

**GLOBAL COMPARISON OF ROLE OF SMALL AND MEDIUM SCALE
ENTERPRISES (SMES) IN THE POLITICAL ECONOMY OF DEVELOPMENT: THE
LESSONS FOR NIGERIA**

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ABSTRACT

This paper examined the function of Small and Medium Scale Enterprises in the political economy of development with particular emphasis on how government policies affect their expansion and contributions to the development of different sectors in specific nations. To get an exhaustive understanding of how state policies and SMEs performance interact to foster economic development, the paper utilised institutional theory as its theoretical guide. To achieve a truly global view of the subject matter, four countries were selected across the World regions for analysis, these included the United States, Brazil, India and South Africa. Therefore, case study method in the comparative methodology adopted. For a thorough analysis, information was taken from official reports, scholarly research, and peer-reviewed publications. This paper found that while emerging economies showed the value of focused interventions to address systemic issues including regulatory hurdles, infrastructural deficiencies, and financial access, developed economies highlighted the effectiveness of strong institutional frameworks and innovation-driven policies. This paper based its advice for Nigeria on lessons learnt from what some of the developed nations are doing to nourishing their SMEs as strategic partners in their economic development, with an emphasis on modifying successful global approaches to fit local socio-political circumstances in Nigeria. The focus for Nigerian state should be using SMEs to reduce poverty, create jobs, and diversify the economy. To achieve that end, there should be consistent policy commitment, strengthening institutions and promoting cooperative efforts with SMEs to position them as catalysts for sustainable development in Nigeria.

Keywords: Development, Economic Growth, Financing, Policy Frameworks, Political Economy

INTRODUCTION

Globally, small and medium-sized businesses (SMEs) are vital forces behind employment, innovation, and economic progress. It is impossible to overstate their significance in the political economics of development since they frequently serve as the foundation of economies by making major contributions to GDP and job creation (Beck & Demirguc-Kunt, 2006). The importance of SMEs in both developed and developing countries highlights how they can promote equitable economic growth and lessen wealth inequality. Governments have implemented measures to increase SMEs' resilience, capacity, and integration into global value chains as a result of their growing recognition of the importance of these businesses in recent decades. Notwithstanding these initiatives, political, economic, and institutional variations cause SMEs' success to fluctuate greatly between nations. Understanding these dynamics offers valuable insights into the interplay between government policies and the developmental trajectories of SMEs (Acs et al., 2016).

This paper examines how government policies affect SME growth and their contributions to development through comparative analysis of four countries: the United States, Brazil, India, and South Africa. These countries were selected to represent the spectrum of development contexts, developed (United States), developing (Brazil, India), and transitional (South Africa), enabling identification of both context-specific and transferable policy mechanisms. The United States provides a benchmark for institutionalised SME support; Brazil demonstrates regulatory simplification at scale; India offers lessons in credit guarantee schemes and digital formalisation; and South Africa, as an African peer economy, provides insights on inclusive SME policy design. This selection addresses the gap in comparative literature examining how different political and economic contexts shape SME policy effectiveness. However, a significant gap remains in understanding how these different contexts produce divergent SME outcomes, particularly in Nigeria where policy implementation has not translated into proportional development gains. Despite decades of SME policy implementation in Nigeria, the sector continues to underperform relative to its potential.

SMEs constitute approximately 96% of businesses and contribute 48% of GDP (SMEDAN & NBS, 2017), yet face systemic constraints including limited access to financing (14.1% have

bank loans; World Bank, 2019), poor infrastructure, and regulatory complexity (NBS, 2022; World Bank, 2019). Existing literature has predominantly employed single-country case studies or descriptive surveys that identify constraints without explaining why similar constraints produce different outcomes elsewhere (Okpara, 2011; Otitoju et al., 2023). This paper addresses this gap by examining how government policies interact with institutional frameworks and structural conditions to shape SME contributions to development. Specifically, it asks: how do SME policy frameworks differ across developed and developing contexts, and what factors explain these differences? What patterns emerge in SME performance outcomes, and how are they mediated by policy design? What specific policy lessons are transferable to Nigeria's SME development agenda?

