professional experience, I've had the privilege of working with top firms like KPMG, PwC, Phillips Consulting, and C2G Consulting (an SAP reseller). This gave me a firsthand view of the expertise and strategic planning that goes into managing large businesses and the profound impact these services can have on a company's growth trajectory.

However, one thing became painfully clear: these resources were mostly available to big corporations, businesses with the budgets to afford top-tier services. Meanwhile, small businesses—the backbone of our economy—often had to navigate their challenges without this support.

According to the Nigerian Bureau of Statistics, over 90% of small businesses fail within their first five years. While there are many reasons for this, one stands out—many small businesses lack proper business management and strategy. These companies were missing the very guidance that could help them succeed. This led me to ask myself: What if these SMEs had access to the same strategic insights the larger firms receive? Could it change their trajectory?

It was this question that led me to establish Caladium Consulting during my NYSC with one clear purpose: to provide support to businesses that couldn't afford traditional consulting services. For years, I offered these services alongside my full-time job, even subsidizing fees to make them more affordable. But despite these efforts, many SMEs still couldn't afford it. In 2018, I realized that a new approach was needed.



That year, I co-founded the Caladium Lagos SME Bootcamp with Oluwaseun 'Slim' Durojaiye. The goal was simple: to bridge the gap by offering practical guidance and resources to Nigerian SMEs through a free one-day event.

Seven years on, the Caladium Lagos Bootcamp has grown into a thriving SME community. It is no longer just a one-day event, but a multi-faceted initiative that has become a lifeline for thousands of Nigerian entrepreneurs. To date, we've empowered over 10,000 small business owners, providing soft grants, tools, and resources to manage cash flow, improve sales, build partnerships, and navigate the complexities of digital marketing. Our journey so far has highlighted an even deeper need - to provide reliable, accurate data reflecting the daily realities of Nigerian SMEs. We needed an honest snapshot of their challenges.

This led to the launch of the Caladium Nigerian SME Survey, conducted between September 3, 2024, and November 1, 2024. We gathered responses from 1,520 SMEs across various sectors, including manufacturing, retail, and agriculture. Our survey focused on critical areas like business demographics, financial challenges, and growth strategies laying the groundwork for a comprehensive look at Nigeria's SME landscape.

To further provide perspectives, we also conducted in-depth interviews with five industry leaders and policymakers. Their stories added valuable context, bringing practical insights and policy-level perspectives that highlight the real issues SMEs face. Through a blend of broad data and personal narratives, we aimed to create a resource that could genuinely serve policymakers, investors, and business owners.

I am incredibly grateful for the valuable contributions from amazing Founders and Entrepreneurs like Goke Balogun, CEO of So Fresh; Seyi Abolaji of Wilson's Lemonade, Abimbola Olamijulo of Zahar Beige Events, Aromire Oluwasegun of Aro Farms Limited, Feyisayo Alayande, the Executive Secretary of the Lagos State Employment Trust Fund (LSETF), and Oyindamola Egbeyemi, Director of Programs, LSETF. Their insights have greatly enriched this report, reflecting a shared commitment to advancing Nigerian SMFs.

There are many ways to interpret this data, but I hope that the Caladium Nigerian SME report becomes a practical guide for small business owners, researchers, policymakers, students, financiers and every other stakeholder looking to help SMEs make informed decisions and tackle challenges head-on. We also hope that policymakers and stakeholders recognize the critical needs identified and work with us to build an environment where SMEs can truly flourish. Our economy's future depends on the success of these businesses, and with the right support, they have the power to drive Nigeria forward.

Introduction

Nano, Micro, Small and Medium Enterprises (NMSMEs, often called MSMEs or SMEs) are the pulse of the economy. They contribute 49% to Nigeria's GDP and employ over 86% of its workforce. In every corner of Nigeria, these businesses showcase a unique resilience and drive. They are the unseen champions who, despite overwhelming odds, contribute daily to economic stability and growth. Recognizing the crucial role these businesses play, we at Caladium took on the task of developing The Nigerian SME Report. It aims to not only gather data but to truly capture the lived experiences of these entrepreneurs and the complex environment in which they operate.

This report goes beyond statistics to outline the very real, often daunting challenges Nigerian SMEs face.
Restricted access to finance, steep operational costs, and a regulatory landscape that can feel more like an obstacle than an enabler—these are not hypothetical issues. They are daily realities that dictate not just how these businesses operate today, but whether they will be here tomorrow. Each data point in this report reflects the struggles, adjustments, and triumphs of Nigerian entrepreneurs, grounded in their firsthand accounts.

The goal here is not simply to highlight the hurdles but to spark genuine dialogue around actionable solutions.

How do we bridge the financing gap? What policies will genuinely support SMEs rather than add to their burden? What can financial institutions do to make credit access a reality for more businesses? This report is our contribution to these essential discussions, offering insights designed to inform not just business owners, but also policymakers, financial institutions, and other stakeholders. Our ambition is to equip these decision-makers with a nuanced understanding of the SME landscape, insights that look past the numbers to the core needs of the people behind the businesses.

THE RESEARCH & EDITORIAL TEAM



Chetachukwu Odii



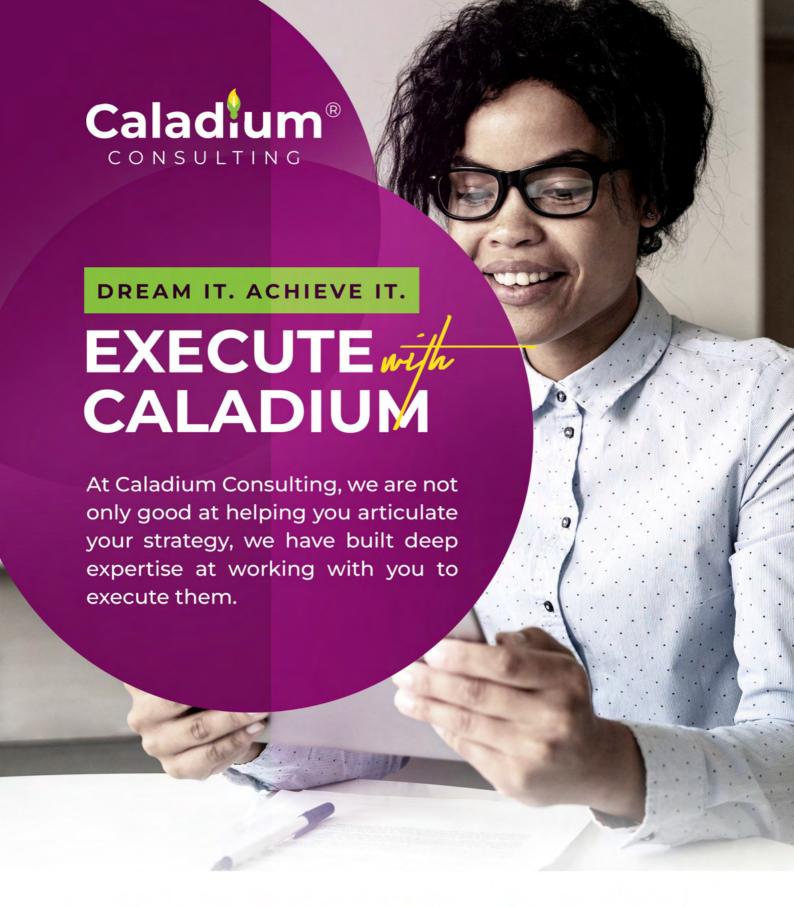
Gideon Adeoye



Michael Ayomide



Chioma Chinweze



Strategy Development | Strategy Execution | Process Transformation | Deals and Financial Advisory | Organizational Structuring | Governance and Risk Management.

enquiries@caladiumconsulting.com





Nigeria's economy stands at a critical point, balancing between gradual recovery and continuous structural challenges. Small and medium-sized enterprises (SMEs)—which comprise over 90% of Nigerian businesses and contribute nearly half (48%) of the GDP—face significant pressures from economic shifts and policy changes.



One of the economy's most persistent vulnerabilities is its reliance on oil for foreign exchange earnings, which, as of mid-2024, is priced at approximately \$70 per barrel. With oil accounting for about 80% of Nigeria's export revenue, fluctuations in global oil prices directly impact fiscal stability. This dependence highlights an urgent need for economic diversification, as seen in many countries striving to reduce their reliance on single-resource economies. Nigerian policymakers continue to emphasize sectors such as agriculture, technology, and renewable energy as strategic areas for growth, but realizing this shift requires substantial capital investment and policy reform.

Inflation remains a serious concern, currently surpassing 32%, primarily due to fuel subsidy removals. This change has significantly increased transport costs, which, in turn, drive up the prices of food and other essential goods, affecting both consumers and businesses. SMEs, which often operate on thin margins, are particularly vulnerable to these increases. Elevated operational costs place additional strains on business finances, and consumer purchasing power declines as prices rise, tightening the spending potential across multiple sectors.

Interest rates present further complications. In response to inflationary pressures, the Central Bank of Nigeria (CBN) has raised the benchmark rate to 27.25% this year 2024. This adjustment has made borrowing costs prohibitive for many SMEs that rely on credit to fund expansion and operations. While fintech solutions are creating new avenues for credit, traditional financing remains challenging to access. Increased support through grants, concessional loans, and risk-sharing schemes could play a critical role in providing SMEs with more affordable options.

Currency devaluation compounds these challenges. The naira has depreciated by roughly 82% in 2024, and over 300% since May 2023. This has raised costs for businesses reliant on imported goods and driven up costs generally. Unlike large corporations, SMEs have limited capacity to absorb such volatility, often forcing difficult decisions to either pass increased costs onto consumers or reduce profitability. Sustaining operations under these conditions is increasingly complex, underscoring the need for financial tools and strategies tailored to smaller enterprises.

As Nigeria moves forward, targeted efforts to support economic diversification, improve SME credit access, and promote resilient financial practices within the SME sector are crucial. Addressing these core issues could position the economy for sustainable growth, opening opportunities to reduce vulnerability to external shocks and enhance Nigeria's economic resilience.

