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**BRIDGING THE GAP:
Financing And Scaling Small
And Medium Enterprises
Through Nigeria's Capital
Market**



Introduction

In every thriving economy, small businesses are the primary drivers for growth, employment, productivity and development. Nigeria is no exception. Small and Medium Enterprises (“**SMEs**”) account for approximately 96% of all businesses in the country, contribute nearly 48% to the national GDP, and employ about 84% of the workforce. In effect, SMEs constitute the structural backbone of the Nigerian economy. Despite this central role, Nigerian SMEs often struggle to survive, with over half failing in their first year and more than 95% collapsing within five years. Access to finance is the dominant failure point. As of February 2026, while headline inflation has begun to moderate toward 15.1%, the high-interest-rate environment (with the MPR remaining in the double digits above 25%) continues to make traditional bank debt expensive. For most SMEs, bank lending is misaligned with business cash flow cycles and functions more as a balance-sheet stressor than as growth capital.

While venture capital and private equity have expanded in Nigeria over the past decades, their reach remains narrow and sector-specific, with concentration primarily in financial institutions, technology and fintech and less focus on SMEs. Recent changes in the legal framework, including the enactment of the Investment and Securities Act 2025 (“**ISA**”) and the Nigeria Tax Act 2025 (“**NTA**”), represent an opportunity to reposition Nigeria’s capital market as a viable source of long-term financing for SMEs beyond the financial and technology sectors. At the same time, Nigeria’s capital market crossed the ₦100 trillion market capitalisation threshold in early 2026, underscoring the depth of domestic savings and investable capital. As a result, the central question is no longer whether capital exists, but whether market architecture allows that capital to reach SMEs in a manner that is sustainable, priced appropriately, and investable at scale.

This article examines how Nigeria’s capital market can be structurally adapted to support SME financing at scale. It explores the challenges SMEs face in accessing capital market funding, the structural reforms required to bridge this gap, and practical strategies that regulators, policymakers, and market operators can adopt to scale SMEs through market-based solutions.

The SME Landscape in Nigeria: Why SMEs Matter

Nigeria’s National Policy on MSMEs classifies enterprises based on size, number of employees, and assets, excluding land and buildings, as follows:

Size	Employees	Assets (Excl. land/buildings)
Micro	< 10	< ₦10 million
Small	10 – 49	₦10m – < ₦100m
Medium	50 – 199	₦100m – < ₦1bn

The NTA further streamlines this framework by defining “small companies” as entities with an annual turnover of ₦100 million or less and fixed assets of up to ₦250 million, granting such companies exemption from Companies Income Tax and other tax benefits. When it is unclear where a company falls, the number of employees takes precedence.

SMEs are not merely economic participants. They are innovation engines, employment creators, and supply-chain anchors. However, their economic relevance has not translated into financial inclusion within formal capital markets. The problem is not the absence of entrepreneurial activities, but the lack of financing structures capable of absorbing SME risk at scale.

The Outliers

In recent years, some SMEs have surmounted the financing challenge and grown into large corporates with unicorn status. Flutterwave, Chowdeck, OPay, PiggyVest, and more recently, Terrahaptix (now Terra Industries) are household names in venture capital and private equity. A defining characteristic of these firms is their concentration in technology-driven or fintech-enabled business models. While these examples demonstrate the availability of risk capital for certain categories of SMEs, they are not representative of the broader SME ecosystem. Capital allocation has favoured sectors with rapid scalability, clear exit pathways, and high return potential. By contrast, SMEs operating in agriculture, manufacturing, logistics, and trade sectors that historically underpin industrialisation and economic resilience remain persistently underfunded. The policy challenge is, therefore, not whether SMEs can scale, but how capital market structures can be adapted to replicate financing success across real-sector SMEs without relying solely on venture capital dynamics.

The Capital Market Gap

Capital market financing for SMEs remains limited across most developing economies, Nigeria included. This gap is not merely a function of awareness or appetite; it reflects a combination of regulatory design, economic pricing, and investor mandate constraints.

First, from a regulatory perspective, securities’ listing and issuance requirements, while appropriate for medium to large issuers, often impose disproportionate compliance burdens on smaller firms. Second, from an economic standpoint, prevailing interest rates and risk premiums price many SME instruments outside commercially viable ranges. Third, from an institutional perspective, key pools of capital, such as pension funds and insurance companies, lean toward highly rated, liquid, and long-term assets, effectively excluding most SME issuances.