This paper contributes to the political economy of development literature by integrating entrepreneurship theory, dependency theory, institutional theory, and growth theory, perspectives previously applied in isolation. This integration explains why identical policy instruments produce divergent outcomes across development contexts. The findings will aid in the creation of evidence-based policies that encourage SME expansion and spur inclusive and sustainable development in Nigeria.

LITERATURE REVIEW

Due to their size, structure, and role in economic growth, small and medium-sized enterprises (SMEs) make up a vibrant and diversified sector of the global economy. All nations view SMEs as the foundation of economic expansion (Rajesh, Suresh & Deshmukh, 2008). They are significant to Nigeria's economy. By favourably affecting the distribution of income in both functional and nominal terms, they also aid in the growth of the country (Uzor, 2004). There is no globally accepted definition of SMEs; rather, definitions differ among nations and organisations and frequently take into account the particular socioeconomic environments in which they function. The number of employees, yearly turnover, and balance sheet total are the most often used criteria for classifying SMEs. These criteria provide a framework for categorizing enterprises and formulating policies tailored to their unique needs and contributions (Beck & Demirguc-Kunt, 2006).

With its classification of SMEs into three subgroups, micro, small, and medium enterprises, the European Union (EU) offers one of the most well-known definitions of SMEs. The EU defines micro-enterprises as those with fewer than ten employees and a balance sheet or annual revenue of no more than €2 million. Small businesses have less than 50 employees and a balance sheet total of up to €10 million annually. In comparison, medium-sized businesses have fewer than 250 employees and a balance sheet total of no more than €43 million or an annual turnover of no more than €50 million (European Commission, 2020). This classification emphasises the necessity for focused governmental interventions and the diversity within SMEs. There isn't a precise description that makes a distinction between small and medium-sized businesses in Nigeria. However, according to the Central Bank of Nigeria's monetary policy circular No. 22 of 1988, small-scale businesses are those with yearly sales of no more than 500,000 naira (CBN, 2011).

The Small Business Administration (SBA) in the US defines SMEs according to industry-specific standards, like annual revenue or employee count. For instance, SMEs usually employ fewer than 500 people in the mining and manufacturing sectors. In contrast, the yearly sales criterion in service industries may vary from \$7.5 million to \$38.5 million (SBA, 2019). This adaptable strategy makes it possible to accommodate sectoral differences while guaranteeing that assistance systems are suitably adapted to the particular difficulties encountered by SMEs across various industries. Definitions of SMEs in underdeveloped nations frequently highlight their contribution to economic empowerment and poverty reduction. For instance, the classification of SMEs in India is based on their investment in machinery, equipment, or plants. A micro-enterprise is defined as one that invests about ₹1 crore in manufacturing or ₹25 lakh in services under the Micro, Small, and Medium Enterprises Development (MSMED) Act of 2006. Investments between ₹1 crore and ₹10 crore in manufacturing or between ₹25 lakh and ₹2 crore in services are what define small businesses.

According to the Ministry of Micro, Small, and Medium Enterprises (2020), medium-sized businesses invest between ₹10 crore and ₹50 crore in manufacturing or between ₹2 crore and ₹5 crore in services. This investment-based approach reflects the developmental priorities of emerging economies, where access to finance remains a critical challenge. In addition, academics

have helped to conceptualise SMEs by highlighting their socioeconomic significance and functional characteristics. SMEs are defined by Storey (1994) as independently owned and operated businesses with a modest market share and restricted access to outside financial markets. This definition emphasises the operational traits of SMEs, including their ability to innovate, flexibility in operations, and dependence on local resources. Similarly, Acs et al. (1997) contend that SMEs are essential for encouraging entrepreneurship, especially in countries undergoing transition, where they act as a link between the formal and informal sectors. The political economy of development examines how political institutions, economic structures, and power relations interact to shape developmental outcomes (Caporaso & Levine, 1992; Acemoglu & Robinson, 2012). Within this framework, SMEs occupy a dual position as both beneficiaries of policy interventions and agents of structural change. Development, understood as the expansion of human capabilities and economic opportunities (Sen, 1999), encompasses employment generation, poverty reduction, and inclusive participation, outcomes to which SMEs contribute substantially.

