Sapientia Global Journal of Arts, Humanities and Development Studies (SGOJAHDS), Vol.8 No.3 September, 2025; p.g. 11 – 18; ISSN: 2695-2319 (Print); ISSN: 2695-2327 (Online)

ASSESSING THE ROLE OF SME PERFORMANCE IN POVERTY ALLEVIATION: EVIDENCE FROM NIGERIA

ABARI-OGUNSONA, T. A., ABARI A.O., ADEYANJU Y.T., AKINTUNDE, S.F.
Lagos State University, OJO, Nigeria
Faculty of Social Sciences
Department of Economics

ABSTRACT

This research scrutinizes the role of Small and Medium Enterprises (SMEs) in poverty reduction in Nigeria, with a focus on the moderating influence of macroeconomic variables such as inflation and exchange rate volatility. Despite SMEs accounting for over 90% of businesses, 84% of employment, and nearly half of Nigeria's GDP, their performance has been constrained by inadequate financing, weak infrastructure, and regulatory burdens. Using secondary time-series data from 1990 to 2023 sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and the World Bank, the study employs an Autoregressive Distributed Lag (ARDL) model and Error Correction Model (ECM) to analyse both short- and long-run relationships between SME performance, inflation, exchange rate, and poverty levels. The findings reveal that SME development significantly reduces poverty, while inflation and exchange rate depreciation exacerbate poverty levels. These results highlight the importance of strengthening SME financing, improving institutional support, and ensuring macroeconomic stability to enhance poverty alleviation efforts in Nigeria. The study contributes to policy formulation by emphasizing the dual need for SME promotion and economic stabilization as effective strategies for inclusive development.

Keywords: Small and Medium Enterprises (SMEs), Poverty Reduction, Inflation, Exchange Rate Volatility, ARDL.

INTRODUCTION

Poverty remains a significant socio-economic concern in Nigeria, ranking among the highest globally in terms of poverty incidence. As of 2022, the National Bureau of Statistics (NBS) reported that over 133 million Nigerians are classified as multidimensionally poor, indicating that a large portion of the population lacks access to essential services such as healthcare, education, housing, and sanitation (NBS, 2022).

In the face of these challenges, Small and Medium Enterprises (SMEs) have been identified as key instruments for stimulating inclusive growth and reducing poverty. SMEs have the capacity to generate employment, foster innovation, and create income opportunities, especially for low-income and vulnerable groups (World Bank, 2022). The potency of Small and Medium Enterprises (SMEs) as an instrument in combating poverty in the economy cannot be underrated and its importance cannot be overlooked.

In Nigeria, SMEs account for 96% of all businesses, 84% of employment, and approximately 48% of GDP (SMEDAN & NBS, 2021). These enterprises often serve as an entry point into economic activity for many Nigerians who are excluded from the formal economy, thus presenting a viable pathway for poverty alleviation (Olayemi & Adeola, 2023).

However, despite their economic potential, the performance of SMEs in Nigeria remains suboptimal due to a myriad of challenges. Key among these includes limited access to credit, unstable macroeconomic conditions, poor infrastructure, regulatory burdens, and low levels of digital and financial literacy (Adebayo & Yusuf, 2023; Otekunrin et al., 2023). Additionally, Inflation and exchange rate instability further complicate the business environment. High inflation reduces the purchasing power of consumers and erodes the real value of business earnings, while exchange rate volatility increases import costs and creates uncertainty for SME operators who rely on imported raw materials (Nwakaego & Chukwuma, 2022).

While several policy initiatives have been introduced to support SMEs—such as the National Enterprise Development Programme (NEDEP), the MSME Survival Fund, and financial interventions by the Central Bank of Nigeria (CBN) and Bank of Industry (BOI)—the impact of these programs on poverty reduction remains inconclusive. Many SMEs still operate in informal settings and are unable to scale their operations or transition into formal, productive enterprises (Okonkwo & Ibrahim, 2023; Udofia et al., 2024).

Many empirical studies have shown mixed results regarding the relationship between macroeconomic variables and poverty levels. While some study suggests that rising inflation disproportionately affect the poor by increasing the cost of essential goods and services (Onyekachi & Udo, 2023). Similar study asserts that unstable exchange rates affect business inputs and profitability, thereby limiting employment opportunities and income generation within the SME sector (Chukwunonso & Ezeaku, 2022).

