SMEs as catalysts for economic development: Navigating challenges and seizing opportunities in emerging markets

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Abstract

Small and medium-sized enterprises (SMEs) play a critical role in the economic development of emerging markets, acting as catalysts for innovation, job creation, and poverty reduction. They are often the backbone of these economies, driving growth through their adaptability and entrepreneurial spirit. However, SMEs also face significant challenges that must be navigated to fully capitalize on their potential. One of the primary challenges SMEs encounter in emerging markets is limited access to finance. Traditional banks often view SMEs as high-risk investments due to their smaller size and lack of collateral. This financing gap can stifle their growth and innovation capabilities. To address this, microfinance institutions and digital lending platforms have emerged as crucial alternatives, providing SMEs with much-needed capital. According to the International Finance Corporation (IFC), improving access to finance for SMEs could increase GDP growth rates significantly in emerging economies. Another critical challenge is the lack of infrastructure, which can impede business operations and logistics. In many emerging markets, inadequate transportation networks, unreliable power supply, and limited internet connectivity hinder SME productivity and market reach. Governments and international organizations are increasingly investing in infrastructure development to create a more conducive environment for SMEs. The World Bank, for instance, has various programs aimed at enhancing infrastructure in emerging markets, thereby facilitating better business operations for SMEs. In terms of opportunities, the digital revolution offers vast potential for SMEs. Digital tools and platforms enable SMEs to reach broader markets, streamline operations, and improve customer engagement. E-commerce, in particular, allows SMEs to overcome geographical limitations and tap into global markets. Additionally, leveraging social media for marketing can significantly enhance brand visibility and customer acquisition. Furthermore, emerging markets often present a youthful and growing consumer base, eager for new products and services. SMEs can seize this opportunity by tailoring their offerings to meet local preferences and demands. This consumer-centric approach can lead to increased loyalty and market share. In conclusion, while SMEs in emerging markets face considerable challenges, the opportunities for growth and impact are immense. By improving access to finance, investing in infrastructure, and embracing digital tools, SMEs can drive substantial economic development. Policymakers, financial institutions, and international organizations must continue to support these enterprises to unlock their full potential and foster sustainable economic growth.

Keywords: SMEs; Catalysts; Economic Development; Emerging Markets; Seizing Opportunities

1. Introduction

Small and Medium Enterprises (SMEs) are widely recognized as the backbone of many economies, playing a crucial role in driving economic growth, fostering innovation, and creating employment opportunities (Adelakun, et. al., 2024, Joel & Oguanobi, 2024, Udeh, et. al., 2024). In emerging markets, SMEs hold even greater significance, contributing...
significantly to economic development, poverty alleviation, and social stability. This paper explores the importance of SMEs in economic development, their role in emerging markets, and the challenges and opportunities they face.

SMEs are vital drivers of economic development due to their significant contributions to GDP growth, job creation, and innovation. They play a crucial role in enhancing economic diversification, reducing income inequality, and promoting regional development. SMEs are also known for their flexibility, adaptability, and ability to foster entrepreneurship, which are essential for economic resilience and sustainability.

In emerging markets, SMEs play a pivotal role in driving economic growth and development. They account for a substantial share of employment, particularly in the informal sector, and contribute significantly to GDP (Adegbola, et al., 2024, Adewumi, et al., 2024, Nembe, et al., 2024). SMEs in emerging markets often serve as engines of innovation, introducing new products, services, and business models that drive competition and stimulate economic dynamism.

Despite their importance, SMEs in emerging markets face numerous challenges that impede their growth and sustainability (Atadoga, et al., 2024, WebHorse Marketing, 2024, World Bank, 2021). These challenges include limited access to finance, inadequate infrastructure, regulatory constraints, and limited access to markets. However, SMEs also have significant opportunities in emerging markets, including a growing consumer base, increasing digitalization, and access to new technologies that can enhance their competitiveness and market reach.

In conclusion, SMEs are indispensable catalysts for economic development in emerging markets. By addressing the challenges faced by SMEs and leveraging the opportunities available to them, policymakers, and stakeholders can unlock the full potential of SMEs and accelerate economic growth and development in emerging markets (Adegbola, et al., 2024, Ikegwu, 2017, Joel & Oguanobi, 2024). SMEs are critical catalysts for economic development, particularly in emerging markets. By understanding the importance of SMEs, recognizing their role in emerging markets, and addressing their challenges while seizing opportunities, policymakers, and stakeholders can foster an enabling environment for SME growth and contribute to sustainable economic development.