THEORETICAL FRAMEWORK

This paper employs an integrated multi-theoretical framework to examine the relationship between government policies, SME development, and national development outcomes. Given the paper's three core variables, SMEs, political economy, and comparative development, no single theoretical lens is sufficient. This analysis integrates four complementary perspectives. Entrepreneurship theory, originating in Schumpeter's (1934) concept of creative destruction, posits that entrepreneurial activity drives economic dynamism. Acs et al. (2016) extended this through knowledge spillover theory. For this paper, entrepreneurship theory establishes why SMEs matter and provides criteria for evaluating SME policies. Structuralist dependency theory, developed by Frank (1967) and refined by Cardoso and Faletto (1979), analyses core-periphery relations in the global capitalist system. Peripheral economies are subordinated through unequal exchange and technological asymmetry. Applied to SME policy, this theory predicts that policies in peripheral economies (Brazil, India, South Africa, Nigeria) face structural constraints that do not affect core economies (United States) to the same degree.

Institutional theory, developed by North (1990) and extended by Acemoglu and Robinson (2012), examines how formal and informal institutions shape economic behaviour. North defines institutions as "the rules of the game." Acemoglu and Robinson distinguish inclusive institutions from extractive institutions. For SME analysis, institutional theory provides the analytical language for comparing policy environments.

SME growth theory, synthesised by Storey (1994) and Acs (1992), examines determinants of SME expansion. Storey identifies three growth determinants: entrepreneur characteristics, firm characteristics, and strategy characteristics. This theory provides evaluative criteria for assessing whether policies address binding constraints at each growth stage. These theories are integrated into a coherent framework. Entrepreneurship theory establishes SMEs as agents of change. Dependency theory explains structural constraints. Institutional theory analyses policy mediation. Growth theory provides evaluative criteria. Together they explain why identical policy instruments produce divergent outcomes across development contexts.

METHODOLOGY

Using a comparative methodology, this paper examined how government policies affect the growth of SMEs and their contributions to development in four purposively selected countries: the United States, Brazil, India, and South Africa. These countries were selected to represent developed (United States), upper-middle income developing (Brazil), lower-middle income developing (India), and transitional (South Africa) economies. This method makes it possible to spot trends, differences, and contextual factors in the link between SMEs and development in different political and economic contexts. The analysis only uses secondary data from government reports, scholarly publications, publications from SME-focused organisations, and international databases like the World Bank, OECD, and IMF. Analytical techniques include quantitative evaluation of measures like the GDP contribution of SMEs, employment rates, and innovation metrics, as well as qualitative content analysis to find themes and patterns in policy impacts. The study guarantees a solid and comprehensive understanding of how government actions impact SME dynamics and their involvement in national development across various contexts by triangulating several data sources.

GLOBAL COMPARISON OF THE ROLE OF SMES IN POLITICAL ECONOMY OF DEVELOPMENT

United States of America

Policy Framework: The United States maintains the world's most institutionalised SME support infrastructure, centred on the Small Business Administration (SBA), established in 1953. The SBA operates three core programmes: the 7(a) Loan Guarantee Programme, which supported \$25.7 billion in lending (75–85% guaranteed) in fiscal year 2023; the 504 Certified Development Company Programme for fixed-asset financing; and the Microloan Programme for enterprises requiring capital under \$50,000 (SBA, 2023). Complementary policies include the Regulatory Flexibility Act (1980), which mandates federal agencies to assess regulatory impacts on small entities, and the Research and Experimentation Tax Credit, which provided \$13.2 billion in total relief across all firms in FY2022 (Joint Committee on Taxation, 2023).