As a result, SMEs remain dependent on self-funding or largely on bank credit (where available), despite its short tenors, high collateral requirements, and refinancing risks. While venture capital and private equity have partially bridged this gap for a



narrow list of high-growth firms, SMEs in agriculture and manufacturing sectors – the real drivers of economic growth and the creation of employment opportunities - remain structurally excluded from both private risk capital and public market funding.

Effective capital markets do not eliminate risk; they, however, distribute it. For Nigeria's growth to be broad-based and sustainable, the capital market must evolve beyond large corporates and exceptional startups to supporting SMEs across sectors through instruments that appropriately allocate risk, price uncertainty, and align with SME operating realities.

It is, therefore, imperative that Nigeria's capital market evolves beyond its current structure to provide accessible, affordable, and sustainable financing solutions tailored to SMEs across diverse sectors. Unlocking this potential requires not only reducing barriers to entry but also designing innovative market instruments that match the unique needs of small and growing businesses.

Key Challenges SMEs Face in Accessing Capital Markets in Nigeria:

1. Low Awareness and Financial Literacy

Many SMEs remain unaware of the opportunities available in the capital market or lack the financial expertise to explore them. Beyond this knowledge gap, most SMEs also lack the necessary structure and governance framework to attract investors. Statistics reveal that 96.2% of MSMEs in Nigeria operate as sole proprietorships, a model that often lacks formal financial systems. Consequently, many of these businesses are unfamiliar with essential practices such as proper financial record-keeping, corporate governance, and regulatory compliance. Some entrepreneurs also have a limited understanding of business ownership structures and how external investments could impact their operations. While initiatives to improve financial literacy are necessary, the more binding constraint is boardroom readiness: the ability to meet baseline disclosure, governance, and reporting expectations required by market participants.

2. Regulatory Barriers

Capital markets are necessarily regulated to protect investors and preserve systemic stability. However, Nigeria's regulatory framework applies largely uniform post-issuance obligations across issuers, regardless of scale. For example, listing on platforms like the NGX Growth Board requires continuous disclosure, audit standards, governance thresholds, and reporting timelines that are feasible for issuers with dedicated finance and compliance teams. For SMEs, these requirements translate into fixed costs that are



disproportionately high relative to deal size. Even where listing thresholds appear attainable, ongoing compliance obligations can deter participation. The issue is, therefore, not having or meeting an admission criterion alone, but the cumulative cost of remaining compliant after entry.

3. High Compliance Costs

Legal, advisory, and regulatory fees often discourage SMEs from pursuing public issuance of securities, listings or accessing the capital market. These costs impose a high entry threshold. Even instruments perceived as flexible, such as commercial paper, remain dominated by medium and large corporates. In 2025, more than ₦2.5 trillion was raised via NGX listings and commercial paper issuances, with negligible SME participation. This needs to change in the interest of the growth of SMEs and their access to financing through the capital market.

4. Informal Operations and Limited Track Record

A significant number of SMEs operate informally, lacking the transparent governance systems that investors typically look for. These businesses often do not maintain proper financial records, have clearly defined ownership structures, or follow standard corporate governance practices. This lack of transparency raises concerns about accountability, risk management, and long-term sustainability, making them less attractive to institutional and private investors. Without reliable financial histories, investors cannot assess cash flow sustainability, capital discipline, or downside risk. Informality, therefore, translates directly into capital exclusion.

5. Control Concerns

Founders are often hesitant to pursue equity funding due to concerns about ownership dilution and the potential loss of control over decision-making. They view external investors as a threat to their autonomy, considering that bringing in new stakeholders could shift the direction of the business or limit their authority. This resistance to shared ownership can prevent promising businesses from accessing the capital and strategic support needed for growth.

Strategies for Financing and Scaling SMEs Through the Capital Market

Given the challenges outlined above, effective SME capital market inclusion would require structural redesign rather than incremental reforms.