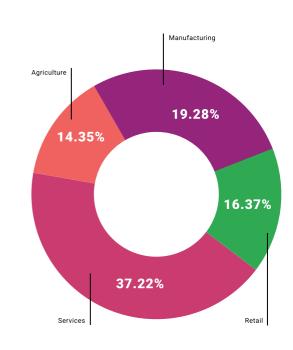


Headline Survey Findings

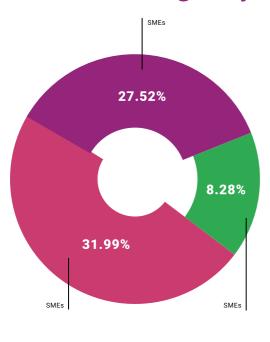
Sector Distribution

Sector Distribution: The services sector takes the lead among surveyed SMEs, comprising 37.22% of total responses, with significant contributions from information technology and financial services.

Manufacturing follows at 19.28%, despite challenges like high production costs and inconsistent power supply. Retail and agriculture sectors account for 16.37% and 14.35%, respectively, reflecting Nigeria's strong commerce culture and agribusiness potential.



Business Longevity

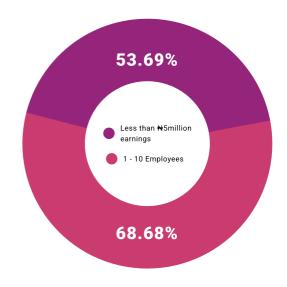


Business Longevity: A significant portion of SMEs (31.99%) have been operating for 1-3 years, a critical phase where many either evolve to growth stage or close down. 27.52% have surpassed the five-year mark, indicating possible stabilization, while only 8.28% have been in operation for over 10 years, highlighting high attrition rates in the early stages.

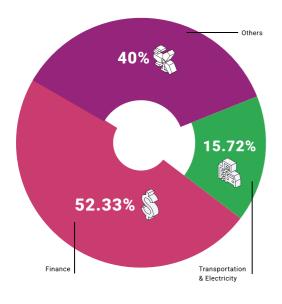


Workforce and Revenue

Workforce and Revenue: Most SMEs (68.68%) operate with small teams of 1-10 employees, reflecting limited hiring capacity due to tight cash flow. In terms of revenue, over half (53.69%) report annual earnings below №5 million, underscoring challenges in achieving profitability amidst high costs and limited access to affordable financing



Operational Challenges



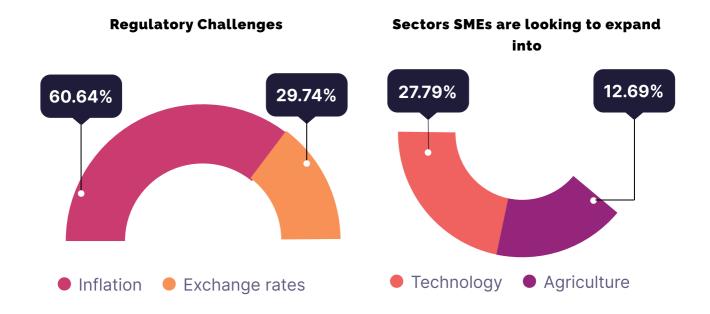
Operational Challenges: Access to finance remains a top barrier for 52.33% of SMEs, with high interest rates and limited funding options. Infrastructure issues, such as unreliable electricity and poor transportation, impact 15.72% of businesses, often consuming up to 40% of the overhead for power generation. Additionally, regulatory hurdles, including foreign exchange regulations and multiple taxation, further complicate the business environment.



Future Outlook

Future Outlook: Rising operational costs have led to profit reductions for many SMEs, with 32.07% reporting a 1-25% decline and 22.74% experiencing a 26-50% decline. Inflation is identified as the leading challenge by 60.64% of respondents, followed by exchange rate fluctuations (29.74%) and rising oil prices, all of which strain profit margins. Despite these challenges, SMEs are looking to expand into sectors like technology (27.79%) and agriculture (12.69%), aligning with Nigeria's focus on digital transformation and food security.

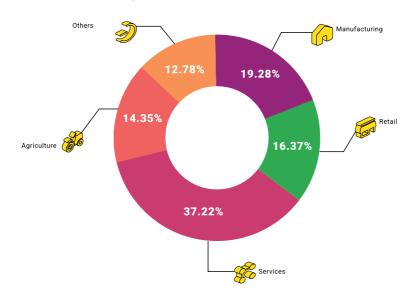






Section 1: Business Demographics

Business Sectors Represented



The survey shows the crucial role of Nigeria's services sector, with 37.22% of SMEs operating within it. This aligns with national data indicating that the services sector contributed 58.76% to Nigeria's GDP in the second quarter of 2024, growing by 3.79% year-on-year. Key areas such as information technology and financial services are significant contributors, reflecting the sector's critical role in the economy.

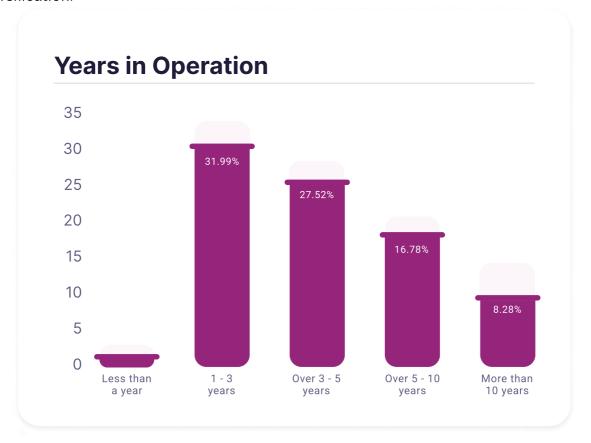
Manufacturing SMEs constitute 19.28% of respondents, demonstrating resilience despite challenges like high production costs and inconsistent power supply. Government initiatives, including the Nigerian Industrial Revolution Plan (NIRP), aim to bolster local production and support this sector's growth. The retail sector accounts for 16.37% of SMEs, underscoring Nigeria's dynamic commerce culture. Entrepreneurs are increasingly leveraging both online and offline platforms to meet consumer demand, contributing to the sector's expansion.

Agriculture represents 14.35% of SMEs, highlighting its importance in addressing food security and employment. Programs like the Anchor Borrowers' Program are instrumental in encouraging participation and investment in agribusiness.

The remaining 12.78% of SMEs operate in other sectors, showcasing the diversity of Nigeria's SME landscape. This includes industries such as creative arts and renewable energy, contributing to the economy's richness and variety



These findings underscore the need for balanced development across sectors to ensure sustainable economic growth. While the services sector is a significant driver, enhancing manufacturing and agricultural capacities is crucial for long-term stability and diversification.

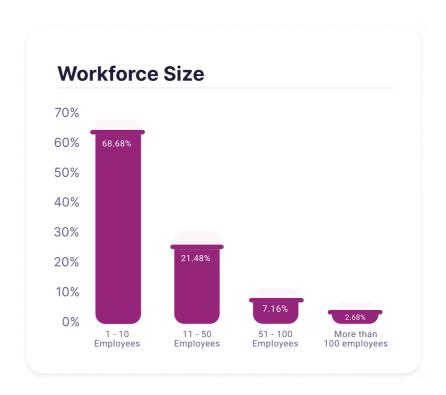


The survey reveals that Nigerian Small and Medium Enterprises (SMEs) are predominantly young, with 31.99% operating within the critical 1-3 year phase. This period is often marked by rapid growth or potential closure. Data from the Corporate Affairs Commission (CAC) indicates that approximately 20% of new businesses fail within the first two years, 45% by the fifth year, and 65% within ten years. This suggests that nearly half of Nigerian businesses do not survive beyond five years. However, the survey also shows that 27.52% of SMEs have been operating for 3-5 years, indicating that a significant number are overcoming early challenges and achieving stability.

At the mid-level, 16.78% of businesses have operated for 5-10 years, representing a more established group with firm foundations. Meanwhile, 8.28% have surpassed the 10-year milestone, often benefiting from niche expertise, innovation, or strategic expansion, securing their place in the market.



Despite the youthful nature of Nigerian SMEs, they demonstrate strong resilience. To improve survival rates within the critical first five years, structured support systems are essential—particularly in funding access, mentorship, and supportive regulatory policies.



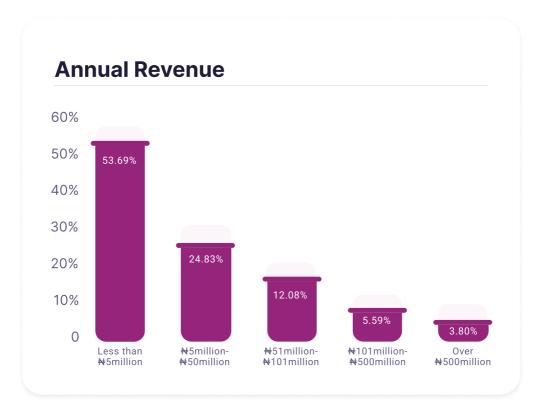
The survey reveals that Nigerian Small and Medium Enterprises (SMEs) predominantly operate with small teams. Specifically, 68.68% of these businesses have between 1 to 10 employees, aligning with data from the National Bureau of Statistics, which indicates that 96.9% of Nigerian businesses are classified as micro-enterprises. This suggests that most SMEs maintain lean operations, likely due to limited cash flow and the high costs associated with hiring skilled labor in Nigeria.

A smaller segment, 21.48%, comprises businesses employing 11 to 50 individuals, indicating some SMEs are successfully scaling their operations. However, only 7.16% have workforces ranging from 51 to 100 employees, and a mere 2.68% employ more than 100 people. This disparity highlights the challenges SMEs face in expanding their workforce and transitioning into medium-sized enterprises.

The limited workforce within SMEs may affect their scalability and capacity to handle larger projects. Nonetheless, it also showcases the adaptability and resourcefulness of Nigerian entrepreneurs, who often assume multiple roles to sustain their businesses. This multifaceted approach enables them to navigate financial constraints and operational challenges effectively.



Addressing the obstacles that hinder workforce expansion—such as access to affordable financing, skill development, and supportive regulatory frameworks—could enhance the growth potential of SMEs.



Revenue serves as a key indicator of business success, and the survey data sheds light on the financial challenges and achievements of Nigerian SMEs. More than 53.69% of these businesses report annual revenue of less than \(\frac{\text{N}}{5} \) million.