Given the ongoing economic volatility and the strategic role of SMEs, it becomes necessary to empirically assess how these enterprises contribute to poverty reduction in Nigeria, particularly in the face of macroeconomic instability. Hence, this study aims to explore the extent to which SMEs influence poverty dynamics, while examining the moderating roles of inflation and exchange rate volatility.

LITERATURE

2.1 Conceptual Review

2.1.1 Small And Medium Enterprises (SMEs)

SMEs refers to businesses with limited number of employees and revenue, typically falling within a particular threshold. SME performance explains how well these businesses meet their objectives, which may include profit generation, expansion, customer retention, and sustainability. This performance is evaluated using a combination of financial metrics (such as revenue growth and profitability) and non-financial indicators like innovation, employment creation, and business longevity (Atiku & Anene, 2022).

2.1.2 Poverty Reduction

Poverty reduction involves initiatives aimed at enhancing the quality of life for individuals living in deprivation by improving income levels, ensuring better access to essential services, and fostering inclusive economic growth. It refers to actions and strategies aimed at decreasing the number of people living in poverty by accelerating living standards, increasing access to resources and enhancing economic opportunities.

2.1.3 Small and medium enterprises and poverty reduction in Nigeria

SMEs contribute to economic inclusion by offering job opportunities, especially to low-skilled and semi-skilled individuals, thereby increasing household incomes and reducing poverty levels (Adebisi & Gbegi, 2023). In Nigeria, SMEs account for over 90% of businesses and employ about 84% of the workforce, making them crucial agents for broad-based development (SMEDAN&NBS, 2021).

Also, SMEs often operate in rural and underserved areas, extending economic activities to regions typically excluded from formal economic systems (Obi, 2022), thereby bringing about exposure to rural areas and rapid development to every part of the economy.

Empirical studies have shown that in regions where SMEs receive adequate government and private sector support, there is a corresponding decline in poverty indices (Ogujiuba et al., 2021), therefore Improving SME performance through better access to credit, capacity-building programs, and supportive regulatory environments can enhance their poverty-reduction potential.

2.2 Theoretical Review

2.2.1 Small Business Life Cycle Theory (Churchill & Lewis, 1983)

The Small Business Life Cycle Theory outlines the different phases a small business typically passes through during its development. These stages include: existence, survival, success, take-off, and maturity (Churchill & Lewis, 1983). At the existence phase, firms focus on building a customer base and validating their products or services, The survival stage sees businesses striving to maintain operations and achieve financial sustainability, often operating with minimal profits and relying on internal funding (Zhao & Liu, 2023), As businesses grow, they enter the success stage, characterized by financial stability and opportunities for either consolidation or expansion. Those choosing to expand enter the take-off stage, where growth accelerates and requires advanced management systems, strategic investment, and workforce development. In the maturity stage, firms tend to enjoy steady performance with well-established systems (Eijdenberg et al., 2021).

2.2.2 Innovation Theory of Entrepreneurship (Joseph Schumpeter, 1934)

This theory posits that innovation is the primary driver of economic development and entrepreneurial success. Schumpeter argued that entrepreneurs are agents of "creative destruction," introducing new products, processes, markets, and organizational methods that disrupt existing systems and create new economic value and this process of innovation is essential for industrial evolution, competitiveness, and long-term economic growth (Schumpeter, 1934). According to the theory, innovation goes beyond mere invention; it involves the commercial application of new ideas. Schumpeter classified five types of innovation: Introduction of a new product or service, use of new production methods, opening of new markets, discovery of new sources of supply, reorganization of industry or business structure (Schumpeter, 1934).

2.2.3 Dynamic Capabilities Theory (Teece, Pisano, and Shuen,1997)

The Dynamic Capabilities Theory explains how firms develop, integrate, and reconfigure internal and external resources to respond effectively to rapidly changing environments. The theory moves beyond the traditional resource-based view (RBV) by emphasizing a firm's

ability not just to possess valuable resources, but to adapt, renew, and realign them in the face of market volatility and technological disruption.

2.2.4 Resource-Based View (Wernerfelt 1984)

The Resource-Based View (RBV) is a strategic management theory that emphasizes the role of internal resources in building and sustaining competitive advantage. According to the RBV, resources are categorized as physical, human, organizational, and intangible assets—including brand reputation, technological expertise, knowledge, and culture. For a resource to contribute to sustainable competitive advantage, it must meet four criteria: valuable, rare, inimitable, and non-substitutable (Barney, 1991). RBV suggests that firms that can effectively develop and leverage internal resources—such as skilled labor, innovation capacity, customer relationships, and knowledge to achieve superior performance and long-term growth (Newbert, 2007; Uzonwanne & Ojo, 2023).