2. Challenges Faced by SMEs in Emerging Markets

Small and Medium Enterprises (SMEs) are the backbone of many economies, particularly in emerging markets where they play a crucial role in driving economic growth and development. However, SMEs in these markets face a myriad of challenges that hinder their growth and sustainability (Atadoga, et al., 2024, Udeh, et al., 2024, Uzougbo, Ikegwu & Adewusi, 2024). This paper examines some of the key challenges faced by SMEs in emerging markets, including limited
access to finance, inadequate infrastructure, regulatory and bureaucratic barriers, and market access and competition, and explores potential solutions to address these challenges.

One of the most significant challenges faced by SMEs in emerging markets is limited access to finance. Traditional banks often perceive SMEs as high-risk borrowers due to their size, lack of collateral, and limited credit history (Anjorin, Raji & Olodo, 2024, Joel & Oguanobi, 2024, Nnaji, et. al., 2024). This perception makes it difficult for SMEs to secure financing for their operations, hindering their ability to grow and innovate. The impact of this financing gap on SMEs can be profound. Without access to finance, SMEs struggle to invest in new technologies, expand their operations, and hire additional staff. This limits their ability to compete effectively in the market and hampers their overall growth potential.

To address this challenge, many SMEs in emerging markets are turning to alternative sources of finance, such as microfinance institutions and digital lending platforms. Microfinance institutions specialize in providing small loans to underserved populations, including SMEs, and have proven to be an effective means of financing for many small businesses (Barghouthi, Khalili & Qassas, 2018, Joel & Oguanobi, 2024, Okoduwa, et. al., 2024). Similarly, digital lending platforms use technology to streamline the lending process and provide access to finance for SMEs that may not qualify for traditional bank loans.

Another major challenge faced by SMEs in emerging markets is inadequate infrastructure. Poor transportation networks, unreliable power supply, and limited internet connectivity can all hinder the operations of SMEs and limit their ability to reach new markets (Benjamin, Amajuoyi & Adeusi, 2024, Ikegwu, 2022, Onyekwelu, et. al., 2024). Transportation networks are essential for SMEs to transport raw materials and finished goods to and from their facilities. In many emerging markets, inadequate road and rail networks can lead to delays and increased transportation costs, impacting the competitiveness of SMEs. Similarly, unreliable power supply and limited internet connectivity can hinder the ability of SMEs to operate efficiently. Many SMEs rely on technology for their operations, and interruptions in power supply or internet connectivity can disrupt their business activities and lead to financial losses (Adegbola, et. al., 2024, Uzougbo, Ikegwu & Adewusi, 2024, Prügl & True, 2014). To address these challenges, governments and international organizations are investing in infrastructure development in emerging markets. By improving transportation networks, expanding access to reliable power supply, and enhancing internet connectivity, these initiatives aim to create a more conducive environment for SMEs to operate and grow.

SMEs in emerging markets often face complex and inconsistent regulatory environments that can hinder their operations. Regulations related to business registration, licensing, taxation, and employment can be cumbersome and difficult for SMEs to navigate, leading to delays and increased costs (Joel & Oguanobi, 2024, Nembe, et. al., 2024, Udeh, et. al., 2024). Corruption and inefficiencies in the regulatory process can also pose challenges for SMEs. Bribes and kickbacks may be required to expedite regulatory approvals, adding to the cost of doing business and creating an uneven playing field for SMEs. To address these challenges, efforts are being made to streamline regulatory processes and reduce bureaucratic barriers for SMEs. Governments are simplifying business registration procedures, implementing online tax filing systems, and cracking down on corruption to create a more transparent and efficient regulatory environment for SMEs.

Finally, SMEs in emerging markets often face challenges related to market access and competition. Barriers to entering new markets, such as high tariffs and trade barriers, can limit the ability of SMEs to expand their operations beyond their domestic market. Additionally, SMEs often face stiff competition from larger enterprises that have greater resources and economies of scale (Afolabi, 2024, Ikegwu, 2018, Nembe, 2014, Oguanobi & Joel, 2024). This competition can make it difficult for SMEs to compete effectively in the market and gain market share. To enhance market access, SMEs can adopt strategies such as forming partnerships with other SMEs to pool resources, leveraging digital technologies to reach new markets, and focusing on niche markets where they can compete effectively.