On a brighter note, 24.83% report revenues between \(\text{\text{\text{\text{9}}}}\) million and \(\text{\ti}\text{\texict{\texi\text{\texi}\text{\text{\text{\text{\text{\texi}\text{\text{\text{\text{\texi}\text{\texi{\texi\text{\text{\texi}\text{\texi{\texi{\texi}\titt{\texi{\texi{\texi{\texi that some SMEs are effectively managing their growth challenges. As revenue brackets rise, however, the number of businesses generating between N51 million and N100 million drops to 12.08%, with only 5.59% reporting annual earnings between ₩101 million and ₩500 million. At the top, only 3.80% of Nigerian SMEs earn over ₩500 million annually.

This revenue spread reveals that while most Nigerian SMEs remain in lower revenue brackets, a notable segment has found ways to scale and achieve significant growth. For many SMEs, the focus is on transitioning from survival to scalable, sustainable growth.



Final Thoughts

The survey highlights that while Nigerian SMEs are diverse and growing, they face persistent challenges, particularly in scalability, access to capital, and workforce expansion. However, the resilience seen in the services, retail, and agriculture sectors, combined with government interventions and private sector partnerships, offers hope for continued growth. With strategic support and a focus on long-term sustainability, Nigeria's SME sector holds immense potential to drive the country's economic transformation.





Aro Farms Limited

How has rising input costs like fertilizers and seeds impacted your profits, and what steps have you taken to manage these expenses effectively?

Rising input costs, especially for essentials like fertilizers, seeds, and Premium Motor Spirit (PMS) to power our irrigation system, have significantly impacted our profit margin. Our host community, Ito-Omu, has never been connected to the national power grid, so we rely on PMS to run our irrigation system and machinery, which adds to our expenses. To manage these costs, we buy seeds and fertilizers in bulk to shield ourselves from inflation and fluctuating prices. We've also implemented sustainable farming practices, such as crop rotation, composting, and integrated pest management, to boost crop performance. Additionally, we negotiate prices with suppliers and explore alternative products to ensure we are optimizing costs.

What barriers do you face in getting your products to market, and what approaches are you using to expand your distribution reach?

Ito-Omu is a rural community in Lagos accessible only through the Badore waterways, which makes logistics challenging and costly, contributing to 30% of our monthly distribution expenses.



To overcome this, we have joined networks like Caladium SME Community to showcase our farm and products, which helped our sweetcorn gain popularity and created demand for our fresh vegetables like habanero peppers, bell peppers, cucumbers, and cabbage. We also use social media platforms—WhatsApp, Instagram, and Facebook—to enhance brand visibility and build relationships with wholesale buyers and restaurants.

Has adopting new technologies helped you tackle daily farm challenges? If so, which tools or methods have made the most difference?

Adoption of new technologies has been transformative for our farm operations. In the early days, we manually moved hoses and sprinklers across the farm to water crops, which was time-consuming, laborintensive, and led to water wastage and weed growth. With no access to the power grid, this setup also consumed a lot of PMS. Implementation of a drip irrigation system and mulching techniques has been a game changer. It has helped us reduce water and PMS usage, conserve soil moisture, and improve crop quality all while saving on labor costs.

How have unpredictable weather conditions and climate shifts affected your production, and what adjustments have helped you manage these risks?

Unpredictable weather has affected our farm operations, from delayed planting seasons to waterlogged fields during heavy rains.

To adapt, we have diversified our crops and staggered planting times, which reduces the risk of losing entire harvests due to sudden weather changes. By monitoring weather patterns and applying mulching, we are also better able to manage soil moisture and protect plants during dry spells.

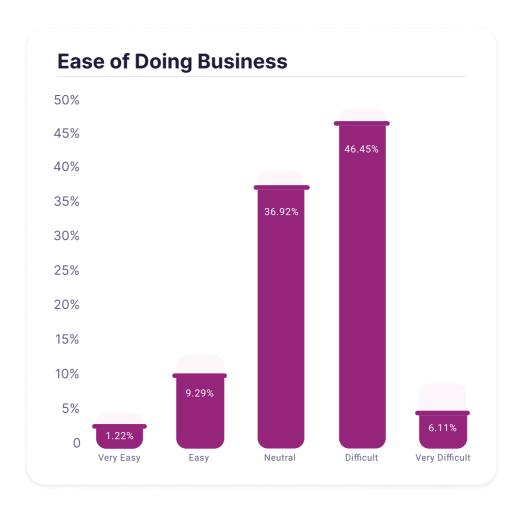
What financing options have you been able to access for growth, and are there specific gaps in support that, if filled, would make scaling your operations easier?

We have accessed financing through Caladium Lagos SME Bootcamp pitch and the Game of Business grant competition, where Aro Farms earned the first and second positions respectively. Recently, we have purchased some inputs at subsidized rates through government support. However, certain gaps remain. We need funds for solar panels and pumps to power our irrigation system, which would eliminate our reliance on PMS, reduce our carbon footprint, and boost profitability. We also need eco-friendly storage and transportation options to streamline distribution and delivery, as well as affordable, long-term financing to scale our operations, increase efficiency, create jobs, and enhance resilience.





Section 2: Business Environment



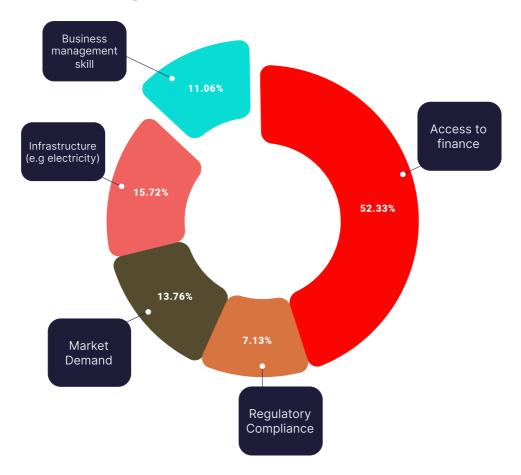
The reality of doing business in Nigeria remains challenging, and the data confirms it.A striking 46.45% of respondents rated the business environment as difficult, while another 6.11% described it as very difficult. This aligns with the World Bank's 2024 Ease of Doing Business report, which ranked Nigeria 131st out of 190 countries. The ranking highlights persistent infrastructure issues, regulatory complexities, and inconsistent government policies.

The responses show that a small fraction, 1.22%, found the business environment to be very easy, with 9.29% rating it as easy, while the rest (36.92%) were on the fence, calling it neutral. This mix of sentiments reveals the complexities of doing business in Nigeria.

Despite efforts by the government to improve the ease of doing business, such as the Presidential Enabling Business Environment Council (PEBEC), these initiatives do not reach many SMEs, as the majority still face significant challenges.



Factors Affecting Business Growth



When asked about the most pressing factors affecting business growth, 52.33% of respondents cited access to finance as the most significant barrier. This reflects a persistent issue in the Nigerian business ecosystem—access to affordable and timely financing. Despite numerous interventions from bodies like the Central Bank of Nigeria (CBN) and other financial institutions such as the Lagos State Employment Trust Fund (LSETF), the Bank of Industry (BOI), the Development Bank of Nigeria (DBN), and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), the funding gap for SMEs remains wide.

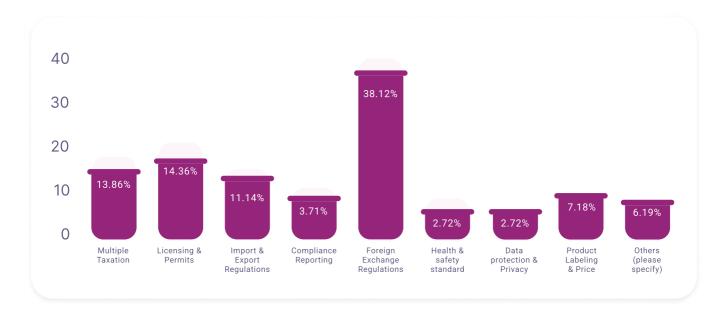
Beyond finance, infrastructure issues, such as unreliable electricity and poor transportation, affect 15.72% of SMEs, further limiting their ability to scale and grow sustainably. This is a familiar story in Nigeria—businesses spend up to 40% of their overhead on diesel and other forms of backup power. The problem with market demand also comes into play, as 13.76% identified market demand as a key growth challenge. When the economy contracts or purchasing power diminishes due to high inflation, SMEs suffer directly from reduced sales.



Interestingly, only 7.13% cited regulatory compliance as a significant growth challenge, which may imply that while Nigeria's regulatory environment is tough, it is not the most critical issue SMEs face—access to resources trumps compliance hurdles.

Lastly, 11.06% of respondents identified a lack of business management skills as a major constraint. This highlights the critical need for capacity building within the SME sector. While many entrepreneurs are ambitious and driven, some lack the managerial expertise necessary to navigate the complexities of modern business—ranging from scaling operations to effectively managing finances.

Regulatory Challenges Impacting Business



The regulatory environment in Nigeria remains a sore point for many SMEs, and the survey data reflects this. The most significant issue reported by 38.12% of respondents is foreign exchange regulations. With the naira's continued depreciation and a shortage of foreign exchange, many SMEs struggle to import essential goods or raw materials. This hinders their ability to scale production and meet demand, ultimately limiting their growth potential.

Following closely behind, 14.36% of businesses pointed to challenges with licensing and permits. The bureaucratic nature of obtaining the necessary permits or licenses can slow down business operations, leading to missed opportunities and stunted growth.



Multiple taxation, cited by 13.86%, is another major concern. Many SMEs are burdened with taxes at the local, state, and federal levels, which erodes their profits and raises the cost of doing business. Despite a tax-to-GDP ratio of only 6% the government has been under pressure to increase tax compliance, but for SMEs, the additional taxes without corresponding benefits make it harder to sustain their businesses.

Interestingly, import/export regulations were a significant challenge for 11.14% of respondents, signaling the difficulties Nigerian SMEs face when trying to participate in international trade. With increasing focus on positioning Nigeria as a hub for AfCFTA (African Continental Free Trade Area), this is a critical issue that needs to be addressed.