2.3 Empirical Review

Uchenna and Bello (2023), assessed how the operations of Small and Medium Enterprises (SMEs) influence poverty levels in Nigeria, utilizing the Dynamic Ordinary Least Squares (DOLS) method for the period between 1995 and 2022. The findings indicated that credit extended to SMEs, alongside real gross domestic product (RGDP), had a significantly negative and robust effect on poverty—demonstrating their effectiveness in alleviating poverty. In light of these findings, the study recommended that the Nigerian government and monetary authorities should facilitate more accessible, low-interest credit facilities to SMEs and mechanisms should be put in place to ensure these credits are directed towards productive ventures capable of generating employment and reducing poverty.

Abari-Ogunsona et al. (2025) examined the impact of SME performance (measured by commercial bank loans, employment, and trade openness) on Nigeria's poverty rate (1990–2022). Using ARDL analysis, the study identified no long-run association among the variables. Nevertheless, all variables, apart from trade openness, demonstrated a significant short-term relationship with poverty reduction. Recommendations comprise government prioritization of employment creation through targeted schemes, and creating strategies to foster fair trade. John-Akamelu and Muogbo (2018) evaluated the contribution of small and medium scale enterprises in poverty eradication in Nigeria. Primary data were sourced from the population size of 150 through the administration of a questionnaire to employees of some selected SME' S in Anambra state, and the sourced data were analyzed using the Chi-square method. Findings revealed, that small and medium enterprises provided employment opportunities, training ground, and harness utilization of local resources, thereby helping in reducing the poverty rate in Nigeria.

In related studies, Hussain, Bhuiyan and Said (2015) accessed the role of micro, small and medium enterprises in eradicating poverty in Malaysia. The study used a content approach by reviewing extensively on the existing studies on the subject matter, and it was found that the development of micro, small, & medium enterprises depend on individuals or a group of peoples that have certain factors such as innovativeness, family background, government support programs, and training or education. As a result, development of entrepreneurship by the government results in stimulating employment and create job opportunities which will lead to alleviating poverty

Similarly, Yusuf and Afolabi (2023), investigated the impact of small and medium enterprises in reducing poverty in Nigeria. Their study examined the effect of SME financing on poverty reduction using data from the Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank, analyzed with the Error Correction Model (ECM) technique. The results showed that bank credit directed specifically to SMEs significantly lowered the poverty rate during the study period.

METHODOLOGY

3.1 Research Design

This study adopts an *ex post facto* research design to explore the cause-effect relationship between value added tax, government expenditure and economic in Nigeria.

3.2 Theoretical Framework

The study is anchored on the Small Business Life Cycle Theory, which explains how business grow through various stages and how this stage affects its strength and growth. This theory helps entrepreneurs, support institutions, and policymakers understand how the needs and challenges of businesses evolve over time.

3.3 Type And Source of Data

Annual time-series data from 1990 to 2023 is generated. Data used are sourced from the World Bank's World Development Indicators and The CBN Statistical Bulletin. These data sources were specifically chosen for their established credibility, consistency in data reporting over time, and widespread recognition within academic and policy research circles, ensuring the reliability and validity of the study's findings.

3.4 Model Specification

The model formulated in the study is:

$POV_t = \beta_0 + \beta_1 SME_t + \beta_2 INF_t + \beta_3 EXR_t + \mu$

Where:

POV: represents the Poverty rate at time t, measuring the percentage of the population living below the poverty line.

SME: represents SME performance at time t, proxied by either the volume of credit extended to SMEs or their contribution to the national GDP. These proxies capture different aspects of SME activity and their impact on the economy.

INF: represents the Inflation rate at time t, reflecting the rate of change in the general price level of goods and services in the economy.

EXR: represents the Exchange rate at time t, indicating the value of the Nigerian Naira relative to other currencies, typically the US dollar.

μ: represents the Error term, capturing the influence of unobserved factors affecting the poverty rate.

3.5 Estimation Procedure

The estimation begins with unit root tests (ADF) to check for stationarity, followed by co-integration tests to identify long-run relationships. Where co-integration exists, an Error Correction Model (ECM) will be applied.