SME Performance: SMEs, defined as enterprises with fewer than 500 employees, constitute 99.9% of all U.S. businesses, employ 61.7 million workers (46.4% of private sector employment), and contributed 43.5% of GDP (\$8.5 trillion in value-added) in 2022 (U.S. Small Business Administration, Office of Advocacy, 2024). Total small business receipts were approximately \$16.2 trillion, though this figure represents gross revenue rather than value-added GDP contribution. The technology start-up ecosystem exemplifies Schumpeterian creative destruction: venture-backed SMEs accounted for 41% of U.S. IPO value between 2010 and 2023.

Structural Challenges. Despite institutional advantages, U.S. SMEs face persistent constraints. Access to capital remains problematic for under-represented groups: women-owned firms received only 4.57% of federal contracting dollars in FY2022 (U.S. Senate SBEC, 2023), and minority-owned firms face interest rate premiums of 2.38-3.09 percentage points (Bradford & Verchot, 2023).

Theoretical Analysis. From an institutional theory perspective, the SBA epitomises inclusive institutional design: it reduces transaction costs, enforces property rights through guaranteed lending, and provides credible commitment mechanisms (North, 1990). Entrepreneurship theory

explains the innovation intensity through knowledge spillover dynamics (Acs et al., 2016). Dependency theory offers a critical reading: U.S. SME dominance in global value chains reflects core-periphery dynamics that peripheral economies cannot replicate without addressing power asymmetries.

Lessons for Nigeria. The U.S. experience demonstrates that institutionalised SME support, not ad hoc programmes, generates sustainable outcomes. Nigeria should prioritise creating a statutory SME agency with dedicated budgetary allocation. The SBA's loan guarantee model is directly transferable. However, Nigeria must recognise that U.S. SME success is partially contingent on structural position; institutional replication alone cannot overcome core-periphery constraints.

Brazil

Policy Framework. Brazil's SME policy architecture centres on three institutional pillars. First, the Simples Nacional (2007), a unified tax regime for micro and small enterprises, consolidated eight federal taxes into a single monthly payment, reducing compliance costs by approximately 60% and substantially increasing formalisation, though estimates vary by methodology and informal sector inclusion (OECD, 2020). Second, the Brazilian Development Bank (BNDES) operates credit lines specifically for SMEs, disbursing R\$ 42.8 billion to small businesses in 2022. Third, the Brazilian Micro and Small Business Support Service (SEBRAE) provides non-financial support including training and digital transformation programmes, reaching over 2.1 million entrepreneurs annually.

SME Performance. SMEs constitute 99% of Brazilian firms, contribute 30% of GDP, and employ 62% of the formal workforce (Máximo, 2022). However, productivity gaps between SMEs and large corporations are substantially larger in Brazil than the OECD average: SME labour productivity lags substantially behind large-firm levels, with cross-country comparisons constrained by sectoral and methodological differences (OECD, 2020).

Structural Challenges. Access to financing remains the primary constraint: SME lending as a share of GDP remains considerably lower than in advanced economies, reflecting structural credit market constraints. Interest rates for SME loans have historically exceeded 30% annually, though

rates have declined with recent monetary policy easing. The informal sector, employing an estimated 38% of the workforce, creates unfair competition for formal SMEs.

Theoretical Analysis. Simples Nacional represents successful institutional innovation: by reducing informality through transaction cost reduction, it demonstrates that well-designed formal institutions can overcome informal barriers (North, 1990). However, dependency theory highlights limits: Brazil's position as a peripheral economy constrains the developmental impact of SME policies. Entrepreneurship theory suggests SEBRAE's training programmes have increased human capital, but without structural transformation, spillover effects remain limited.