The low percentage of businesses affected by compliance reporting (3.71%) and health and safety standards (2.72%) suggest that these are not the immediate pain points for most SMEs. However, as more businesses enter regulated sectors, these could become a more prominent issue.

Overall, Nigeria's regulatory landscape remains challenging for SMEs, particularly regarding foreign exchange, licensing, and multiple taxation. Addressing these issues is key to unlocking growth in the SME sector.

Final Thoughts

The data from this survey presents a clear picture—while Nigerian SMEs are resilient, they continue to face significant hurdles that limits their growth potential. From access to finance, infrastructure challenges, or regulatory bottlenecks, the need for comprehensive solutions is evident. The government, financial institutions, and private sector players must collaborate to create a more conducive environment for SMEs to thrive. After all, when SMEs succeed, the economy prospers.





Interview with Mohammed Etsu, Executive Chairman, Niger State Internal Revenue (NGIRS)



What measures are in place to help SMEs understand and comply with tax regulations, especially for those with limited resources for financial management?

To help SMEs comply with tax regulations, particularly those with limited financial resources, the Niger State Internal Revenue Service, under the directive of Governor Mohammed Umaru Bago, offers extensive resources. This includes sponsoring tax education seminars and workshops, an initiative supported under our Corporate Social Responsibility (CSR) efforts. When small businesses face challenges organizing these programs, we step in to provide these educational sessions. Dedicated SME desks are available for inquiries, and we have simplified tax returns and created an accessible online filing system, especially for rural areas. Additionally, we collaborate with various business associations, including the Niger State agency for MSMEs and local chambers of commerce, to ensure broad-reaching support for SME tax compliance.

Are there any recent tax policies addressing the challenges posed by inflation and exchange rate fluctuations?

To address the financial pressures caused by inflation and exchange rate shifts, we have eased the enforcement of tax collections. Since SMEs are particularly vulnerable to these economic pressures, we have reduced penalties and interest on overdue taxes and introduced relief programs for small businesses to help them stay afloat. While federal-level reforms also support easing these burdens, at the state level, and under Governor Bago's leadership, we have taken proactive steps, such as postponements in tax collection processes and various concessions, to help SMEs handle these economic challenges effectively.

Do you offer any tax relief or flexible options for businesses with overdue payments?

For businesses with outstanding tax obligations, like a debt of 100 million, we provide payment plans tailored to their capacity. Our goal is to prevent such businesses from facing financial ruin due to their tax liabilities, so we collaborate to set a suitable schedule for payments. Under the governor's directive, we also waive or reduce overdue interest and penalties in cases of severe financial difficulty, offering full or partial relief where it is genuinely necessary, particularly when the SME's operations might otherwise be compromised.

How is the tax authority collaborating with financial institutions to make formal lending more accessible for SMEs, considering their heavy reliance on informal credit sources?

While SME lending is primarily under the MSME agency's purview, we play a role by supporting microfinance institutions in distress. Under approval from Governor Mohammed Umaru Bago, we have been empowered to acquire stakes in struggling microfinance banks.

and we have received approval from the state government to acquire stakes in struggling microfinance banks. This move ensures the stability of these institutions and provides SMEs with a more reliable source of formal lending. We also offer incentives to lenders who approach us for support with their lending programs and help them with accessible credit options for SMEs across the state.

What are the unique challenges faced by SMEs in less populated areas like Niger State compared to larger regions like Lagos, Abuja, and Kano, and are there policies to address these specific challenges?

Unlike the robust economies in places like Lagos, Abuja, and Kano, Niger State's economic base is largely agricultural, owing to its vast arable land. Under Governor Bago's vision for inclusive economic growth, we introduced a presumptive tax regime specifically for smaller businesses here, categorizing them by sector and business size to ensure taxes remain manageable. This regime minimizes the tax burden and supports local economic growth. Local offices were established across the state to make tax services more accessible, allowing SMEs to manage taxes without extensive travel. Additionally, mobile payment systems and capacity-building initiatives were launched to help SMEs navigate the tax system and position themselves for future growth.

In light of recent economic pressures, do you think existing tax policies effectively support SME growth, and are there further adjustments that could foster resilience and profitability?



25

National tax reforms provide a critical foundation for small businesses, including exemptions under the 2020 Finance Act for businesses with turnovers below 20 million. However, state-specific measures implemented under Governor Bago's leadership are also crucial. These include empowering smaller businesses to organize into cooperatives and align with larger ventures, helping them build resilience. Such collaborative models strengthen SMEs, enabling them to grow and adapt despite inflation and currency pressures that strain businesses across all sectors.





Wilson Lemonade

How has rising operational costs, especially for ingredients and packaging, affected your business, and what solutions have you explored?

We've responded to rising costs by establishing a detailed cost-control system, focusing on reducing waste in all areas of production. This involves streamlining operations and managing our equipment effectively to ensure efficiency. Additionally, we've implemented a shared services platform to manage certain expenses, like logistics, by partnering with other brands to distribute multiple products in one go

What external factors, such as market trends or regulatory changes, have affected your business model, and how have you adapted?

Regulatory changes, especially with excise duties on carbonated drinks, have significantly impacted us. This new tax on production, not sales, means we're more selective about what we produce based on demand. By aligning production with actual demand, we avoid additional excise taxes on unsold inventory.





How do you manage cash flow during periods of low sales or increased costs, and what financial strategies keep your operations running smoothly?

Our team operates with clear objectives, where everyone understands their contributions to profitability. We follow a disciplined cash management approach inspired by "Profit First," saving a portion of revenue to maintain stability. We also prioritize partnerships with clients who pay promptly, reducing the need for extensive accounts receivable management.

What strategies have helped you grow your customer base, and how do you maintain loyalty in a competitive market?

Our focus has shifted to client quality over quantity. Through regular 80/20 and 90/10 analyses, we identify and prioritize clients who contribute the most to our revenue. This approach has allowed us to strengthen relationships with a smaller client base that communicates well and pays on time, rather than spreading resources thin across thousands of accounts.

How have you integrated technology into your production and distribution processes?

We prioritize technology that enhances human productivity without reducing our workforce. On the distribution side, we've developed a shared services platform that aggregates orders and assigns deliveries efficiently. This platform helps us optimize delivery routes and load capacities across multiple clients, ensuring timely and costeffective distribution.

What actions keep your business competitive in the industry, and how do you differentiate from competitors?

We focus on self-improvement rather than competitor analysis. Our goal is to operate profitably without relying on external funding. This self-funded model encourages us to maximize efficiency and focus on valuable relationships rather than merely increasing market share. Our approach emphasizes value creation and sustainable growth over aggressive expansion.



What operational challenges do you encounter in managing resources like staff time and inventory, and how do you optimize these to keep operations smooth?

Our hiring process is selective, focusing on individuals with internal drive and leadership skills. We emphasize productivity by clearly defining goals and objectives, so everyone knows what success looks like in their role. Our system includes consistent productivity tracking across all departments, ensuring everyone is aligned on organizational goals and efficiency.

How have you responded to broader economic challenges like inflation and exchange rates, and what impact have they had on profitability and pricing?

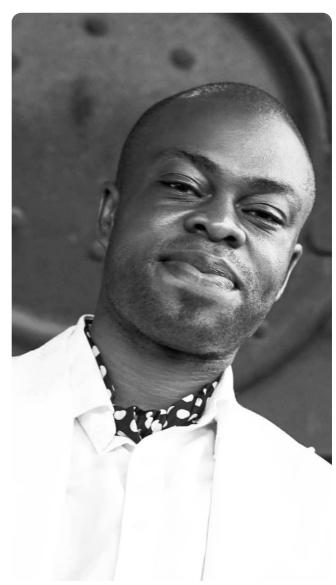
We've streamlined our reporting to quickly respond to cost changes, reviewing costs on a weekly basis to identify areas where we can increase efficiency. If necessary, we adjust prices to maintain profitability. However, our first response is always improving internal efficiencies. Our pricing strategy is focused on adding value to specific clients rather than competing solely on price.

What strategies have you employed to retain a competitive edge, and how do you continue to deliver value to your target clients?

We're selective about our clientele, aiming to serve clients who value our partnership and are willing to pay for the quality we deliver. Our focus is on doing high-quality work with the right clients rather than expanding rapidly. This allows us to maintain a sustainable business model and provide consistent value.

In the next five years, what are your goals for mobile sales and distribution channels?

We aim to reverse the current model, where 95-97% of sales are through a single channel, aiming for a more balanced distribution. We're working to achieve a setup where 80% of our sales are supported by three main distributors, with us retaining control over the remaining modern channels. This strategy will help us increase reach, margins, and overall coverage, particularly as we expand internationally.







What are the primary growth objectives for SoFreshNG over the next five years, and what strategies are critical to achieving them?

Our primary growth objectives for the next five years include expanding our physical store network by over 30 outlets to meet increasing demand, as well as launching a franchise model to scale efficiently across Nigeria and beyond. To extend our reach further, we aim to enhance our e-commerce and delivery capabilities, making it easier for people to access fresh, healthy food wherever they are.

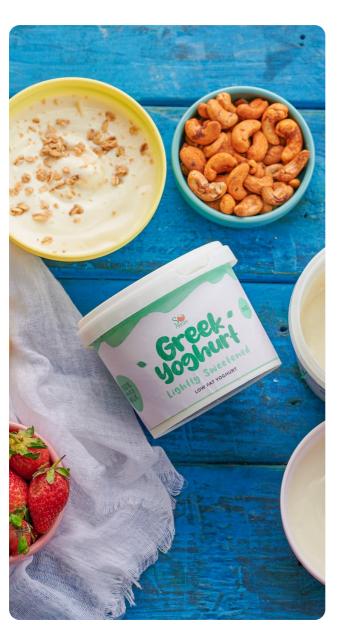
A major part of our strategy is also educational: inspiring and educating Africans on the importance of a healthy lifestyle by promoting the benefits of wholesome eating habits and reinforcing the role of nutrition in daily life. This multi-channel approach will be critical in positioning SoFresh as a go-to brand for healthy, convenient options.

How has SoFreshNG adapted to rising costs of raw materials and operational expenses, especially in the current economic climate?