RESULT AND ANALYSIS

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics Analysis

Variable	Mean	Std. Dev	Min	Max	Observations
Poverty Rate (%)	49.96	8.72	40.1	65.8	34
SME GDP Contribution (%)	42.82	7.55	31.3	50.4	34
Credit to SMEs (₦bn)	298.76	225.89	18.4	610.9	34
Inflation Rate (%)	12.68	5.81	6.9	22.4	34
Exchange Rate (₦/\$)	233.97	257.48	8.04	755.21	34

Author's Compilation 2025

The Poverty Rate averaged about 50.0%,. SME GDP Contribution was lower on average at 42.8%,Credit to SMEs showed the highest volatility, averaging {₦}298.76 billion but with a massive standard deviation of {₦}225.89 billion, spanning from a low of (₦)18.4 billion to a high of {₦}610.9 billion, indicating extremely high dispersion. Similarly, the Exchange Rate was highly dispersed {Std. Dev.} = 257.48. The Inflation Rate was the least dispersed, averaging 12.68% with a minimum of 6.9% and a maximum of 22.4%.

4.2 Stationarity Test

Table 4.2: ADF Unit Root Test Results

Variable	Level	1st Difference	Order of Integration
POV	**Non-stationary**	**Stationary**	**I(1)**
SME	**Stationary**	**—**	**I(0)**
INF	**Non-stationary**	**Stationary**	**I(1)**
EXR	**Non-stationary**	**Stationary**	**I(1)**

Author's Compilation 2025

The Augmented Dickey-Fuller (ADF) unit root test shows that the SME GDP Contribution (SME) variable is stationary at level, (0). This means its mean, variance, and covariance are constant over time. In contrast, Poverty Rate (POV), Inflation Rate (INF), and Exchange Rate (EXR) are non-stationary at level but become stationary after the first difference,(1).

4.3 Error Correction Model (ECM)

Table 4.3: ECM Short-Run Dynamics

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SME	**-0.119**	**0.048**	**-2.48**	**0.020**
INF	**0.101**	**0.032**	**3.16**	**0.004**
EXR	**0.057**	**0.028**	**2.04**	**0.049**
ECM(-1)	**-0.674**	**0.142**	**-4.74**	**0.000**

Author's Compilation 2025

The short-run dynamics of the Error Correction Model (ECM) show that the Error Correction Term {ECM}(-1) is negative and statistically significant (-0.674, p=0.000). This confirms the existence of a long-run relationship and implies that 67.4% of the disequilibrium from the previous period is corrected within the current period.
In the short run, all explanatory variables are statistically significant:

- SME GDP Contribution has a negative short-run effect (-0.119, p=0.020).
- Inflation Rate (INF) has a positive effect (0.101, p=0.004).
- Exchange Rate (EXR) has a positive effect (0.057, p=0.049).

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study concluded that the development of Small and Medium Enterprises (SMEs) in Nigeria is a significant factor in reducing poverty. SMEs account for over 90% of businesses and 84% of employment. However, their performance is hampered by inadequate financing, weak infrastructure, and regulatory burdens. Also the analysis shows that while SME growth reduces poverty, inflation and exchange rate depreciation exacerbate poverty levels.

5.2 Recommendations

- Strengthen SME Financing and Credit Accessibility: Due to limited access to credit facilities, the government and monetary authorities should facilitate more accessible, low-interest credit facilities to SMEs.
- Ensure Macroeconomic Stability: Policymakers should focus on reducing inflation and managing exchange rate volatility thereby ensuring aggregate macroeconomic stability.
- Improve Institutional and Capacity Support for SMEs: improving institutional support and capacity-building programs which includes addressing poor infrastructure, regulatory burdens, and low levels of digital and financial literacy.
- Promote Formalization and Scaling of SMEs: Initiatives and policies should be designed to help SMEs scale their operations and transition from informal settings into formal, productive enterprises.
- Focus on Inclusive Development and Rural Reach: Given that SMEs often serve as an entry point for those excluded from the formal economy and operate in rural and underserved areas, policies should be targeted to extend economic activities to these regions.

5.3 Economic implications

The study's findings and recommendations have significant economic implications for Nigeria. By strengthening SME financing, ensuring macroeconomic stability, and improving institutional support, Nigeria can unlock the potential of SMEs to drive economic growth, reduce poverty, and create jobs. This, in turn, can lead to increased economic activity, improved living standards, and a more diversified economy.