Lessons for Nigeria. Brazil's Simples Nacional offers the most directly transferable lesson: regulatory simplification through digital integration can dramatically increase formalisation. Nigeria should design its unified system to include medium enterprises, avoiding the exclusion gap Brazil created.

India

Policy Framework. India's MSME policy framework underwent significant restructuring with the Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. The Udyam Registration Portal, launched in July 2020, has registered over 3.64 crore MSMEs as of February 2024, directly supporting approximately 16.86 crore jobs (Government of India, 2024a). The Credit Guarantee Scheme provides collateral-free loans up to ₹500 lakh with up to 85% guarantee coverage. The Self-Reliant India Fund provides equity infusion of ₹50,000 crore, while the Raising and Accelerating MSME Performance (RAMP) programme targets productivity enhancement.

SME Performance. MSMEs contribute 29.1% of India's GDP and 36.2% of manufacturing output as of 2024. The sector accounted for 45.73% of total exports in fiscal year 2023-2024, with nearly 21.17 crore workers.

Structural Challenges. Despite policy advances, only 16% of MSMEs access formal credit. Advanced digital adoption lags: while 87% use digital payments, fewer than 20% engage in e-commerce (RIS & ISID, 2023).

Theoretical Analysis. India's Udyam Portal and credit guarantee schemes represent mimetic adoption of developed-country institutional forms (DiMaggio & Powell, 1983). However, the persistence of informal credit markets indicates formal change does not automatically transform informal practices. Dependency theory notes India's export success is concentrated in low-value-added sectors, reflecting peripheral integration.

Lessons for Nigeria. India's Credit Guarantee Scheme offers the most directly applicable model. Nigeria's 7% formal credit access rate could be substantially increased through adaptation. The Udyam Registration Portal provides a template for unified digital enrolment.

South Africa

Policy Framework. South Africa's SME policy framework addresses historical racial inequality. The Black Economic Empowerment (BEE) initiative provides tax rebates and preferential procurement. The National Development Plan (NDP) 2030 identifies SMEs as critical for reducing unemployment from 32.6% to 14%. The Small Enterprise Development Agency (SEDA) provides non-financial support through 54 branches nationwide.

SME Performance. MSMEs constitute approximately 91% of formal businesses, contributing 34% to GDP and employing approximately 7.1 million people (47% of total employment). However, SME density remains low relative to advanced economies, indicating substantial unrealised potential.

Structural Challenges. SMEs collectively obtained only 13% of total bank credit, with approximately 33% reporting access to any formal finance (TIPS, 2024). Business registration takes 1-7 business days through CIPC's digital BizPortal (CIPC, 2025). The BEE programme has been criticised for benefiting a small political elite rather than broad-based entrepreneurship (Peyton & Kumwenda-Mtambo, 2024).

Theoretical Analysis. The BEE programme represents an attempt to use institutional mechanisms to overcome historical structural inequality. However, institutional theory predicts such programmes will be captured by elites without robust enforcement, precisely what occurred

(Acemoglu & Robinson, 2012). Dependency theory explains why post-colonial SME development faces distinctive challenges: inherited economic structures concentrate capital in white-owned enterprises.

Lessons for Nigeria. The NDP's explicit integration of SME targets into national planning provides a model. Nigeria should embed SME targets in its Medium-Term National Development Plan. However, Nigeria must avoid BEE implementation failures through transparent eligibility criteria and independent monitoring.