With inflation and rising operational expenses, we've focused on sourcing locally to reduce foreign exchange impacts and ensure a more stable supply chain. Energy efficiency has also become a priority, leading us to invest in equipment with lower power requirements to help cut down on electricity costs.

30

We buy in bulk where feasible to reduce costs associated with frequent purchasing and logistics, and we've explored partnerships with alternative service providers, especially on our tech platforms, to find more cost-effective solutions. Additionally, we've had to make price adjustments to align with market realities while still prioritizing value for our customers.



What external factors (e.g., supply chain issues, regulatory changes) have influenced SoFreshNG's business decisions, and how have you navigated them?

Since the onset of COVID-19, we've encountered multiple disruptions, which prompted us to revamp our supply chain. We've diversified by adding multiple suppliers, enabling us to negotiate favorable terms and maintain consistent supply. Additionally, we've leveraged supplier credit to support operational flexibility in unpredictable periods.

We're closely monitoring regulatory changes and market shifts, adopting strategies that allow us to adapt quickly while maintaining quality and service standards.

What challenges have you faced in securing funding for SoFreshNG, and what funding sources or strategies have been most successful?

Our most successful funding has come from equity financing, primarily through investments from three foreign organizations that believe in SoFresh's mission and potential. They've provided critical support for scaling. Locally, funding has been more challenging due to longer ROI timelines in retail, especially for physical outlets. We continue to engage with investors who align with our long-term vision and understand the value of sustainable, gradual growth in this sector.



How do you manage your cash flow, particularly during periods of financial strain, and what steps have helped avoid liquidity issues?

Maintaining cash flow in challenging times requires lean operations and disciplined financial management. We critically and brutally assess every expense, prioritizing essential spending only and scrutinizing resource allocation.

For example, we recently reduced ERP user licenses from 100 to 60, which led to substantial savings while retaining core functionality. Regularly reviewing our financials and adjusting quickly as needed helps us sustain a strong cash position and avoid liquidity challenges.



What specific strategies have been effective in growing SoFreshNG's customer base, and how have you retained long-term clients?

We've built a loyal customer base by focusing on product quality, friendly and efficient service, and consistently delivering on our freshness and nutrition promise. By engaging customers through educational content and supporting healthy living goals, we create a community around wellness that resonates with our clients. Our emphasis on convenience and accessibility, along with transparent communication, further supports strong, lasting customer relationships.

How has technology impacted SoFreshNG's production, distribution, or customer engagement processes, and which tools have proven most beneficial?

Technology has been the backbone of our growth strategy. From social media being very crucial for building our brand and engaging with customers, while ecommerce now accounts for roughly 30% of our business. Our ERP system integrates operations from HR to sales, offering a unified view of business functions. This not only optimizes efficiency but also aids decision-making, providing the data we need to refine operations and improve the customer experience.

How do you allocate capital efficiently across various aspects of your business (e.g., production, marketing, expansion), and how do you measure ROI?



Efficient capital allocation is a data-driven process for us. We develop a detailed yearly budget based on sales forecasts, cost of goods, and anticipated marketing expenses. Each aspect of the business is evaluated on its potential ROI and alignment with broader business objectives. Throughout the year, we track metrics to assess performance, allowing us to adjust allocations as market conditions change.

What are the biggest operational challenges SoFreshNG faces in terms of staffing, inventory management, or supply chain logistics, and how have you addressed them?

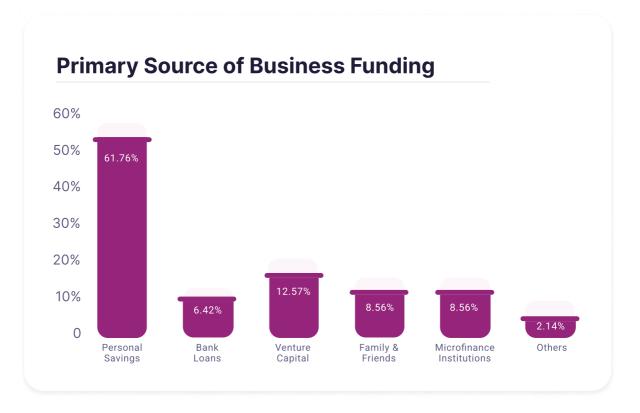
Staffing is a significant challenge in retail, where attrition, theft, and retention are constant concerns. Our approach is built around strict HR protocols and clear processes, which help in recruiting, engaging, and retaining top talent. For inventory and supply chain logistics, consistent processes and dependable supplier relationships are key to minimizing disruptions and maintaining stock levels.

How do you stay competitive in the healthy food sector, especially as new businesses enter the market? What differentiates SoFreshNG from its competitors? As a pioneer in Nigeria's healthy food sector, SoFresh has a 15-year history of setting and maintaining high standards. Our differentiation lies in our commitment to quality, our understanding of customer needs, and our passionate team dedicated to customer satisfaction. Unlike many competitors, we are deeply invested in promoting health and wellness, making SoFresh synonymous with freshness, nutrition, and reliability. We prioritize customer needs and are committed to fostering a lasting impact on the healthy living movement in Africa.





Section 3: Financial Structure



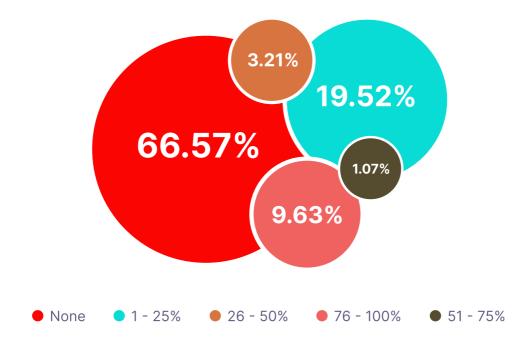
It's no surprise that the majority of SMEs in Nigeria rely heavily on personal savings as their main source of funding. The survey shows that 61.76% of businesses depend on personal savings to stay afloat. This reflects the harsh reality of limited access to external funding for many entrepreneurs. With traditional banks tightening their lending criteria, and high interest rates creating more challenges, most business owners are left to bootstrap their ventures.

Interestingly, venture capital accounted for 12.57% of business funding sources, suggesting a growing interest from investors in the Nigerian SME sector. However, this indicates that while VC funding is on the rise, it's not yet a mainstream option for most Nigerian businesses.

Family and friends, along with microfinance institutions, each account for 8.56% of the funding pool, underscoring the ongoing importance of informal sources and smaller financial institutions in bridging the funding gap. Bank loans, which make up only 6.42%, further highlight the hurdles SMEs face when seeking capital from formal financial institutions.



External Financing Contribution

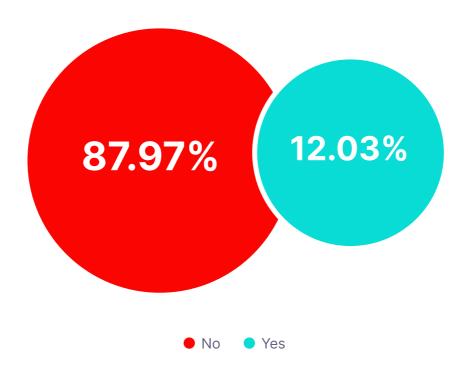


When looking at the percentage of external financing, the results are telling: that 66.57% of respondents reported that they receive no external funding at all. This substantial percentage underscores the difficulty SMEs face in accessing loans or investments. reinforcing the earlier data on personal savings as the primary funding source.

A small group, 19.52%, relies on external sources for 1-25% of their funding, while an even smaller group still (9.63%) use external funds for 26-50% of their business operations. Only 1.07% of SMEs report that their entire business financing (76-100%) comes from external sources. This suggests that while there is some degree of external financing, it is far from being a primary contributor for the majority of businesses.



Access to Government or International Funding

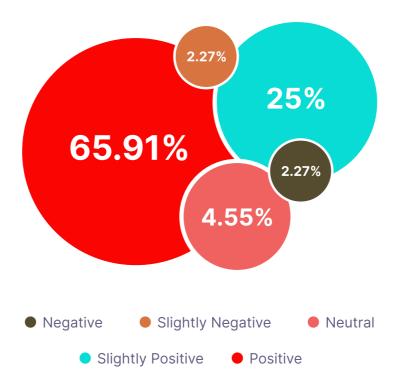


Despite various government initiatives and international funding programs targeted at SMEs, only 12.03% of respondents have access to such programs. The overwhelming majority—87.97%—do not. This raises questions about the reach and effectiveness of these initiatives. Are they difficult to access? Or are businesses unaware of them?

It's evident that, despite efforts to support SMEs, the execution or accessibility of these initiatives falls short, especially when more than 87% of businesses still operate without any government or international support.



Impact of Government and International Funding

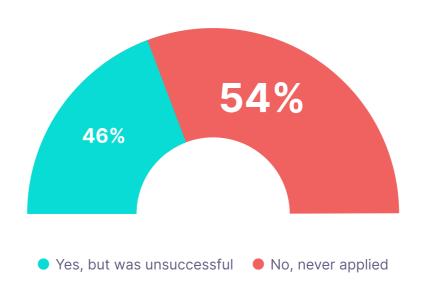


Among SMEs that received government or international funding, 65.91% reported a positive impact on their business, and 25% found the impact to be slightly positive. This demonstrates that when such funding does reach SMEs, it has a notably beneficial effect.

However, a small number of outliers expressed mixed feelings: 4.55% felt neutral about the impact, while 2.27% each reported a negative or slightly negative effect. Although these negative responses are minimal, they point to potential issues in how these funds are administered or utilized by businesses.



Applying for Government or International Funding



Finally, the data shows a clear split in previous applications for government or international funding: 45.99% of respondents applied but were unsuccessful, while 54.01% never applied at all. The large percentage of failed applications could reflect the cumbersome and often complex application processes that discourage many SMEs from even trying to apply.

It begs the question: Are these programs truly designed with SMEs in mind, or is there a disconnect between the policy intent and real-world execution?

Final Thoughts

The data confirms what many already know—Nigerian SMEs are remarkably self-reliant and resilient, often relying on personal savings, family, or informal networks for funding. However, this model is not sustainable in the long term. More must be done to improve access to formal financing channels, whether through government programs, microfinance, or venture capital. The Nigerian economy depends on the growth of its SMEs, but without adequate funding, their growth potential will remain stunted.