In conclusion, SMEs in emerging markets face a range of challenges that hinder their growth and sustainability. Limited access to finance, inadequate infrastructure, regulatory and bureaucratic barriers, and market access and competition are among the key challenges faced by SMEs in these markets. However, by addressing these challenges and implementing appropriate solutions, policymakers and stakeholders can create a more conducive environment for SMEs to thrive and contribute meaningfully to economic development.
3. Opportunities for SMEs in Emerging Markets

Small and Medium Enterprises (SMEs) in emerging markets are well-positioned to capitalize on a range of opportunities that can help drive their growth and success (Anjorin, Raji & Olodo, 2024, Nnaji, et. al., 2024, Scott, Amajuoyi & Adeusi, 2024). These opportunities, including digital transformation, a youthful and growing consumer base, innovation and entrepreneurship, and government and international support, present SMEs with the chance to expand their reach, innovate their products and services, and thrive in an increasingly competitive market.

One of the most significant opportunities for SMEs in emerging markets is digital transformation. The rise of e-commerce platforms has opened up new avenues for SMEs to reach a broader market and connect with customers beyond their local region (Anjorin, Raji & Olodo, 2024, Joel & Oguanobi, 2024, Nnaji, et. al., 2024). By leveraging e-commerce platforms, SMEs can overcome traditional barriers to market entry, such as high costs and limited distribution networks, and access new markets with ease.

Social media also presents a powerful tool for SMEs to engage with customers and market their products and services. Platforms like Facebook, Instagram, and Twitter allow SMEs to build brand awareness, communicate directly with customers, and gather valuable feedback to improve their offerings (Edu, et. al., 2022, Joel & Oguanobi, 2024, Nembe, et. al., 2024). Digital tools such as cloud computing, data analytics, and automation can also help SMEs streamline their operations and improve efficiency. By embracing digital transformation, SMEs can enhance their competitiveness, drive growth, and adapt to the changing demands of the market.

Emerging markets are characterized by a youthful and growing consumer base, presenting SMEs with a significant opportunity to tap into this demographic. Understanding local preferences and demands is key to successfully capturing this market, as preferences can vary widely across different regions and demographics (Adelakun, 2023, Uzougbo, Ikegwu & Adewusi, 2024, World Bank, 2021). SMEs can tailor their products and services to meet the specific needs of the market, offering unique value propositions that resonate with local consumers. By building brand loyalty and market share, SMEs can establish a strong presence in the market and position themselves for long-term success.

Innovation and entrepreneurship are critical drivers of growth and competitiveness for SMEs in emerging markets. Encouraging a culture of innovation within SMEs can lead to the development of new products, services, and business models that meet the evolving needs of the market (Anjorin, et. al., 2024, Joel & Oguanobi, 2024, Udeh, et. al., 2024). Access to technology and resources for innovation is essential for SMEs looking to innovate. Governments, international organizations, and private sector partners can play a role in providing SMEs with the necessary support and resources to innovate and grow. Case studies of innovative SMEs can provide inspiration and guidance for other SMEs looking to innovate. By showcasing successful examples of innovation, SMEs can learn from best practices and apply them to their own businesses.

Governments and international organizations play a crucial role in supporting SMEs in emerging markets. Policies and programs that support SME development, such as access to finance, business development services, and market information, can help SMEs overcome key challenges and seize opportunities for growth. International funding and development programs also provide SMEs with access to capital and resources that can help them expand their operations and reach new markets (Anjorin, Raji & Olodo, 2024, International Finance Corporation, 2020, Jeff Bullas, 2024). Success stories of supported SMEs can serve as examples of the positive impact of government and international support, inspiring other SMEs to seek similar opportunities.

In conclusion, SMEs in emerging markets are presented with a range of opportunities that can help drive their growth and success. By embracing digital transformation, tapping into youthful consumer bases, fostering innovation and entrepreneurship, and leveraging government and international support, SMEs can position themselves for long-term success and contribute significantly to economic development in emerging markets.