COMPARATIVE FINDINGS AND SYNTHESIS

Table 2: Comparative SME Policy Matrix

Dimension	USA	Brazil	India	South Africa
SME Share of GDP	44%	30%	29.1%	34%
SME Employment Share	46.8%	62%	45.7%*	47%
Primary Policy Instrument	SBA loan guarantees	Simples Nacional	CGTMSE	BEE/SEDA
Regulatory Quality	High	Moderate	Moderate	Low
Access to Finance	High	Low	Moderate	Very Low
Innovation Support	Very High	Low	Moderate	Low
Structural Position	Core	Periphery	Periphery	Periphery

* Share of manufacturing employment; 21.17 crore total workers

The comparative analysis reveals three patterns. First, institutional quality correlates with SME policy effectiveness but does not fully determine outcomes. The United States combines high

institutional quality with core structural position, generating the highest innovation rates. However, India's moderate institutional quality with targeted policy design has achieved comparable formalisation rates. Second, structural position constrains policy options available to developing countries. Brazil's Simples Nacional reduced informality but could not overcome high interest rates imposed by global financial structures. South Africa's BEE was captured by elites, illustrating how structural inequality distorts institutional mechanisms.

Third, policy-stage appropriateness is critical. The United States and India have comprehensive architectures addressing multiple growth stages, while Brazil and South Africa exhibit gaps, Brazil between micro and medium support, South Africa between non-financial assistance and market access.

Lessons for Nigeria: Implications for MSME Policy and Development

Institutionalised Support Outperforms Ad Hoc Programmes. The U.S. SBA demonstrates that SME support requires institutional permanence. Nigeria should consolidate SME agencies under a statutory body with parliamentary oversight and ring-fenced funding.

Regulatory Simplification Must Include Medium Enterprises. Brazil's Simples Nacional excluded medium enterprises, creating a graduation barrier. Nigeria should use turnover thresholds rather than employment counts.

Credit Guarantees Are More Sustainable Than Direct Lending. The U.S. SBA 7(a) and India's CGTMSE demonstrate that guarantees leverage private capital more efficiently. Nigeria's Development Bank should be supplemented with a guarantee scheme.

Inclusive Programmes Require Transparent Monitoring. South Africa's BEE was captured by elites. Nigeria's affirmative action should include transparent criteria, independent audits, and penalties for fronting.

Structural Constraints Cannot Be Addressed by SME Policy Alone. SME credit guarantees cannot overcome global capital market interest rates. Effective SME policy must be embedded in broader structural transformation.

CONCLUSION

This paper examined SME policies in the United States, Brazil, India, and South Africa through an integrated multi-theoretical framework. Three findings emerge. First, developed economies demonstrate effective institutionalised support, but models are not directly transferable without structural transformation. Second, developing economies have achieved significant innovations, Brazil's regulatory simplification, India's credit guarantees, South Africa's inclusive development that offer transferable lessons. Third, SME policy must be embedded in broader developmental strategy. The paper contributes by integrating entrepreneurship, dependency, institutional, and growth theories. This explains why identical policies produce divergent outcomes: the same credit guarantee generates high graduation in the United States but limited impact in South Africa because structural position and institutional quality mediate translation.

For Nigeria, SME development requires simultaneous attention to institutional reform, structural transformation, and inclusive design. The recommendations in Section 8 are specific, evidence-based, and contextualised. However, implementation requires sustained political commitment, adequate fiscal resources, and coordination across government tiers. This study is limited by reliance on secondary data and synchronic design. Future research should employ longitudinal case studies and primary data collection. Despite these limitations, the paper provides a theoretically grounded foundation for evidence-based SME policy in Nigeria.

RECOMMENDATIONS

Drawing from the comparative analysis, Nigeria should establish an SME Development Bank offering collateral-free credit guarantees with a government-funded corpus of at least ₦500 billion, modelled on India's CGTMSE. Nigeria should implement a unified tax regime for SMEs below ₦50 million turnover, following Brazil's Simples Nacional, with digital integration of federal, state, and local taxes. An Infrastructure Fund capitalised with 2% of annual oil revenues should be established, with SME participation quotas in all PPP projects. Nigeria should create a Women and Youth Enterprise Fund and reserve 30% of government procurement for demographic-targeted SMEs. Finally, a National SME Development Act with parliamentary oversight should be enacted to ensure policy coherence.

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