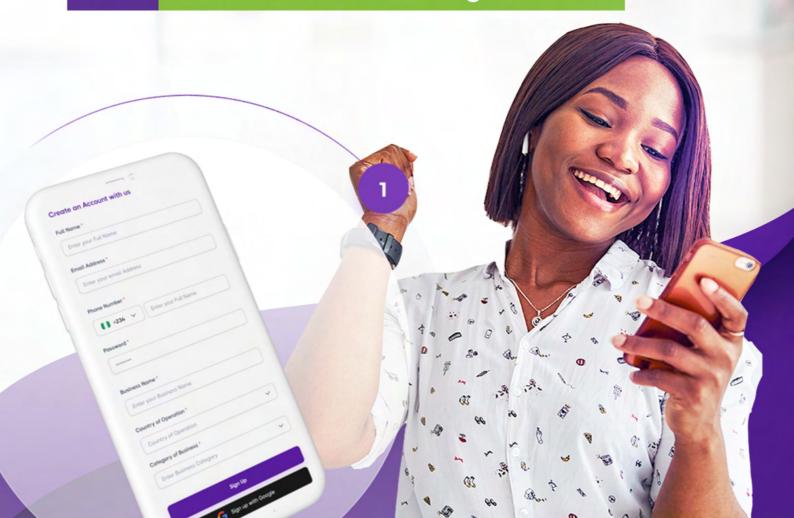


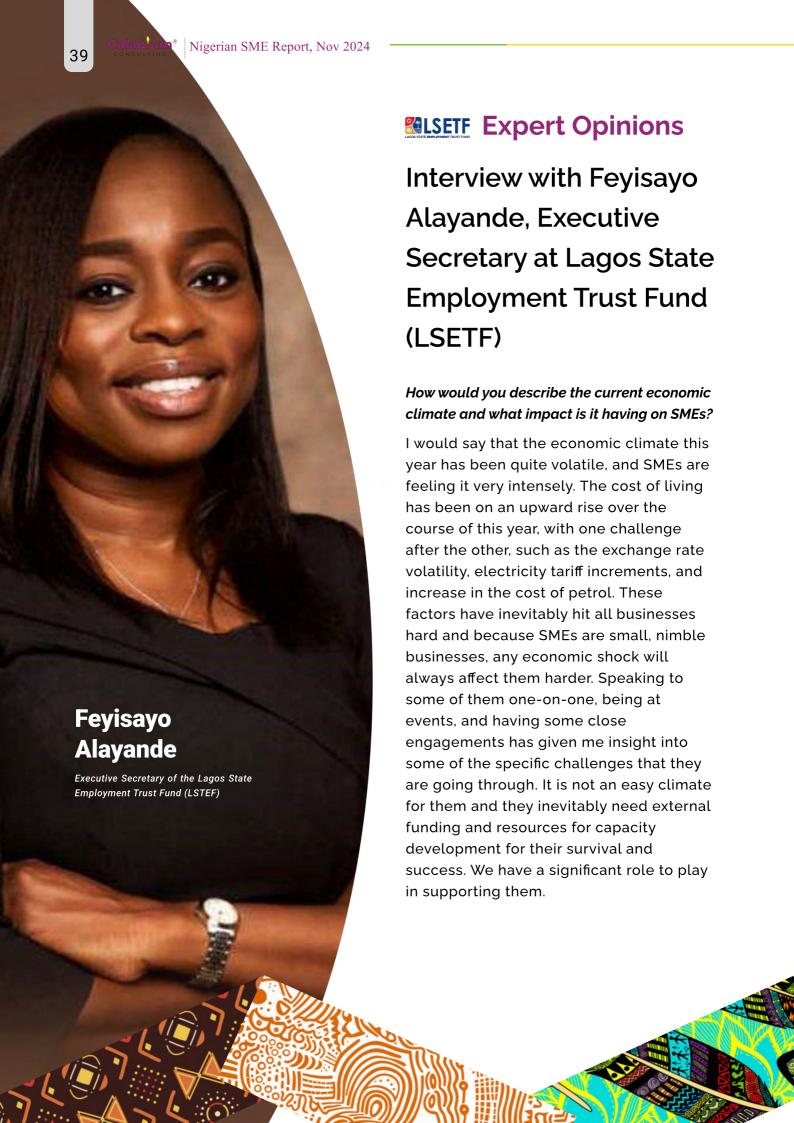


Free Invoicing Tool for SMEs

- Join cooperatives with friends and other SMEs and access up to 3x your savings in loans
- Sell your invoices and reduce your receivable days to give you better cashflow.

Visit www.fedacash.com to get started.





What are the most significant challenges you've seen SMEs going through in recent years?

One major challenge is formalization. Some businesses may have access to funding and certain resources, but in terms of capacity building and understanding what it takes to become more sustainable and last beyond a generation—or to become a business that doesn't need its owner every day—this is a challenge that many SMEs face. It's about putting structures in place so that the business works for them, and they don't have to work for the business.

How is LSETF helping SMEs overcome these challenges and position themselves for growth?

Our flagship program, the Access to Finance program, provides MSME loans with a low interest rate of 9% per annum—this is often the first service that brings people to LSETF. These loans are accessible because we don't require collateral. The main requirements include a Lagos ID, LIRS registration, and a few other basic documents, depending on the specific loan amount.

In addition to financing, we support SMEs through several other initiatives: Capacity Building equips them with essential business skills, Access to Market helps them connect with potential buyers, and our Business Support Unit provides resources and advisory services for businesses at every stage of development. We also have a hub model, a programme very dear to me due to the high potential for scale and connection of clusters of SMEs with common trades and skills through the provision of infrastructure such as building, equipment, machinery, electricity and possibly even logistics.



I am very proud to mention here that one of our partners in the wellness sector, Oriki just launched the first hubs of its kind in Africa on October 25th.

Lastly, our Lagos Innovates Programme fosters innovation and supports tech startups, creating a robust ecosystem that enables "techpreneurs" to grow and thrive, not just in Lagos or Africa, but on a global scale.

Do you think SMEs have adequate understanding or awareness regarding these programs? Do they know how they can access them? How would you measure the reach or awareness of SMEs about these programs, and what should SMEs do to become more informed?



As the Lagos State Employment Trust Fund, we hold the responsibility to be accessible to anyone in Lagos State seeking to improve their employability or business skills. We are working hard on our communication strategies. Currently, we have a physical presence in all 20 local government areas and six LCDAs (Local Council Development Areas) in Lagos State, as well as an office at the Ministry of Wealth Creation and Employment. We are reachable both physically and online. However, there's always room for improvement and to keep up momentum in communicating our programs' availability. People must know they have a place to go if they need support, whether it's directly through us or by redirecting them to other relevant resources. That's the role we play at LSETF.

Are there any specific sectors or industries that SMEs should focus on if they want to drive export growth or diversification?

Each year, we conduct a Needs Assessment, which helps us gather insights through a combination of primary and secondary research. It yields a comprehensive report that guides where job opportunities and market demands lie. This year, our concept note for the Needs Assessment highlighted Agriculture and Agro-Processing, Trade, Construction, Financial and Business Services and Manufacturing as sectors to focus on. It is however important to note that, not everyone is necessarily suited to a specific sector just because it's currently booming. Entrepreneurs must understand their unique skill sets, strengths, and available resources before deciding on a business direction. For instance, just because agriculture has significant growth potential doesn't mean someone with a passion and skill set for fashion should pivot to agriculture. Awareness of market dynamics is essential but aligning them with personal and professional strengths is equally important.



Expert Opinions

Interview with Oyindamola Egbeyemi, Director of Programs, at Lagos State Employment

Trust Fund (LSETF)

How is LSETF helping SMEs overcome these challenges and position themselves for growth?

At LSETF, we run five key programs designed to support SMEs in a variety of ways. Our cornerstone program, the Access to Finance program, provides MSME loans at a low interest rate of 9% per annum. These loans are often the primary reason businesses approach LSETF, as they are affordable, collateral-free, and require only essential documentation, including a Lagos ID, LIRS registration, a government-issued ID, and depending on the loan size, bank statements and tax information.

Complementing Access to Finance, our Capacity Building initiative equips SMEs with essential skills and knowledge to thrive in competitive markets, ensuring they're wellprepared for growth. In addition to this, the Access to Markets program, under our Business Support Unit, helps businesses connect with potential buyers and expand their reach, providing crucial networking opportunities that increase market visibility and client connections. Through the Business Support Unit, we also provide specialized resources and guidance for SMEs at different stages of development, offering everything from advisory services to operational support.



43

Thirdly, our Employability Program focuses on closing the gap between the labour market demand and supply, providing aplatform for training on employability skills in different sectors through vocational training sessions and soft skills development.

The fourth is our Lagos Innovates programme, which is an initiative we set out to support the tech ecosystem though hub loans, workspace vouchers, ideation and acceleration initiatives and talent development. Through this programme we are drivinginnovation and encouraging new ventures, nurturing an environment where business ideas can grow sustainably. The fifth is our hub model, through which we see to scale job creation by clusters in specific sectors across the state. We currently have a beauty hub and have just signed a partnership with Oriki for a wellness hub (on Friday, October 25th 2024). Together, these five programs create a comprehensive support system that helps SMEs navigate challenges, connect with essential resources, and position themselves for lasting success in the market.

Does LSETF have a program that helps SMEs determine the best-fit business path for them?

I wouldn't say we offer a program specifically for that purpose, but we do make valuable information and resources accessible. For example, we publish certain reports periodically, including the needs assessment and macroeconomic reports that SMEs can review for industry insights.

Moreover, we recently launched the Lagos Labor Market Information System (LMIS) on July 3rd, in partnership with the Lagos State government, GIZ, and Deloitte. This platform collects and analyzes labor market data and serves as a public-private dialogue space, engaging stakeholders on both the supply and demand sides of the labor market. We've published our first insights report on the LMIS, which is available online. You can visit lmis.ng to view the interactive dashboard and access data that sheds light on employment trends and sectoral opportunities. While we don't directly guide SMEs on business fit, the insights available on this platform are highly informative and can help point them in the right direction.





What are the core challenges faced in implementing these programs?