4. Strategies for Navigating Challenges and Seizing Opportunities

Small and Medium Enterprises (SMEs) in emerging markets face a range of challenges that can hinder their growth and success. However, by implementing strategic approaches, SMEs can navigate these challenges and seize the opportunities presented by the market (Aiyinla, et. al., 2024, Uzougbo, Ikegwu & Adewusi, 2024). This paper explores strategies for enhancing access to finance, investing in infrastructure, implementing regulatory reforms, and embracing digital transformation to help SMEs thrive in emerging markets.
Access to finance is a critical challenge for SMEs in emerging markets. To enhance access to finance, SMEs can explore developing alternative financing models such as peer-to-peer lending, crowdfunding, and angel investing (Adegbola, et al., 2024, Udeh, et al., 2024, Scott, Amajuoyi & Adeusi, 2024). These models provide SMEs with access to capital from a wider pool of investors, reducing reliance on traditional banking institutions. Public-private partnerships (PPPs) can also play a significant role in enhancing access to finance for SMEs. By partnering with government agencies, financial institutions, and other stakeholders, SMEs can access funding, technical assistance, and other resources to support their growth and development.

Inadequate infrastructure is another significant challenge faced by SMEs in emerging markets. To address this challenge, SMEs can collaborate with governments and the private sector to invest in infrastructure development (Anjorin, et al., 2024, Nembe, 2022, Oguanobi & Joel, 2024). By participating in infrastructure projects, SMEs can not only improve their operational efficiency but also contribute to the overall development of the economy. Long-term infrastructure development plans can also help SMEs navigate this challenge. By aligning their growth strategies with infrastructure development plans, SMEs can ensure that they are well-positioned to take advantage of improved infrastructure when it becomes available.

Complex and inconsistent regulations can pose a significant challenge for SMEs in emerging markets. To navigate this challenge, SMEs can advocate for regulatory reforms that simplify business registration and licensing processes (Bass & Riggio, 2006, Nature, 2023, Nnaji, et al., 2024). By streamlining these processes, SMEs can reduce the time and cost involved in complying with regulations, making it easier for them to operate and grow. Reducing bureaucratic red tape is another key strategy for navigating regulatory challenges. By working closely with government agencies to identify and eliminate unnecessary bureaucratic processes, SMEs can create a more conducive regulatory environment for business growth.

Digital transformation offers SMEs in emerging markets a range of opportunities to improve their operational efficiency and reach new markets. To embrace digital transformation, SMEs can invest in training and support for digital adoption (Elufioye, et al., 2024, Mustapha, Ojeleye & Afolabi, 2024). By providing employees with the skills and knowledge needed to leverage digital technologies, SMEs can enhance their competitiveness and adaptability in the market. Leveraging technology for operational efficiency is another key strategy for SMEs. By adopting digital tools and solutions such as cloud computing, data analytics, and automation, SMEs can streamline their operations, reduce costs, and improve their overall performance.

In conclusion, SMEs in emerging markets can navigate the challenges they face and seize the opportunities presented by the market by implementing strategic approaches. By enhancing access to finance, investing in infrastructure, implementing regulatory reforms, and embracing digital transformation, SMEs can position themselves for long-term success and contribute to economic development in emerging markets (Benjamin, Amajuoyi & Adeusi, 2024, Ikegwu, 2022, Onyekwelu, et al., 2024).

5. Case Studies

One example of a successful SME in an emerging market is Ushahidi, a Kenyan tech company. Ushahidi developed a platform that allows users to crowdsource information during crises, such as natural disasters or political unrest (Harvard Business Review, 2020, McKinsey & Company, 2020, Studies, 2020). The platform has been used in various countries around the world and has helped to improve emergency response efforts and promote transparency. Ushahidi’s success can be attributed to its innovative use of technology to address pressing social issues. By leveraging the power of crowdsourcing and digital platforms, Ushahidi has been able to create a valuable service that meets the needs of its users and has a positive impact on society.

Another example of a successful SME in an emerging market is Arvind Limited, an Indian textile manufacturer. Arvind Limited has grown from a small textile company to one of the largest and most respected textile manufacturers in India. Arvind Limited’s success can be attributed to its focus on innovation and sustainability (Atadoga, et al., 2024, WebHorse Marketing, 2024, World Bank, 2021). The company has invested in technology and processes that reduce waste and improve efficiency, allowing it to remain competitive in the global market. Additionally, Arvind Limited has diversified its product offerings to include a range of textiles, from denim to high-performance fabrics, further enhancing its competitiveness and market reach.

The Goldman Sachs 10,000 Women program is a global initiative that provides women entrepreneurs in emerging markets with access to business education, mentoring, and networking opportunities. The program aims to empower women to grow their businesses and create jobs in their communities. One example of the impact of the 10,000 Women
program is the story of Roshaneh Zafar, founder of the Kashf Foundation in Pakistan. Through the program, Zafar was able to expand her microfinance organization, which provides financial services to low-income women in Pakistan. The Kashf Foundation has since grown to become one of the leading microfinance institutions in the country, helping thousands of women start and grow their businesses.