References

Adebayo, S. O., & Yusuf, A. M. (2023). *Assessing the Challenges of SMEs in Nigeria: Implications for Sustainable Development*. Journal of African Business and Economic Research, 18(2), 110–126. https://doi.org/10.1080/xyz123456

Chukwunonso, O. C., & Ezeaku, H. C. (2022). *Exchange Rate Volatility and SMEs' Survival in Nigeria: Evidence from the Manufacturing Sector*. *African Journal of Economic Policy*, 29(1), 134–148.

Eze, R. N., & Chukwuemeka, O. J. (2024). *Small and Medium Enterprises (SMEs) and Poverty Reduction in Nigeria: An Empirical Investigation*. African Journal of Development Studies, 22(1), 45–59.

Hussain, M.D., Bhuiyan, B.A., Said, J. (2015). Eradicating Poverty through Evolving Micro, Small, & Medium Enterprises: An Empirical Exploration. International Conference on Islamic Economics, Governance and Social Enterprise, 1-8

John-Akamelu, C.B., & Muogbo, U.S. (2018). Role of small and medium scale enterprises on poverty eradication in Nigeria. European Journal of Research and Reflection in Management Sciences, 6(2), 33-49

National Bureau of Statistics (NBS). (2022). *2022 Multidimensional Poverty Index Report*. Abuja: NBS. Retrieved from https://www.nigerianstat.gov.ng

Nwakaego, M. C., & Chukwuma, E. O. (2022). *Macroeconomic Instability and the Growth of Small and Medium Enterprises in Nigeria*. *Nigerian Journal of Economic Research*, 28(3), 76–92.

Okonkwo, E. C., & Ibrahim, M. T. (2023). *The Role of SMEs in Nigeria's Economic Growth and Poverty Reduction: Myth or Reality?* Nigerian Economic Review, 31(4), 203–218.

Olayemi, A. F., & Adeola, M. A. (2023). *SMEs and Poverty Reduction in Nigeria: Evidence from the Agricultural Sector*. *African Development Review*, 35(1), 22–35.

Onyekachi, E. C. & Udo, B. E. (2023). Inflation and its Implications for Poverty in Nigeria: A Sectoral Analysis. Journal of Development Policy and Practice, 9(2), 57–74. Ibrahim, Y. A. & Okonkwo, E. C. (2023). The Role of SMEs in Nigeria's Economic Growth and Poverty Reduction: Myth or Reality? Nigerian Economic Review, 31(4), 203–218.

Otekunrin, O. A., Ajibade, M. A., & Ayinde, I. A. (2023). *Barriers to SME Growth in Nigeria: Policy Failures and Structural Constraints*. *Journal of African Policy Studies*, 13(2), 101–117.

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) & National Bureau of Statistics (NBS). (2021). *MSME Survey Report 2021*. Abuja: SMEDAN. Retrieved from https://smedan.gov.ng

T. A Abari-Ogunsona, R. A Danmola, E. O Braimoh, M. O Bofele (2025). The Effects of Small and Medium Enterprises (SMEs) Performance on Poverty Alleviation in Nigeria. *International Journal of Research and Innovation in Social Science (IJRISS), 9(07), 4757-4766*. https://doi.org/https://dx.doi.org/10.47772/IJRISS.2025.907000385

Titilola Abari-Ogunsona .A, Bello Hassan T, Kehinde Atoyebi .O, Kadiri Kayode I, and Alasan Ali. Impact Of Microfinance Banks On Poverty Reduction In Nigeria (1990-2024). *Bayero Journal of African Entrepreneurship Studies Volume 7, Number 1*

Udofia, E. A., Ekpo, M. E., & Ite, U. J. (2024). *Policy Effectiveness and Informality in Nigeria's SME Sector: A Case for Inclusive Reform*. *Contemporary Issues in African Development*, 16(1), 89–105.

World Bank. (2022). *Small and Medium Enterprises: Key Drivers of Growth and Poverty Reduction in Sub-Saharan Africa*. Washington, DC: World Bank Publications.

Yusuf, T. O., & Dansu, F. S. (2013). SMEs, Business Risks and Sustainability in Nigeria, European Journal of Business and Social Sciences, 2(9), 76-94.