1. Creating Alternative Capital Market Options for SMEs

Nigeria's regulatory framework already recognises multiple financing instruments applicable to SMEs, including venture capital, private equity, private debt, and commercial paper. However, these financing structures will need to be retooled to be more deliberately aligned with SMEs' size, sector, and stage of development. This should be in a manner that includes:

(a) Differentiated Market Tiers

Apart from these existing vehicles, we have seen other options in other climes with even lower barriers to entry for SMEs. For example, capital markets are becoming an alternative source of direct-debt financing for SMEs through instruments such as minibonds and credit funds in Italy, Peru, and Brazil. SME exchanges are an important component of the equity financing ecosystem in countries like China and India. SME Exchanges are platforms designed for SMEs to list shares and raise capital, offering benefits such as lower costs, simplified regulatory requirements, and greater visibility for smaller businesses. The NGX Growth Board represents a meaningful step forward, with reduced market capitalisation thresholds, shorter operating history requirements, and lower public float obligations.

As of early 2026, the NGX has integrated "Value-Added Services," including significant discounts on application fees for startups. However, a single growth board cannot accommodate the full spectrum of SMEs. A micro-cap tier with simplified admission criteria, capped issue sizes, and proportionate disclosure obligations for SMEs is required to be a key component for SMEs to raise financing. That would materially expand access. Such a tier should prioritise baseline transparency over full IFRS compliance at entry.

(b) Mandatory Underwriting

Mandatory underwriting, as practised in India, should be institutionalised for SME financing. It would transfer placement risk away from issuers and enhance investor confidence. Underwriting shifts execution risk away from issuers and signals quality to the market. Credit enhancement mechanisms such as partial guarantees, first-loss tranches, or co-investment vehicles further compress risk spreads and enable price discovery.

(c) Graduated Compliance Frameworks

To lower the barrier to entry for SMEs, regulators could implement a graduated compliance framework. By adopting a phased transition, newly listed SMEs would be granted a three-to-five-year moratorium to progressively



align with advanced governance and IFRS reporting standards. This will be dependent on if they meet baseline transparency benchmarks. This 'laddered' approach ensures that the regulatory burden scales alongside the issuer's maturity, effectively mitigating the risk of early-stage failure due to compliance fatigue.

2. Government Intervention

Government intervention is effective only when it alters risk pricing rather than substituting for private investment. To mobilise institutional capital, the state should prioritise the deployment of public credit guarantees, anchor investments, and first-loss capital. These instruments reduce downside exposure for private investors in SMEs and extend transaction tenors. Over time, as performance data accumulates and the SME sector proves its resilience, reliance on public support could then diminish, and private capital assumes a greater role.

Furthermore, the Economic Development Incentive (EDI) introduced by the NTA, which provides a 5 per cent annual tax credit for capital expenditure, materially improves post-listing economics for growth-oriented SMEs that are eligible for the incentive. This incentive directly supports asset expansion and enhances issuer credit profiles, making listed entities more attractive to both debt and equity markets. The same effect applies to the tax benefits under the NTA for entities engaged in agricultural business.

3. Capacity Building

The SEC's 2026 focus on real-sector SME listings signals a clear regulatory intent to reposition the capital market as a development tool without compromising investor protection. Including SEC's collaboration with SMEDAN to facilitate SME listings signals an important shift toward democratising access to long-term capital for SME through the capital market. This is further supported by the ISA's introduction of specialised Non-Composite Exchange classifications, which cater to the specific needs of entities operating in the manufacturing and agricultural sectors.

Market access requires issuer readiness. SMEs must understand not only how to raise capital, but how to operate as investable entities. Capacity building should focus on financial reporting, governance, regulatory engagement, and investor communication. Regulatory sandboxes and pre-listing incubation programmes can prepare SMEs for market participation without exposing investors to undue risk.



Conclusion

The capital market should no longer be reserved solely for large corporations. With the NGX hitting the ₦100 trillion mark in January 2026, the market has reached sufficient scale and depth to support SMEs as a distinct asset class. The outstanding challenge is no longer about capacity, but design and implementation.

Unlocking SME financing through the capital market requires coordinated action by all industry stakeholders. Regulators must refine rules to accommodate SME realities, policymakers must deploy targeted risk-mitigation tools, and market operators must innovate around instruments and platforms. At the same time, SMEs must formalise operations, strengthen governance, and engage the market earlier in their growth cycle.

The implementation of the ISA and NTA marks a critical reset of Nigeria's legal and fiscal framework. The task now is execution. If these reforms are carried through with discipline and intent, the capital market can evolve into a genuine catalyst for SME-financing to support real-sector growth and economic diversification. Financing SMEs through the capital market is not just an economic option; it is an economic imperative for Nigeria's future.

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