Like any organization, we do face challenges in our operations. I joined LSETF in January, along with the Executive Secretary; in fact, we started on the same day, January 3rd. It's been insightful to experience the internal processes and understand how our programs are implemented. One challenge we've encountered is improving the turnaround time for our loan programs. We've had some setbacks in efficiently processing and disbursing loans, and I am working hard to

streamline this process, so applicants receive funds promptly. In the microfinance space, some of our perceived competitors, like microfinance banks, operate faster due to their technological advancements. However, while our turnaround time may currently be longer, we offer a major advantage—single-digit interest rates at 9% per annum, compared to some microfinance banks, which may charge double-digit rates monthly. Another challenge is expanding our reach. Although we have a physical presence across Lagos, I would love for us to extend our programs further, especially through additional partnerships with international development agencies and local private sector entities. Many companies seek skilled labor and may even be open to sponsoring vocational training that aligns with their workforce needs. At LSETF, we have the processes, structure, and standard operating models to accommodate this. Expanding our network and fostering partnerships within the ecosystem is something I truly desire.

What types of partnerships are you looking to explore?

We welcome partnerships with anyone committed to making a measurable impact, especially those aiming to reduce unemployment and increase GDP by aligning labor market demand and supply. Partnerships work best when goals align, making it easier to establish and execute programs when objectives are shared.







Are there any upcoming programs or initiatives aimed at further supporting SME growth? What can SMEs expect from these?

Our loan program will, of course, continue. We are also keen to develop our Business Support Unit further. In the past year, we focused primarily on financial literacy and entrepreneurship training, but we plan to diversify into areas like digital marketing, access to markets, and sustainability practices. We've identified these areas as high demand among our SMEs, and it's crucial they can compete, especially with digital tools and an increasing emphasis on sustainable practices. We'll also be introducing a new peer mentorship program to connect existing successful SMEs with startups. We see immense potential in fostering an environment where shared knowledge can benefit both new and established businesses. It's essential that we continuously adapt our programs based on the needs of the SMEs, so feedback will always be crucial in refining our initiatives.





Empowering 10,000+ SMEs: Join the CLSME Community

Take your business to the next level with the CLSME Community!

We've helped over 10,000 Small and Medium-sized Enterprises (SMEs) upscale their businesses through:

- Expert training and mentorship.
- Valuable networking opportunities.
- Access to exclusive resources and tools.
- Access to Micro Grants.

Join our vibrant community today and:

- Boost your revenue
- Enhance your skills
- Connect with like-minded entrepreneurs

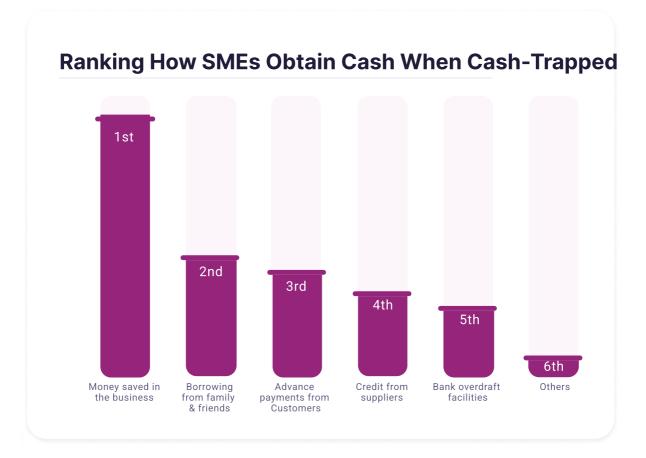






OR Head to our website to learn more and become a part of our success story!

Section 4: Cost Structure and Challenges



The data highlights that 67.95% of respondents rely primarily on money saved within the business when facing cash flow issues. This strong reliance on internal reserves underscores the importance of financial discipline and resilience within SMEs to manage operational needs without external support.

Second, 22.06% of businesses turn to family and friends for funds during cash shortages, emphasizing the critical role of informal networks as a lifeline for many. Third, 18.31% of respondents rely on advance payments from customers, showing how SMEs leverage business relationships as an essential source of liquidity.

Following these top strategies, 14.29% of businesses use supplier credit to bridge cash flow gaps. Only 11.36% turn to bank overdraft facilities, which reflects the limited accessibility of formal credit options for most SMEs. Finally, a small group—2.55%—reported using other alternative strategies, demonstrating the variety of approaches SMEs employ to stay afloat.

The preference for internal funds and informal networks over formal financial options points to a gap in trust or accessibility regarding bank facilities and other formal credit sources. Addressing this gap could strengthen SMEs' financial safety net and provide them with more robust solutions during times of financial difficulty.



Ranking of Major Recurring Expenses for Nigerian SMEs



When asked to rank their most burdensome recurring expenses, respondents identified several key cost drivers. Raw materials were ranked as number one top expense, with 62.36% of businesses citing it as a significant financial burden. This is particularly relevant for SMEs in sectors like agriculture, manufacturing, and retail, where raw materials are essential and costly. This is followed by Fuel and energy which ranked second, with 52.47% of respondents highlighting these expenses due to Nigeria's unreliable power supply, which forces many businesses to depend on expensive generators, further squeezing profitability.

In third place was salaries, 50.57% of respondents pointed to as a major recurring cost, reflecting the weight of labor expenses on business budgets. Fourth place was a tie of Rent & utilities and Telecommunication & internet services, with 40.68% identifying these as significant.

These percentages reflect the diverse, overlapping financial pressures faced by SMEs, as each business contends with a unique mix of operational expenses. Managing these costs is essential for SMEs to achieve long-term sustainability in Nigeria's challenging economic environment.



Ranking Cash Flow Strategies in a Challenging Environment

When liquidity issues arise, the top-ranked strategy among business owners is to turn to money saved within the business, with 70.18% of respondents relying on internal reserves as their primary financial backup. The second most commonly used strategy is borrowing from family and friends, with 65.45% of respondents highlighting this as a critical resource, underscoring the role of informal support networks in sustaining businesses

Bank overdrafts rank third, with 29.09% of respondents using them to manage cash flow. This is followed by credit from suppliers, which is used by 26.18% of businesses to help bridge cash flow gaps. Finally, advance payments from customers rank as the fifth most utilized approach, with 22.18% of respondents using this option to keep operations running smoothly.

This ranking reveals the blend of informal and formal financing strategies businesses employ to navigate Nigeria's challenging economic environment. It also highlights the gap in accessible credit facilities, as many SMEs are still heavily reliant on informal sources and personal savings to stay afloat.

1st



money saved in the business

2nd



Borrowing from family & friends

3rd



Bank Overdrafts

4th



Credits from Suppliers



Advance payments from customers



Final Thoughts

Nigerian SMEs are navigating increasingly challenging economic terrain with limited access to affordable finance and mounting operational costs. Salaries, raw materials, and energy costs weigh heavily on their balance sheets, while internal funds and informal networks serve as lifelines when the business is strapped for cash.

Addressing these issues will require a multifaceted approach; one that improves access to formal credit, reduces energy costs, and provides broader support for managing operational expenses. Only through such comprehensive support can SMEs gain the stability and space needed to grow and thrive.







Section 5: Future Outlook

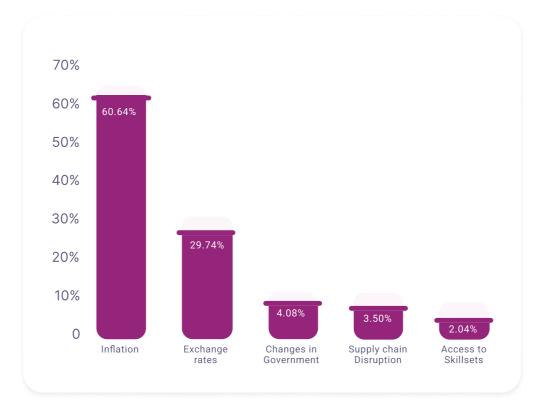


When asked about the impact of rising costs on profits over the past year, 32.07% of SMEs reported a profit reduction of 1-25%, while 22.74% experienced a 26-50% drop. Alarmingly, 12.54% saw profits decline by 51-75%, and 4.37% reported a dramatic 76-100% loss, highlighting the growing strain on businesses in a cost-driven economy. Notably, 28.28% of businesses indicated that rising costs had no impact on their profit, suggesting resilience or effective adaptation strategies.

The data underscores the direct hit that inflation, higher fuel prices, and supply chain disruptions are having on the profitability of Nigerian SMEs.



Key Negative Factors Affecting Businesses



Unsurprisingly, inflation remains the most damaging factor for Nigerian businesses, with 60.64% of SMEs citing it as their primary challenge. With inflation at 33.8% in 2024, it's no shock that businesses are struggling to manage rising operational costs, especially with the removal of fuel subsidies and subsequent hikes in transportation and production costs.

Exchange rate fluctuations also pose a significant challenge, with 29.74% identifying it as their biggest obstacle. Nigeria's naira has seen continuous depreciation, further increasing the cost of imports and raw materials. Other factors, such as changes in government policy (4.08%), supply chain disruptions (3.50%), and the loss of skilled labour due to migration (the infamous "Japa Syndrome") (2.04%), also affect businesses, albeit to a lesser degree.



Impact of Macroeconomic Factors on Business



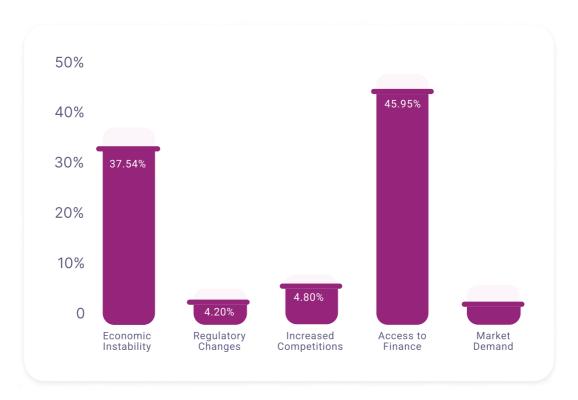
The data reveals that inflation ranks as the most significant macroeconomic challenge, with 79.30% of respondents citing it as having a very high impact on their operations. The constant increase in prices erodes purchasing power, making it challenging for SMEs to control costs and maintain profitability.