The Cherie Blair Foundation for Women is another organization that supports women entrepreneurs in emerging markets. The foundation provides women with access to business training, mentoring, and networking opportunities, helping them to overcome the barriers they face in starting and growing their businesses (Edu, et. al., 2022, Joel & Oguanobi, 2024, Nembe, et. al., 2024). One example of the impact of the Cherie Blair Foundation is the story of Samsam Haji-Ali, founder of Samsam Bakery in Somaliland. Through the foundation’s support, Haji-Ali was able to expand her bakery business, which now employs over 20 people and produces a range of baked goods that are sold in local markets. The success of Samsam Bakery has not only improved Haji-Ali’s livelihood but has also had a positive impact on the local community by creating jobs and providing affordable food options.

In conclusion, SMEs in emerging markets play a crucial role in driving economic development and creating opportunities for growth and innovation. By highlighting successful case studies of SMEs and the impact of support programs, we can learn valuable lessons about how SMEs can navigate challenges and seize opportunities to contribute to economic development in emerging markets.

Esoko is a Ghanaian-based agricultural technology company that provides market information, agricultural tips, and financial services to farmers via mobile phones. The company’s platform helps farmers access real-time market prices, weather forecasts, and agronomic advice, enabling them to make informed decisions and improve their productivity (Afolabi, 2024, Ikegwu, 2018, Nembe, 2014, Oguanobi & Joel, 2024). Limited access to market information and financial services was a significant challenge for farmers in Ghana, leading to inefficiencies and reduced profitability. Esoko saw an opportunity to leverage mobile technology to bridge the gap between farmers and markets, providing them with valuable information and services that could improve their livelihoods. By providing farmers with access to market information and financial services, Esoko has helped improve market transparency, reduce inefficiencies, and increase farmers’ incomes. The company has also expanded its operations to other African countries, further driving economic development in the region.

Dukaan is an Indian-based retail technology company that provides small retailers with an online platform to digitize their businesses. The platform allows retailers to create an online store, manage inventory, process orders, and accept digital payments, helping them reach new customers and improve their competitiveness (Barghouthi, Khalili & Qassas, 2018, Joel & Oguanobi, 2024, Okoduwa, et. al., 2024). Small retailers in India often face challenges such as limited access to technology, low digital literacy, and intense competition from larger retailers. Dukaan saw an opportunity to help small retailers overcome these challenges by providing them with an easy-to-use platform to digitize their businesses and reach new customers. By digitizing their businesses, small retailers using Dukaan’s platform have been able to increase their sales, improve their efficiency, and reach new customers. The company has experienced rapid growth and has helped thousands of small retailers across India thrive in an increasingly digital economy.

These case studies demonstrate how SMEs in emerging markets can overcome challenges and seize opportunities to drive economic development (Asuzu, 2024, Uzougb, Ikegwu & Adewusi, 2024, Nnaji, et. al., 2024). By leveraging technology, innovative business models, and strategic partnerships, SMEs can play a crucial role in driving economic growth and improving livelihoods in their communities.

6. Conclusion

Small and Medium Enterprises (SMEs) are indispensable catalysts for economic development in emerging markets. Throughout this discussion, we have highlighted the challenges faced by SMEs, such as limited access to finance, inadequate infrastructure, regulatory and bureaucratic barriers, and market access and competition. Despite these challenges, SMEs have significant opportunities to thrive in emerging markets, including digital transformation, a youthful and growing consumer base, innovation and entrepreneurship, and government and international support.

The strategic importance of SMEs in economic development cannot be overstated. SMEs play a crucial role in driving GDP growth, creating employment opportunities, fostering innovation, and promoting regional development. They are also key drivers of social mobility, empowering individuals to improve their livelihoods and contribute to the overall development of their communities.
To foster SME growth and sustainability in emerging markets, policymakers, and stakeholders must prioritize addressing the challenges faced by SMEs and leveraging the opportunities available to them. This includes enhancing access to finance through innovative financing models and public-private partnerships, investing in infrastructure to improve operational efficiency, implementing regulatory reforms to simplify business processes, and embracing digital transformation to enhance competitiveness and reach new markets.

In conclusion, SMEs in emerging markets have the potential to drive economic development and improve livelihoods in their communities. By navigating challenges and seizing opportunities, SMEs can play a transformative role in shaping the future of emerging markets and contributing to sustainable economic growth.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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