Exchange rate fluctuations are the second most impactful factor, affecting 73.18% of businesses. The naira's volatility presents a major obstacle for SMEs reliant on imports, given the high costs associated with foreign exchange. Rising oil prices rank third, with 61.22% of respondents highlighting this issue. Increased fuel costs drive up transportation and logistics expenses, placing additional strain on already thin profit margins.

Supply chain disruptions are also a key concern, affecting 41.98% of businesses. Finally, protests and unrest pose moderate-to-high risks for 19.53% of respondents, underscoring the effects of socio-political instability on business performance. These rankings highlight the diverse and interrelated challenges faced by SMEs, with inflation, currency volatility, and rising oil prices at the forefront, further compounded by supply chain issues and socio-political factors.



Major Concerns for the Future

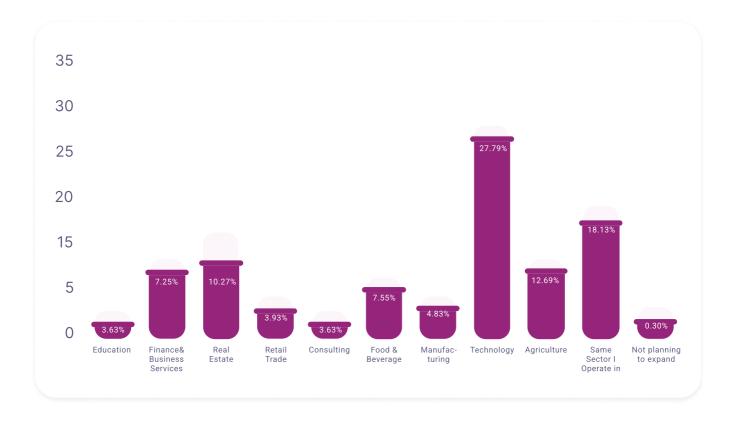


Looking ahead, economic instability is the top concern for 37.54% of business owners. With inflation, currency devaluation, and unpredictable fuel prices, it's no surprise that many are worried about the sustainability of their businesses in such a volatile environment. Access to finance is another significant concern, with 45.95% citing it as a critical issue. SMEs need financing to scale, but tight credit conditions and high interest rates are making this difficult.

Other concerns include increased competition (4.80%) and regulatory changes (4.20%), though these are not as widely felt across the sector.



Future Expansion Plans



When asked about future expansion, 27.79% of SMEs expressed interest in venturing into the technology sector over the next three years, aligning with global digital transformation trends and Nigeria's increasing reliance on tech for business operations. Meanwhile, 18.13% plan to grow within their current sectors, while 12.69% aim to enter agriculture, driven by the nation's focus on food security and agro-export potential. Real estate is also appealing, with 10.27% planning to explore this sector, followed by 7.55% targeting food and beverage.

Finance and business services interest 7.25% of SMEs, while manufacturing attracts 4.83%. Retail trade and education each account for 3.93% and 3.63% interest, respectively, with consulting also drawing 3.63% of respondents. A small group—0.30%—has no plans for expansion, possibly due to economic uncertainty. These preferences highlight SMEs' varied growth ambitions, with technology and agriculture leading, yet reflecting cautious sentiment in certain sectors.





Zahar Beige Events

What are your main growth goals for the next five years, and what will be most important for reaching them?

Our main goals over the next five years are all about consistency, expansion, and enhancing our presence. We're looking to grow our client base by 40%, boost our online reach, and expand to new regions, aiming for 30% annual revenue growth with a 55% repeat client rate. The key to reaching these will be staying focused on delivering exceptional, personalized service, using effective digital strategies, and proactively expanding into new markets.

How has your business changed to deal with the current economy, and what outside factors made you adjust?

We've responded to economic changes by creating additional service packages and focusing more on cross-selling. Our team has also undergone extra training to improve flexibility and efficiency, and we've been mindful of optimizing costs. Things like fuel price fluctuations, the shift toward virtual events post-pandemic, reduced client budgets, and currency instability have all influenced our approach.

What are the biggest challenges you've faced when trying to grow your business, and how did you handle them?

Reaching our ideal clients was initially tough, but by focusing on top-notch service, we earned more referrals.

Our digital presence was also inconsistent, so we addressed that by creating relevant content and engaging more online. Attracting and keeping talented staff was another challenge, but we've built a skilled team through regular training and development. Staying competitive in a saturated market also meant we had to keep adapting to new tech and updating our market strategies through regular research and partnerships.

What difficulties have you had in growing your revenue, and what actions have helped you overcome them?

Seasonal demand changes and branding were issues for our revenue growth. To tackle these, we developed more tailored service packages, invested in digital marketing, and pursued strategic collaborations.

What has been your biggest challenge in securing external funding for your business, and how have you addressed it?

Finding the right funding sources is still ongoing, and we're evaluating different funding options and potential investors.

What steps do you take to ensure you're using your available capital efficiently, and how do you measure return on investment?

Efficient capital use comes down to detailed budgeting and prioritization. We also use tech tools to optimize output. ROI is measured through client satisfaction, expense-to-revenue ratios, event revenue growth, and team productivity metrics.





running out of money?

How do you manage your cash flow when times are tough, and what steps do you take to avoid

To manage cash flow, we regularly track our finances, forecast expenses, and keep cash reserves. We also diversify our income streams, make short-term team adjustments when needed, and establish strategic partnerships for financial stability.

How do you manage important resources like time, staff, and inventory to keep your business running smoothly?

Time management tools like Clockify keep us organized. We also use performance evaluations and training to support our team. For inventory, we use quality control and inventory management software along with Google Suite for streamlined processes.

How has technology improved your business operations, and which tools or platforms have been the most helpful?

Tech has been vital for smoother operations and better client engagement. Platforms like Monday.com, Microsoft Teams, Google Suite, Social Tables, Clockify, Asana, and our CRM systems have been invaluable.

What challenges have you experienced in growing your customer base, and how have you succeeded in gaining and keeping customers?

Reaching target customers and scaling personalized services have been challenging, especially for services like bridal care. We overcame this by building a consistent online presence, emphasizing service quality, and sharing customer testimonials.

How do you deal with competition in your market, and what strategies have you used to stay ahead of your competitors?

We rely on regular SWOT and PESTLE analysis, top-notch client service, continuous improvement, personalized offerings, and high-quality standards to stand out in a competitive market.

Image credit: A Schoolipy event hosted by Tunde Omotoye and Managed by Zahar Beige Events.



Conclusions



Navigating Nigeria's business environment is no easy feat, especially for our small and medium enterprises (SMEs). While Nigerian SMEs are known for their resilience, they face significant hurdles—limited access to financing, high operational costs, complex regulations, and a shifting economy that can challenge even the strongest businesses. These issues highlight the urgent need for reforms and support systems designed specifically for the realities of Nigerian SMEs. Improving access to financing, simplifying regulations, and building supportive infrastructure are not just helpful; they're essential for driving national economic growth.

Still, even with these challenges, there are practical steps that business owners can take to protect their finances and adapt to the current economic climate. Here are a few actionable strategies to consider:

1. Prioritize Cash Flow Management

One major challenge that emerged from this report is cash flow. Over 60% of SMEs rely on personal savings or informal sources of credit when cash flow runs tight. Building a disciplined approach to cash flow management isn't just good practice—it's essential. Start with monthly financial forecasting, keep a close eye on accounts receivable, and set up a modest cash reserve to cushion against slow periods. Consider adopting a "Profit First" model, where a portion of revenue goes directly to savings before any other expenses are met.

2. Build Strong Relationships with Suppliers and Clients

Relationships are currency. Given the challenges around financing, we found that many SMEs turn to suppliers for credit or clients for advance payments. Deepen those connections. Be transparent with clients, communicate your needs with suppliers, and demonstrate your reliability. These relationships become lifelines during challenging times and can lead to more flexible payment terms, preferred rates, or client referrals that keep your cash flow moving.



Conclusions

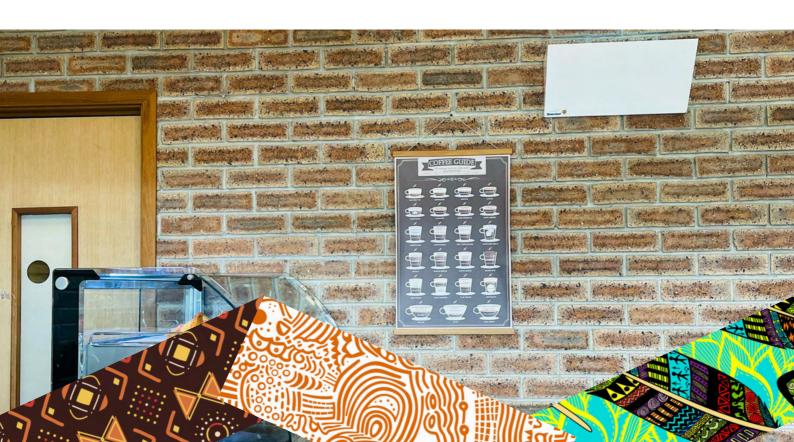
3. Embrace Digital Solutions for Growth

SMEs across Nigeria are increasingly relying on tech solutions for operational efficiency, and it's time to fully embrace this shift. From digital marketing to cash flow software, small investments in technology can yield significant returns. Tools like accounting software, digital payment platforms, and inventory management systems reduce human error, save time, and give you real-time insights into your business. Technology also gives you a reach that traditional methods cannot—whether it's connecting with customers on social media or tracking cash flow digitally.

4. Monitor Market and Economic Conditions

Economic volatility impacts every business differently, but staying informed gives you an edge. We know that inflation, currency fluctuations, and rising fuel costs affect your operations; it's essential to anticipate these challenges. Conduct regular reviews of expenses, evaluate cost-saving measures, and keep an eye on pricing strategies. Develop contingency plans that allow you to respond quickly when costs rise unexpectedly.

To every business owner reading this, my hope is that this report equips you with both understanding and action. Take these insights, use them to make adjustments, and apply them as you shape your strategy. My team and I remain committed to supporting the growth of SMEs because, when our SMEs succeed, Nigeria succeeds. Let's keep building resilience and driving forward.



www.caladiumconsulting.com

